

**DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement**

1. **Patron** L. Scott Lingamfelter

3. **Committee** Senate Finance

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

2. **Bill Number** HB 1654

House of Origin:

☐ 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) and increase the PPTRA reimbursement level by five percentage points a year.

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	\$0.0	GF
2006-07	<\$22.4 million>	GF
2007-08	<\$64.7 million>	GF
2008-09	<\$109.4 million>	GF
2009-10	<\$156.7 million>	GF
2010-11	<\$206.7 million>	GF

7. Budget amendment necessary: Yes

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503, Personal Property Tax Relief Program

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 \$22.4 million in Fiscal Year 2007, \$64.7 million in Fiscal Year 2008, \$109.4 million in Fiscal Year 2009, \$156.7 million in Fiscal Year 2010, and \$206.7 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. The current official General Fund revenue forecast projects less than 5% growth above 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 1654 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	\$ 718.4 million	\$0
2007	\$950.0 million	\$ 972.4 million	\$22.4 million
2008	\$950.0 million	\$1,014.7 million	\$64.7 million
2009	\$950.0 million	\$1,059.4 million	\$109.4 million
2010	\$950.0 million	\$1,106.7 million	\$156.7 million
2011	\$950.0 million	\$1,156.7 million	\$206.7 million

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 1654 -- if the reimbursement level increases by five percentage points a year:

<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	\$718.4 million	\$0
2007	\$950.0 million	\$972.4 million	\$22.4 million
2008	\$950.0 million	\$1,085.2 million	\$135.2 million
2009	\$950.0 million	\$1,208.1 million	\$258.1 million
2010	\$950.0 million	\$1,341.1 million	\$391.1 million
2011	\$950.0 million	\$1,484.3 million	\$534.3 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 provided 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 has 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 and increase the PPTRA reimbursement level each year, as follows:

<u>Tax Year</u>	<u>Percentage Level</u>
2006	70%
2007	75%
2008	80%
2009	85%
2010	90%
2011	95%
2012 and beyond	100%

This bill would restore the three revenue growth tests provided for in the PPTRA prior to Senate Bill 5005 that freeze the level of tax relief if the Commonwealth's revenue growth is insufficient. This bill would also restore the safeguard that prohibited appropriations for PPTRA reimbursements that would exceed eight and one-half percent of the amount of total general fund revenues available for appropriation for payments in any fiscal year. In addition, this bill would also provide that if a general fund revenue forecast provided by the Governor in December of any year indicates that the additional appropriation of funds for PPTRA reimbursement payments attributable solely to the five percentage point increase from one year to the next would exceed one percent of the amount of total general fund revenues available for appropriation for payments in any fiscal year, then the increase in the percentage amount would be decreased so as to not exceed the one percent limitation.

Additionally, this bill would also provide that the Commonwealth would make PPTRA payments to localities with tangible personal property tax due dates prior to July 1 between July 1 and August 1 of that year.

cc : Secretary of Finance

Date: 2/11/2005 JEM