

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** Jeffrey M. Frederick

3. **Committee** House Finance

4. **Title** Personal Property Tax Relief Act

2. **Bill Number** HB 1536

House of Origin:

 X Introduced

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would repeal the changes to the Personal Property Tax Relief Act of 1998 (the "PPTRA") provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I).

The effective date of this bill is not specified.

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

6a. Expenditure Impact: Department of Taxation

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2004-05	\$0	0	GF
2005-06	\$0	0	GF
2006-07	\$400,000	5	GF
2007-08	\$400,000	5	GF
2008-09	\$400,000	5	GF
2009-10	\$400,000	5	GF
2010-11	\$400,000	5	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2004-05	\$0.0	GF
2005-06	<\$228.6 million>	GF
2006-07	< \$33.1 million>	GF
2007-08	< \$76.0 million>	GF
2008-09	<\$121.4 million>	GF
2009-10	<\$169.4 million>	GF
2010-11	<\$220.1 million>	GF

7. Budget amendment necessary: Yes

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8. Fiscal implications:

Revenue Impact

This bill would have no impact on General Fund revenues, but it would decrease the amount of revenues available for other appropriations. It is estimated that this bill would increase PPTRA reimbursements to localities by \$228.5 million in Fiscal Year 2006, \$33.1 million in Fiscal Year 2007, \$76.0 million in Fiscal Year 2008, \$121.4 million in Fiscal Year 2009, \$169.4 million in Fiscal Year 2010, and \$220.1 million in Fiscal Year 2011. This estimate is the difference between the \$950 million annual PPTRA relief provided for by 2004 Senate Bill 5005 and the estimated cost of reimbursements at the current 70% rate. The percentage of tax relief under this bill is expected to remain at 70% through Fiscal Year 2011 because the second revenue growth test set forth in this bill likely will not be met as General Fund revenue growth in each of these years is forecasted to be less than 5% over the preceding fiscal year. The following chart compares PPTRA relief provided for under current law by 2004 Senate Bill 5005 and the estimated cost of reimbursements under House Bill 1536 at the current 70% reimbursement rate:

<u>FISCAL YEAR</u>	<u>PPTRA RELIEF UNDER 2004 SENATE BILL 5005</u>	<u>PPTRA RELIEF UNDER HOUSE BILL 1654</u>	<u>ADDITIONAL COST OF PPTRA RELIEF UNDER HOUSE BILL 1654</u>
2005	\$911.2 million	\$ 911.2 million	\$0
2006	\$718.4 million	\$ 947.0 million	\$228.5
2007	\$950.0 million	\$ 983.1 million	\$33.1
2008	\$950.0 million	\$1,026.0 million	\$76.0
2009	\$950.0 million	\$1,071.4 million	\$121.4
2010	\$950.0 million	\$1,119.4 million	\$169.4
2011	\$950.0 million	\$1,170.1 million	\$220.1

The following chart compares PPTRA relief provided for under current law by 2004 Senate Bill 5005 and the estimated cost of reimbursements under House Bill 1536 at a reimbursement rate of 100%:

<u>FISCAL YEAR</u>	<u>PPTRA RELIEF UNDER 2004 SENATE BILL 5005</u>	<u>PPTRA RELIEF UNDER HOUSE BILL 1654</u>	<u>ADDITIONAL COST OF PPTRA RELIEF UNDER HOUSE BILL 1654</u>
2005	\$911.2 million	\$911.2 million	\$0
2006	\$718.4 million	\$1,044.9 million	\$326.4 million
2007	\$950.0 million	\$1,393.3 million	\$443.3 million
2008	\$950.0 million	\$1,461.9 million	\$511.9 million
2009	\$950.0 million	\$1,530.5 million	\$580.5 million
2010	\$950.0 million	\$1,599.1 million	\$649.1 million
2011	\$950.0 million	\$1,671.5 million	\$721.5 million

Administrative Costs - Department of Taxation

This bill would extend the need for the Department of Taxation to audit the PPTRA program beyond Fiscal Year 2006. The Department is currently budgeted \$400,000 a year for this audit program. As these costs are reflected in the current budget, no budget amendment is necessary.

Administrative Costs - Department of Motor Vehicles

This bill would restore the Department of Motor Vehicles' ("DMV") administration of the PPTRA. DMV has reported annual costs of \$220,500 to administer the PPTRA.

9. Specific agency or political subdivisions affected:

Department of Motor Vehicles
Department of Accounts
Department of Taxation
All localities

10. Technical amendment necessary: No.

11. Other comments:

Personal Property Tax Relief Act of 1998

The PPTRA originally was intended to eliminate the tangible personal property tax imposed on the first \$20,000 of value on passenger cars, pickup or panel trucks, and motorcycles owned or leased by natural persons and used for nonbusiness purposes.

The tax was originally scheduled to be eliminated over five years with 12.5% of the tax eliminated in 1998, 27.5% in 1999, 47.5% in 2000, 70% in 2001, and 100% in 2002 and thereafter. The tax on vehicles valued at \$1,000 or less was completely eliminated in 1998. The amount of the tax relief is shown on the taxpayer's bill and the Commonwealth reimburses localities for the amount of the tax relief.

The PPTRA provides a mechanism for freezing the tax relief if the Commonwealth's revenue growth is insufficient. The percentage of tax relief is frozen at the current percentage of tax relief in effect if any one of three revenue growth tests is not met. The level of percentage will not increase if (1) actual General Fund revenues for a fiscal year are less than projected General Fund revenues by 0.5% or more; (2) forecasted General Fund revenue growth is less than 5% over the preceding fiscal year; or (3) General Fund revenues available for appropriation for either year of a biennial budget are projected to be less than the General Funds appropriated for such years. When revenue growth was sufficient, the percentage of tax relief increased to the next highest level of tax relief. The level of tax relief never exceeded 70%.

PPTRA Compliance Program

Language in the budget bill requires the Department, with cooperation from the DMV, the

Department of Accounts and local officials, to develop and implement a comprehensive PPTRA compliance program to enhance taxpayer knowledge and compliance with the PPTRA and to ensure that relief under the PPTRA is only granted to qualifying vehicles. The program includes methods for educating motor vehicle owners, certifications from motor vehicle owners during any vehicle registration that the vehicle qualifies for relief, and a periodic audit of the personal property tax records of localities to ensure compliance with the PPTRA.

Senate Bill 5005

Senate Bill 5005 (Chapter 1, 2004 Special Session I) changed the personal property tax relief program for motor vehicles. Beginning in 2006, the state will distribute \$950 million annually to localities as reimbursement for the personal property tax relief provided by each locality. Each locality's share of the \$950 million state reimbursement for tax year 2006 and subsequent tax years will be based upon its share of the total state reimbursement for tax year 2005.

Proposal

This bill would repeal the changes to the PPTRA provided by 2004 Senate Bill 5005.

Other Legislation

This bill would have the same effect as **House Bill 1654**.

House Bill 2066 would repeal the PPTRA and dedicate 17.5 percent of the state individual income tax collections to localities.

House Bill 2257 would change the PPTRA by establishing a reimbursement ratio to determine each locality's share of the \$950 million of total car tax relief.

House Bill 2498 would repeal the PPTRA, grant counties the same taxing authority as cities, and authorize all localities to impose a local income tax.

House Joint Resolution 620 and **House Joint Resolution 641** would propose an amendment to the Virginia Constitution exempting privately owned motor vehicles used for nonbusiness purposes from property taxes.

House Joint Resolution 697 would propose an amendment to the Virginia Constitution exempting all motor vehicles from property taxes.

Senate Bill 737 would modify the changes made by Senate Bill 5005 by replacing the requirement that localities provide tax relief through lower tax rates with a requirement that localities provide tax relief in an equitable manner.

Senate Bill 781 would modify the changes made by Senate Bill 5005 by providing that each locality's share of the \$950 million state reimbursement will be based upon its share

of total local billings for calendar year 2005, rather than on its share of total state reimbursements for tax year 2005.

Senate Bill 1224 would eliminate PPTRA reimbursement payments from the Commonwealth to local governments and provide PPTRA relief on personal use motor vehicles by reducing the state sales tax rate and permitting counties and cities that provide tangible personal property tax relief to increase their local sales tax rates.

cc : Secretary of Finance

Date: 2/2/2005 JEM