DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement

1. Patron Kristen J. Amundson

2. Bill Number HB 2498

House of Origin:
X Introduced
____ Substitute
____ Engrossed

3. Committee House Finance

Second House:
____ In Committee
____ Substitute
____ Enrolled

4. Title Personal Property Tax Relief Act

5. Summary/Purpose:

This bill would (1) eliminate the Personal Property Tax Relief Act ("PPTRA"); (2) authorize every county and city to impose by ordinance a local income tax at a rate of either one-half or one percent on individuals, fiduciaries and corporations having income from sources within the locality; and (3) grant to counties the same taxing powers now granted to municipalities. The provisions of this bill would only become effective if an amendment to the Constitution of Virginia is enacted making motor vehicles 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 2008 by eliminating the need for PPTRA payments from the Commonwealth to localities. The immediate impact on local revenues is uncertain because localities may or may not exercise the authority granted to expand or increase the taxes they impose.

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 expenses administering the local income tax of $681,930 in Fiscal Year 2007, $964,522 in Fiscal Year 2008, $1,037,215 in Fiscal Year

2009, $230,023 in Fiscal Year 2010, and $235,923 in Fiscal Year 2011 to make systems changes, changes to forms and instructions, and to process returns and resolve errors. The direct costs to the Department of state administration of the local income tax are to be deducted on a prorata basis from the distributions to each county or city imposing the tax. These costs assume that the local income tax would first be effective for taxable year 2007. If that is not the intent of the bill, a technical amendment is recommended.

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.

Local Taxing Authority

Under current law, when compared to municipalities, counties are not authorized to impose certain taxes and are limited in the tax rates that they may impose for other taxes. Examples of limitations which currently apply to counties (except for specifically identified counties and counties excepted under a specific grandfather clause), but not municipalities, include the following:

- The tax rate which counties may impose on food and beverages is limited and the tax may only be levied if approved in a referendum; and

- The tax rate which counties may impose on transient occupancies is limited and the resulting revenue must be designated for certain purposes.

The issue of equalizing city and county taxing authority was most recently addressed in the report of the Commission on Virginia's State and Local Tax Structure for the 21st Century (2001 House Document No. 22). The Commission recommended that the distinction in the taxing authority of Virginia's cities and counties be eliminated. The Commission report states that the distinction is "based solely on an historical legalism and which has no relevancy to modern service responsibilities . . . ." The Commission report also notes that equalizing city and county taxing authority will broaden "the potential revenue base of counties, reduce their dependence on their real estate tax base, and make the potential revenue bases and therefore the measurement of revenue effort of cities and counties directly comparable."

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.

Proposal

This bill would eliminate the Personal Property Tax Relief Act ("PPTRA"). This bill would also authorize every county and city to impose by ordinance a local income tax at a rate of either one-half or one percent on individuals, fiduciaries and corporations having income from sources within the locality without first holding a referendum, would remove the five year limitation on the imposition of the tax and would remove any restriction on the use of the revenue from the tax. Additionally, this bill would grant to counties the same taxing powers now granted to municipalities.

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 exempt from taxation.

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 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