

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** Clarence E. Phillips

3. **Committee** House Finance

4. **Title** State Transient Occupancy Tax: Coalfield
Region

2. **Bill Number** HB 2817

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would impose a state administered transient occupancy tax on the counties of Buchanan, Dickenson County, Lee County, Russell County, Scott County, Tazewell County, Wise, and the City of Norton at the rate of three percent. This tax would be in addition to any local transient occupancy tax that may already be imposed by the localities. The revenues generated by this additional tax would be paid to the Virginia Coalfield Regional Tourism Development Authority to be used solely for promoting tourism within this region.

The effective date of this legislation is not specified.

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

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

8. **Fiscal implications:**

Administrative Costs

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 effective date of this bill would require that substantial systems work be done during the “freeze” period required by the changeover. This work would include programming costs, systems development, and designing and printing forms. Even if the effective date

of this bill were changed to July 1, 2006, and the Department were able to make the necessary systems changes after the new system has been brought on line, the costs to initially develop a processing system to administer this tax would most likely exceed the revenue collected in the first three years. The Department's ongoing costs to administer the tax would be approximately \$7,500 per year. Generally, when the Department administers and collects other non-general fund local taxes, such as the Northern Virginia Motor Vehicle Fuel Sales Tax, the Department's direct costs to administer the tax are deducted from the proceeds of the tax.

Revenue Impact

This bill would have no impact on state revenues. There will be an unknown revenue gain to the affected localities, which will be spent solely on promoting tourism within this region. Based on the FY 2003 transient occupancy tax collected by the counties that currently impose a transient occupancy tax, this bill would generate an estimated \$160,315 for tourism promotion.

9. Specific agency or political subdivisions affected:

Department of Taxation

Buchanan County, Dickenson County, Lee County, Russell County, Scott County, Tazewell County, Wise County, and the City of Norton.

10. Technical amendment necessary: No.

11. Other comments:

Generally

Under current law, any county may impose a transient occupancy tax at a maximum rate of two percent, upon the adoption of an ordinance, on hotels, motels, boarding houses, travel campgrounds, and other facilities offering guest rooms. The tax, however, does not apply to rooms rented on a continuous occupancy by the same individual or group for 30 or more continuous days. Cities and towns are authorized to impose a transient occupancy tax under their general taxing powers. The tax is imposed on the occupancy of any rooms or spaces in hotels, motels, boarding houses, travel campgrounds, and other facilities offering guest rooms, although cities and towns are not subject to a percentage cap.

Affected localities

Currently, Russell County and Tazewell County do not impose a transient occupancy tax. Buchanan County, Dickenson County, Lee County, and Scott County impose the tax at a rate of 2%, Wise County imposes the tax at a rate of 5%, and the City of Norton imposes a 4% transient occupancy tax.

This proposal

This bill would impose an additional transient occupancy tax of 3% on Buchanan County, Dickenson County, Lee County, Russell County, Scott County, Tazewell County, Wise County, and the City of Norton. The revenues generated by this additional tax would be collected by the Department on a monthly basis like the retail sales and use tax and paid to the Virginia Coalfield Regional Tourism Development Authority on a quarterly basis to be used solely for promoting tourism within this region.

Currently, while other localities have the authority to impose an additional transient occupancy tax, it is administered and collected by the localities. This additional transient occupancy tax would be subject to collection and administrative rules applicable to the retail sales tax, not to other local taxes. For example, this new tax would be subject to the state penalty and interest rates, which differ from the penalty and interest rates imposed by localities. A taxpayer who fails to collect the tax would be subject to two separate assessments, each imposing penalty and interest at different rates and would have to comply with two separate, different administrative appeal processes.

TAX would be required to develop guidelines to implement the provisions of this bill.

Counties authorized to impose additional transient occupancy tax

Albemarle, Augusta, Bedford, Caroline, Cumberland, Dinwiddie, Floyd, Franklin, Gloucester, James City, King George, Loudoun, Mecklenburg, Nelson, Page, Prince Edward, Prince William, Rockbridge, Spotsylvania, Stafford, Tazewell, Wythe, and York Counties are authorized to impose a transient occupancy tax at a maximum rate of five percent. The revenues for the portion of the tax over two percent must be spent on tourism and promoting tourism.

The counties of Chesterfield, Hanover, and Henrico may impose an additional transient occupancy tax not to exceed six percent (total maximum rate of eight percent). The revenues from the additional six percent must be used to promote tourism and travel in the Richmond Metropolitan area.

The counties of James City and York are authorized to impose an additional transient occupancy tax not to exceed \$2 per room per night. The revenues from this additional tax will be used to promote tourism in the Historic Triangle area.

Fairfax County may impose an additional two percent tax on the occupancy of any room. The revenues from this additional tax will be used to promote tourism in the county and to fund a Visitor's and Convention Bureau.

Rockbridge County and the Cities of Lexington and Buena Vista may impose an additional transient occupancy tax at a rate not to exceed two percent. The revenues from this tax will be used to fund the Virginia Horse Center Foundation and the Virginia Equine Center Foundation.

Similar Legislation

House Bill 1857 and **Senate Bill 1102** would extend the imposition of the ¼% additional transient occupancy tax in Arlington County until January 1, 2009.

House Bill 1965 would allow Prince George County to impose an additional transient occupancy tax at a maximum rate of five percent.

House Bill 2007 would allow Carroll County to impose an additional transient occupancy tax at maximum rate of five percent.

Senate Bill 793 would clarify that the transient occupancy tax applies only to rooms or spaces suitable or intended for dwelling, sleeping or lodging.

cc : Secretary of Finance

Date: 1/29/2005 SM
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