

# DEPARTMENT OF TAXATION

## 2005 Fiscal Impact Statement

1. **Patron** Vivian E. Watts

3. **Committee** House Finance

4. **Title** Local piggyback income tax and personal property tax

2. **Bill Number** HB 2359

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would allow localities to impose a local income tax at a rate either 0.5% or 1% upon the Virginia taxable income of individuals, trusts, estates, and corporations; provided that the personal property tax rate does not exceed \$0.01 per \$100 of value on personally owned motor vehicles. The Tax Commissioner would collect the tax and return it to the locality based on taxpayers' residences. A new classification for personal property tax purposes would also be created for motor vehicles used for nonbusiness purposes.

The effective date of this bill is January 1, 2006.

6. **Fiscal Impact Estimates are:** None. (See Line 8.)

7. **Budget amendment necessary:** None.

### 8. **Fiscal implications:**

#### Administrative Impact

The Department would not incur administrative costs as a result of this bill unless a locality exercised its authority under this legislation. If every locality in the Commonwealth adopted a local income tax effective for the 2006 taxable year then the Department would incur costs of \$712,559 for Fiscal Year 2006, \$1,228,548 for Fiscal Year 2007, \$1,038,215 for Fiscal Year 2008, \$230,023 for Fiscal Year 2009, \$236,923 for Fiscal Year 2010, and \$244,031 for Fiscal Year 2011 to implement the bill, including systems changes.

The Department is in the final stages of preparing for an August changeover to an entirely new system developed over many years through a public-private partnership. Legislative changes that become effective before the new system is in place must be made to both the old and new systems. However, the Department must "freeze" both systems for several months while its existing records and other data are converted to the new system, and will not be able to resume system modifications until the new system is stable. This freeze is required both by the physical requirements of a major system upgrade and the

fact that all personnel capable of modifying either system will be fully committed to the changeover.

The Department believes that there would be sufficient time available to make the necessary systems changes required if a locality were to enact a local income tax proposed by this bill for the 2006 taxable year without affecting the system changeover. However, if numerous changes must be implemented within the same time frame the Department may not be able to accomplish all of the modifications without additional resources or the ability to delay the effective date of some of the changes.

### Revenue Impact

This bill would have no impact on General Fund Revenues. However, this bill would increase the amount of General Fund revenues available for other appropriations. There would be no impact related to PPTRA for Fiscal Year 2006 because of the \$950 million car tax cap in the budget. If all localities chose to lower the personal property tax on motor vehicles to \$0.01 per \$100, PPTRA reimbursements would be reduced by \$947.1 million in Fiscal Year 2007, \$946.9 million in Fiscal Year 2008, \$946.8 million in Fiscal Year 2009, \$946.6 million in Fiscal Year 2010, and \$946.5 million in Fiscal Year 2011.

It is impossible to provide an actual fiscal impact on localities given this bill would allow any county or city to impose the local option income tax at either 0.5% or 1% and it is impossible to know which localities will choose to implement the local income tax. However, based on 2002 taxable year data, if all localities chose to impose a 1% local income tax local revenue would increase by \$732.9 million in Fiscal Year 2006, \$1,492.5 million in Fiscal Year 2007, \$1,506.2 million in Fiscal Year 2008, \$1,534.8 million in Fiscal Year 2009, \$1,559.1 million in Fiscal Year 2010, and \$1,586.1 million in Fiscal Year 2011.

If all localities chose to impose a 0.5% local income tax local income revenue would increase by \$366.4 million in Fiscal Year 2006, \$746.2 million in Fiscal Year 2007, \$753.1 million in Fiscal Year 2008, \$767.4 million in Fiscal Year 2009, \$779.6 in Fiscal Year 2010, and \$793.0 in Fiscal Year 2011.

The following table illustrates the combined local revenue impact of a 1% local income tax and a reduction in the personal property tax to one cent per one hundred dollars of value by all localities:

(\$ Millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Corporate (1%)	\$54.4	\$122.6	\$110.1	\$112.0	\$109.1	\$108.3
Individual (1%)	\$678.5	\$1369.9	\$1396.1	\$1422.8	\$1450.0	\$1477.8
PPTRA (1¢ per \$100)	\$0	(\$947.1)	(\$946.9)	(\$946.8)	(\$946.6)	(\$946.5)
Total	\$732.9	\$545.4	\$559.3	\$558.0	\$612.5	\$639.6

The following table illustrates the combined local revenue impact of a 0.5% local income tax and a reduction in the car tax to one cent per one hundred dollars of value by all localities:

(\$ Millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Corporate (0.5%)	\$27.2	\$61.3	\$55.1	\$56.0	\$54.6	\$54.2
Individual (0.5%)	\$339.2	\$684.9	\$698.0	\$711.4	\$725.0	\$738.9
PPTRA (1¢ per \$100)	\$0	(\$947.1)	(\$946.9)	(\$946.8)	(\$946.6)	(\$946.5)
Total	\$366.4	(\$200.9)	(\$193.8)	(\$179.4)	(\$167.0)	(\$153.6)

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

Department of Taxation  
Department of Motor Vehicles

**10. Technical amendment necessary:** None.

**11. Other comments:**

**Background**

Local Income Tax

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individual residents of the localities and corporations, estates, and trusts with income from sources within the localities. Under current law, the city or county must hold a referendum and, upon voter approval, pass an ordinance to impose the tax. The 1989 legislation permits the levy of an income tax on individuals, estates, trusts and corporations at any increment of .25% up to a maximum rate of 1% above the state income tax rate. Counties and cities can levy an income tax for a period of not more than five years, and any revenue from the tax must be expended for transportation purposes.

No city or county currently imposes the local income tax.

Personal Property Tax on Motor Vehicles

The PPTRA calls for the phase out of the tax based on local tax rates in effect on August 1, 1997. Under the PPTRA, the tax on the first \$20,000 of value of personal passenger cars, motorcycles, and pickup or panel trucks that weigh 7,500 pounds or less is scheduled to be eliminated upon the satisfaction of the revenue requirements enumerated under *Va. Code* § 58.1-3524(C). The phase out involves Virginia's reimbursement to localities for the local revenues forgone under the phase out. The tax relief under this act is currently capped at \$950 million in the budget.

## **Proposal**

### Local Income Tax

This bill would amend the local option income tax to allow any county or city to impose the tax at a rate either one-half or one percent with the adoption of an ordinance and provided the personal property tax rates do not exceed \$0.01 per \$100 of value on personally owned motor vehicles. This bill would also eliminate (i) the referendum requirement for the enactment of the local income tax, (ii) the current restriction that revenue from the local income tax must be spent solely on transportation and (iii) the expiration of the tax five years after its imposition.

### Classification of Personal Use Vehicles for purposes of Local Taxation

This bill would create a separate classification of personal use motor vehicles in order for localities to apply a different Personal Property tax rate to these vehicles.

cc : Secretary of Finance

Date: 1/30/2005 dtm  
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