

**DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement**

1. **Patron** William H. Fralin, Jr.

3. **Committee** House Finance

4. **Title** Income Tax Credit for Tolls Paid for
Commercial Vehicles

2. **Bill Number** HB 1378

House of Origin:

 X Introduced

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would create an income tax credit for taxpayers that own and operate commercial vehicles on Virginia highways equal to 25% of the amount paid in highway tolls. The credit would be limited to payments made via tokens or electronic toll collection.

This bill would be effective for taxable years beginning on or after January 1, 2005.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$0	GF
2004-05	\$230,400	GF
2005-06	\$137,467	GF
2006-07	\$51,312	GF
2007-08	\$52,851	GF
2008-09	\$54,437	GF
2009-10	\$56,069	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$0	GF
2004-05	<\$1.1 million>	GF
2005-06	<\$2.1 million>	GF
2006-07	<\$2.1 million>	GF
2007-08	<\$2.1 million>	GF
2008-09	<\$2.1 million>	GF
2009-10	<\$2.1 million>	GF

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

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8. Fiscal implications:

Administrative Costs

The Department would incur costs of \$230,400 in Fiscal Year 2005, \$137,467 in Fiscal Year 2006, \$51,312 in Fiscal Year 2007, \$52,851 in Fiscal Year 2008, \$54,437 in Fiscal Year 2009, and \$56,069 for systems development and forms revisions.

Revenue Impact

This bill is estimated to decrease General Fund revenues by \$1.1 million for Fiscal Year 2005 and \$2.1 million for Fiscal Year 2006 and each fiscal year thereafter. The Fiscal Year 2005 revenue impact assumes that businesses will be able to reduce estimated payments to reflect the credit.

This revenue impact is based on the current estimated electronic toll usage by commercial vehicles. In addition, if the credit were to become available, more business would be encouraged to use SmartTag. However, the growth in commercial revenue from electronic tolls is expected to remain constant with some variation for economic conditions.

Some pending transportation projects, however, could significantly effect the potential magnitude of the credit by Fiscal Year 2008. Currently, two proposals under consideration that would improve Interstate 81 include tolls. An estimated 40% of the traffic on that Interstate 81 is heavy commercial trucks.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

In order to prevent a taxpayer from claiming both a deduction and a credit for toll payments, the following amendments are suggested.

Page 1, Line 13 at the beginning of the line.

Insert: A.

Page 1, Line 23 after the end of the line.

Insert: B. Any taxpayer claiming a tax credit under this section shall add, to the extent excluded from federal adjusted gross income or federal taxable income, whichever is applicable, the amount of tolls paid for the use of any highway while operating a commercial vehicle within the Commonwealth on which the amount of the credit is determined as provided in subsection A.

11. Other comments:

This bill would provide owners and operators of commercial vehicles with a credit against their income tax equal to 25% of tolls paid during the year for the use of any highway located in Virginia.

The credit would only qualify for toll payments made in the form of tokens or electronic toll collection payments. "Electronic toll collection payments" are defined as amounts that are properly deducted from the individual's user account each time the individual's vehicle passes through the toll collection facility, by means of a transponder or other electronic vehicle identification system. Cash payments of tolls would not qualify for this credit.

The credit would be available for taxable years beginning on and after January 1, 2005. The credit would be nonrefundable. Unused credits could be carried over for five succeeding taxable years until used. Any credits that are unused at the end of the five-year period would expire. Unused credits could not be carried back.

The following facilities currently use an electronic toll collection or ETC system: Dulles Toll Road, Dulles Greenway, Downtown Expressway, Powhite Parkway, Powhite Parkway Extension, Boulevard Bridge, Pocahontas Parkway, Coleman Bridge, and Chesapeake Expressway. Currently, tokens are not accepted at any toll roads on Virginia.

Other Tax Relief Currently Available

Under federal law, both individual and corporate taxpayers are entitled to deduct toll expenses in calculating their taxable income. As a conformity state, the allowable federal deductions would flow through on a taxpayer's Virginia income tax return. Consequently, the proposed bill could potentially provide a double benefit to those taxpayers who deduct toll payments as an employee business expense or to offset business income. An amendment has been suggested to eliminate this double benefit.

cc : Secretary of Finance

Date: 2/6/2004 dtm