DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement

1. **Patron** Mark D. Sickles

2. **Bill Number** HB 2702
   House of Origin:
   X **Introduced**
   ____ **Substitute**
   ____ **Engrossed**

   Second House:
   ____ **In Committee**
   ____ **Substitute**
   ____ **Enrolled**

3. **Committee** House Appropriations

4. **Title** Income tax; distribution of revenues to localities

5. **Summary/Purpose:**

This bill would require the transfer of 1% of individual income tax revenues to localities in 2005. The amount increases 1% each year until it reaches a maximum of 5% for 2009 and thereafter. The revenues are distributed to counties and cities as follows: (i) 50% based on the relative share of the total state income tax paid by taxpayers filing returns in each locality, (ii) 40% based on where wages are earned, and (iii) 10% divided equally among all counties and cities.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

Expenditure Impact:

Fiscal Year	***Dollars***	***Fund***
2004-05	$352,000	GF
2005-06	$0	GF
2006-07	$0	GF
2007-08	$0	GF
2008-09	$0	GF
2009-10	$0	GF
2010-11	$0	GF

7. **Budget amendment necessary:** Yes.
ITEM(S): 284 and 286, Department of Taxation

8. **Fiscal implications:**

Administrative Impact

The Department would incur administrative costs of $352,000 for FY 2005 for systems development.

Revenue Impact

This bill would have no effect on General Fund revenues. However, a significant portion of the General Fund would be transferred to localities. Distributions to localities are estimated to be $73.85 million in FY 2005, $157.35 million in FY 2006, $249.57 million in FY 2007, $353.23 million in FY 2008, $469.57 million in FY 2009, $496.53 million in FY 2010, and $527.77 million in FY 2011.

9. Specific agency or political subdivisions affected:

Department of Taxation
State Comptroller
State Treasurer
Localities

10. Technical amendment necessary: No.

11. Other comments:

This bill would create the Localities' Share of Individual Income Tax Revenue Fund (the "Fund"). By August 1 of each year, a portion of individual income tax revenues from the preceding fiscal year would be deposited into the Fund. The first deposit to the Fund equal to 1% of individual income tax revenues for fiscal year 2004 would be required by August 1, 2005. In succeeding years, the percentage of individual income tax revenues required to be deposited would increase by one until it reaches 5% in 2008. The following table shows how the percentage would increase:

	Deposit Date	Percentage	Fiscal Year Revenue
Required Deposits of Individual Income Tax Revenues	August 1, 2005	1%	2004
	August 1, 2006	2%	2005
	August 1, 2007	3%	2006
	August 1, 2008	4%	2007
	August 1, 2009 and each year thereafter	5%	2008 and each year thereafter

Distribution from the Fund would be made to localities by September 1 of each year. The first distribution would be made by September 1, 2005. The Fund would be distributed based on a statutory formula. Under this formula, 50% would be distributed based on the relative share of income tax paid by individuals filing returns in each locality, 40% would be distributed based on where wages are earned and 10% would be distributed equally among all 134 counties and cities. Further distributions would be made to towns from one half of a county's distribution based on the towns' relative share of total population within the county.

The Department already captures the data for the distribution of 50% of the Fund. However, the data for the 40% of the distribution is based on wage reports submitted by employers to the Virginia Employment Commission. Employers that operate in more than one location are allowed to report all of their wages in the locality in which their operations are based. As a result, this data would include wages reported in one locality, but actually earned in another.

Local Option Income Tax

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individuals and corporations in addition to the state income tax rate. 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%. Cities and counties can levy an income tax for a period of not more than five years, and any revenue form the tax must be expended for transportation purposes. No city or county currently imposes the local income tax.

cc : Secretary of Finance

Date: 1/30/2005 TST
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