

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** Thomas Davis Rust

3. **Committee** House Finance

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

2. **Bill Number** HB 2066

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would eliminate the personal property tax on motor vehicle used for nonbusiness purposes. This bill would also provide that the Commonwealth would distribute 17.5% of total individual income tax revenue actually collected by the Department of Taxation in the preceding fiscal year to every county, city, and town based on its share of total Virginia taxable income no later than September 1 of each year, starting in 2007. The provisions of this bill would only become effective if an amendment to the Constitution of Virginia is enacted making motor vehicles used for nonbusiness purposes exempt from taxation.

The bill would become effective January 1, 2007, provided the required constitutional amendment is enacted.

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

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

8. **Fiscal implications:**

Revenue Implications

As the provisions of this bill would not take effect unless a constitutional amendment is enacted, there would be no revenue impact as the result of the enactment of this bill. In the event that the constitutional amendment is enacted, this bill would increase General Fund revenues available for appropriation by \$950 million per year beginning Fiscal Year 2009 by eliminating the need for PPTRA payments from the Commonwealth to localities. This increase in revenues available for appropriation would be offset by a decrease in General Fund revenues resulting from the dedication of 17.5% of individual income tax revenue to localities. This would result in a net decrease in General Fund revenues available for appropriation of \$853.4 million in Fiscal Year 2008, \$966.4 million in Fiscal Year 2009, \$1,073.5 million in Fiscal Year 2010, \$1,196.3 million in Fiscal Year 2011, and \$1,318.8 million in Fiscal Year 2012. The revenue impact to each locality would vary based on the number and value of qualifying vehicles in the locality and the population of the locality.

Administrative Costs

Enactment of this bill would not result in the Department incurring administrative costs. If this bill and the required constitutional amendment are enacted, it is estimated that the Department of Taxation would incur administrative expenses of \$181,800 in Fiscal Year 2008 to make systems changes required by the changes in the distribution of individual income tax collections.

9. Specific agency or political subdivisions affected:

All counties, cities and towns.
Department of Taxation

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 was 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 returned, the percentage of tax relief will increase to the next highest level of tax relief. The level of tax relief never exceeded 70%.

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 eliminate the Personal Property Tax Relief Act ("PPTRA"). This bill would also provide that the Commonwealth would distribute 17.5% of total individual income tax revenue actually collected by the Department of Taxation in the preceding fiscal year to every county, city, and town based on its share of total Virginia taxable income no later than September 1 of each year, starting in 2007. The provisions of this bill would only become effective if an amendment to Article X, Section 6 of the Constitution of Virginia is enacted making motor vehicles used for nonbusiness purposes exempt from taxation.

For purposes of this exemption, "motor vehicle" would mean any passenger car, motorcycle, and pickup or panel truck, that is determined by the commissioner of the revenue to be owned by a natural person or leased by a natural person pursuant to a contract requiring the lessee to pay the tangible personal property tax on such vehicle. In making this determination the commissioner of revenue would be authorized to rely on the registration of such vehicle with the Department of Motor Vehicles. For purposes of this exemption "used for nonbusiness purposes" would mean the preponderance of use is for other than business purposes. The preponderance of use for other than business purposes would be deemed not to be satisfied if: (1) the motor vehicle is expensed on the taxpayer's federal income tax return pursuant to Internal Revenue Code § 179, (2) more than 50 percent of the basis for depreciation of the motor vehicle is depreciated for federal income tax purposes, or (3) the allowable expense of total annual mileage in excess of 50 percent is deductible for federal income tax purposes or reimbursed pursuant to an arrangement between an employer and employee.

Other Legislation

House Bill 1536 and **House Bill 1654** would repeal the changes to the PPTRA provided by Senate Bill 5005.

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: 1/29/2005 JEM