

# DEPARTMENT OF TAXATION

## 2005 Fiscal Impact Statement

1. **Patron** Robert B. Bell

3. **Committee** House Appropriations

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

2. **Bill Number** HB 2257

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would modify the changes to the personal property tax relief program for motor vehicles provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) by (1) replacing the requirement that each locality's share of the \$950 million reimbursement payment be determined based upon its share of the total state reimbursement for tax year 2005 with a requirement that it be annually determined based on a reimbursement ratio; (2) replacing the requirement that localities provide tax relief through lower tax rates with a requirement that localities provide tax relief in an equitable manner, and (3) providing that reimbursements to localities be paid in 12 equal monthly installments beginning with the month of May each year.

The provisions of this bill would be effective for tax years beginning in 2006 and all tax years thereafter.

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

#### **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></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

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

ITEM(S): 503, Personal Property Tax Relief Program

## **8. Fiscal implications:**

### Revenue Impact

It is estimated that this bill would increase PPTRA reimbursements to localities by \$158.3 million in Fiscal Year 2006 by requiring that the \$950 million in PPTRA reimbursement payments required by 2004 Senate Bill 5005 be made to localities (1) starting in May, 2006 rather than in July 2007 and (2) in equal monthly payments rather than on a flexible schedule that corresponds with each locality's personal property tax due date.

By requiring that payments to localities be determined annually based on a ratio rather than on tax year 2005 reimbursements, this bill would change the reimbursement payment due each locality each year based on the number and value of qualifying vehicles in the locality in the most recently ended tax year.

### 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 and the Governor's Budget Bill, no budget amendment is necessary.

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

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 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. The Comptroller will determine reimbursement payments to localities no later than March 1, 2006. Reimbursement payments to localities will be made over the 12-month period beginning with the month of July. Localities will provide tax relief through one or more tax rates that are lower than the tax rate applicable to the general class of tangible personal property.

## Proposal

This bill would modify the changes to the personal property tax relief program for motor vehicles provided by Senate Bill 5005 by basing each locality's share of the \$950 million state reimbursement for tax year 2006 and subsequent tax years on a reimbursement ratio. The numerator of the ratio would be the value of all qualifying vehicles in a locality in the most recently ended tax year, up to the first \$20,000 of value per vehicle, multiplied by the effective tax rate in effect in the locality on July 1, 1997, or August 1, 1997, whichever is greater. The denominator would be the aggregate amount of the numerators calculated for all localities.

On or before February 1 of each year, the treasurer of each locality would certify to the Auditor of Public Accounts the numerator for the locality's reimbursement ratio for the most recently ended tax year. The Auditor of Public Accounts would certify the reimbursement ratio for each locality no later than March 1 each year. Reimbursements to localities would be paid in 12 equal monthly installments beginning with the month of May each year.

This bill would replace the requirement that localities provide tax relief through lower tax rates with a requirement that localities provide tax relief in an equitable manner.

## Other Legislation

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

**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: 1/29/2005 JEM