DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement

1. **Patron** Ken T. Cuccinelli, II
2. **Bill Number** SB 147

   House of Origin:
   X **Introduced**
   ____ **Substitute**
   ____ **Engrossed**

   Second House:
   ____ **In Committee**
   ____ **Substitute**
   ____ **Enrolled**

3. **Committee** Senate Finance

4. **Title** Local Government Taxing Authority

5. **Summary/Purpose:**

   This bill would authorize all counties to impose excise taxes on admissions, cigarettes, meals and transient occupancies without any rate limitations. Any county increasing or first imposing any of these taxes on or after January 1, 2004 would be subject to limits on the amount of annual revenue generated from its real estate tax.

   Under current law, counties are limited in their authority to impose taxes on admissions, cigarettes, meals and transient occupancies as compared to cities and towns.

   The provisions of this bill concerning county real estate tax rates would be effective July 1, 2004. The remaining provisions of this bill would be effective January 1, 2005.

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

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

   As this bill would require counties to use any revenues from increasing or first imposing an excise tax on admissions, cigarettes, meals and transient occupancies to offset their real estate tax, this bill would have no local tax revenue impact to counties.

9. **Specific agency or political subdivisions affected:**

   All counties.

10. **Technical amendment necessary:** No.

11. Other comments:

Background on Taxing Authority of Counties

Counties are currently limited in their authority to impose taxes on admissions, cigarettes, meals and transient occupancies as compared to cities and towns. Examples of limitations that currently apply to counties (except for specifically identified counties and counties excepted under a specific grandfather clause), but not municipalities, include the following:

- The tax rate which counties may impose on food and beverages is limited and the tax may only be levied if approved in a referendum;

- The tax rate which counties may impose on transient occupancies is limited and the resulting revenue must be designated for certain purposes; and

- Only two counties, Arlington and Fairfax, are authorized to impose a local cigarette tax, which is limited to 5 cents per pack.

Under current law, there is no cap on real property tax rates. When an annual assessment, biennial assessment or general reassessment of real property by a locality would result in an increase of one percent or more in the total real property tax levied, the locality must reduce its real estate tax rate so as to produce no more than 101 percent of the previous year's total real property tax revenues. Additional assessments or reassessments due to the construction of new or other improvements are excluded from this calculation. As an alternative to lowering the tax rate to the calculated rate, the governing body of the locality may, after holding a public hearing, vote to set the real estate tax rate at a different rate, which may be higher or lower than the calculated rate. State law does not limit this rate.

Proposal

This bill would authorize all counties to impose excise taxes on admissions, cigarettes, meals and transient occupancies without any rate limitations. Any county increasing or first imposing any of these taxes on or after January 1, 2004 would be subject to limits on the amount of annual revenue generated from its real estate tax. For each of the first three tax years of the increase or initial imposition of any of these excise taxes, the county would be required to set its real estate rate so as to produce real estate tax revenues not to exceed the prior year's real estate tax revenues adjusted for inflation and population minus the additional revenue estimated to be generated from any increase in the excise taxes or new excise taxes effective in the tax year. In no event, however, for any of the three years, could the county's total real estate tax revenues increase by more than five percent when compared to the previous year. Following the initial three-year period, the county's real estate tax revenues may not increase by more than five percent each year.

cc : Secretary of Finance

Date: 1/26/2004 JEM