

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** Mark D. Sickles

2. **Bill Number** HB 892

3. **Committee** House Finance

House of Origin:

X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax: Distribution of
Individual Income Tax Revenue to Localities

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require the transfer of 1% of individual income tax revenues to localities in 2004, and the amount increases to 1% each year until it reaches a maximum of 5% for 2008 and thereafter. The revenues are distributed to counties and cities as follows: (i) 50% based on the relative share of the total state income tax paid by taxpayers filing returns in each locality, (ii) 40% based on where wages are earned, and (iii) 10% divided equally among all counties and cities.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$316,800	GF
2004-05	\$35,200	GF
2005-06	\$0	GF
2006-07	\$0	GF
2007-08	\$0	GF
2008-09	\$0	GF
2009-10	\$0	GF

7. **Budget amendment necessary:** Yes.

ITEM(S): 284 and 286, Department of Taxation

8. **Fiscal implications:**

Administrative Impact

The Department would incur administrative costs of \$316,800 for FY 2004 and \$35,200 for FY 2005 for systems development.

Revenue Impact

The bill would have no effect on General Fund revenues. However, a significant portion of the General Fund would be transferred to localities. Distributions to localities are estimated to be \$67.7 million in FY 05, \$144.2 million in FY 06, \$230.2 million in FY 07, \$323.6 million in FY 08, \$433.6 million in FY 09 and \$453.5 in FY 10.

9. Specific agency or political subdivisions affected:

Department of Taxation
State Comptroller
State Treasurer
Localities

10. Technical amendment necessary:

11. Other comments:

This bill would create the Localities' Share of Individual Income Tax Revenue Fund (the "Fund"). By August 1 of each year, a portion of individual income tax revenues from the preceding fiscal year would be deposited into the Fund. The first deposit to the Fund equal to 1% of individual income tax revenues for fiscal year 2003 would be required by August 1, 2004. In succeeding years, the percentage of individual income tax revenues required to be deposited would increase by one until it reaches 5 percent in 2008. The following table shows how the percentage would increase:

	Deposit Date	Percentage	Fiscal Year Revenue
Required Deposits of Individual Income Tax Revenues	August 1, 2004	1%	2003
	August 1, 2005	2%	2004
	August 1, 2006	3%	2005
	August 1, 2007	4%	2006
	August 1, 2008	5%	2007 and each year thereafter

Distribution from the Fund would be made to localities by September 1 of each year. The first distribution would be made by September 1, 2004. The Fund would be distributed based on a statutory formula. Under this formula, 50 percent would be distributed based on the relative share of income tax paid by individuals filing returns in each locality, 40 percent would be distributed based on where wages are earned and 10 percent would be distributed equally among all 134 counties and cities. Further distributions would be made to towns from one half of a county's distribution based on the towns' relative share of total population within the county.

The Department already captures the data for the distribution of 50 percent of the Fund. However, the data for the 40 percent of the distribution is based on wage reports submitted by employers to the Virginia Employment Commission. Employers that operate in more than one location are allowed to report all of their wages in the locality in which their operations are based. As a result, this data would include wages reported in one locality, but actually earned in another.

Local Option Income Tax

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individuals and corporations in addition to the state income tax rate. Under current law, the city or county must hold a referendum and, upon voter approval, pass an ordinance to impose the tax. The 1989 legislation permits the levy of an income tax on individuals, estates, trusts, and corporations at any increment of one-quarter percent up to a maximum rate of one percent. Cities and counties can levy an income tax for a period of not more than five years, and any revenue from the tax must be expended for transportation purposes. No city or county currently imposes the local income tax.

cc : Secretary of Finance