

# DEPARTMENT OF TAXATION

## 2004 Fiscal Impact Statement

1. **Patron** Vivian E. Watts

2. **Bill Number** HB 794

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

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

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

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

This bill would allow localities to impose a local income tax at a rate either one-half or one percent upon the Virginia taxable income of individuals, trusts, estates, and corporations; provided 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, 2005.

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

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

### 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 2005 taxable year then the Department would incur administrative costs of \$187,200 for Fiscal Year 2004, \$2,009,835 for Fiscal Year 2005, \$913,625 for Fiscal Year 2006, \$337,596 for Fiscal Year 2007, \$326,010 for Fiscal Year 2008, \$333,164 for Fiscal Year 2009, and \$340,537 for Fiscal Year 2010 for systems development and forms revision.

## 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. It is estimated that this bill will eliminate PPTRA reimbursements to localities by \$226.2 million in Fiscal Year 2004, \$920.4 million in Fiscal Year 2005 and \$1 billion in Fiscal Year 2006.

This bill would have a positive fiscal impact on localities. 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 one-half or one percent and it is impossible to know which localities will choose to implement the local income tax. However, based on taxable year 2001 data, if all localities chose to impose a one percent local income tax local revenue would increase by \$789.2 million in Fiscal Year 2005, \$1,670.9 million in Fiscal Year 2006, \$1,744.6 million in Fiscal Year 2007, \$1,837.7 million in Fiscal Year 2008, \$1,936.3 million in Fiscal Year 2009, and \$2,041.3 million in Fiscal Year 2010. If all localities chose to impose a one-half percent local income tax local income revenue would increase by \$395.1 million in Fiscal Year 2005, \$835.4 million in Fiscal Year 2006, \$872.8 million in Fiscal Year 2007, \$919.3 million in Fiscal Year 2008, \$968.1 million in Fiscal Year 2009, and \$1,020.1 in Fiscal Year 2010. If all localities chose to lower the personal property tax on motor vehicles to one cent per one hundred dollars, a revenue loss would result in the amount of \$240 million in Fiscal Year 2005, \$956 million in Fiscal Year 2006, \$1,028 million in Fiscal Year 2007, \$1,085 million in Fiscal Year 2008, \$1,141 million in Fiscal Year 2009, and \$1,202 million in Fiscal Year 2010.

The following table illustrates the combined effect of a one percent local income tax and a reduction in the personal property tax to one cent per one hundred dollars of value:

(\$ Millions)	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Corporate	\$40.2	\$90.9	\$79.6	\$82.7	\$86.3	\$90.3
Individual	\$749	\$1,580	\$1,665	\$1,755	\$1,850	\$1,951
Personal Property Tax	(\$240)	(\$956)	(\$1,028)	(\$1,085)	(\$1,141)	(\$1,202)
Total	\$550	\$715	\$717	\$753	\$795	\$839

The following table illustrates the combined effect of a one-half percent local income tax and a reduction in the car tax to one cent per one hundred dollars of value:

(\$ Millions)	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Corporate	\$20.1	\$45.4	\$39.8	\$41.3	\$43.1	\$45.1
Individual	\$375	\$790	\$833	\$878	\$925	\$975
Personal Property Tax	(\$240)	(\$956)	(\$1,028)	(\$1,085)	(\$1,141)	(\$1,202)
Total	\$155	(\$121)	(\$156)	(\$166)	(\$173)	(\$181)

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

Department of Taxation  
Department of Motor Vehicles

**10. Technical amendment necessary:** No.

**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 Personal Property Tax Relief Act of 1998 (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 the Commonwealth's reimbursement to localities for the local revenues forgone under the phase out. The tax relief under this act is currently at 70%.

**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.

### Personal Property Tax on Motor Vehicles

This bill would repeal the Personal Property Tax Relief Act effective January 1, 2005.

cc : Secretary of Finance