

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** J. Brandon Bell, II

3. **Committee** Senate Finance

4. **Title** Personal Property Tax Relief Act

2. **Bill Number** SB 1224

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would eliminate Personal Property Tax Relief Act ("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. The provisions of this bill would only become effective if an amendment to Article X, Section 6 of the Constitution of Virginia is enacted authorizing localities to exempt up to the first \$20,000 of value of personal use motor vehicles from the tangible personal property tax.

The bill would become effective January 1, 2008 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 2009 by eliminating the need for PPTRA payments from the Commonwealth to localities. This increase in revenues available for appropriation would be offset by a decrease in General Fund revenues resulting from the lowering of the state sales tax rate, which is estimated to be \$1.05 billion in Fiscal Year 2009. This would result in a net decrease in General Fund revenues available for appropriation of approximately \$100,000 a year. As the local personal property tax relief program authorized by this bill is a local option, the effect on local revenues is unknown. The revenue impact to each locality would vary

based on the level of tax relief granted by the locality, the number and value of qualifying vehicles in the locality, and the amount of sales subject to the sales tax in the locality.

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 administrative expenses of \$329,173 in Fiscal Year 2007 and \$431,973 in Fiscal Year 2008 to modify state sales tax returns and instructions, notify affected businesses and make systems changes required by the state sales tax rate change. As it is not known how many localities would change their local sales tax rates, these costs do not include any costs associated with changes in local sales tax rates. Depending on the number of businesses in each locality, the Department would incur costs ranging from \$500 to \$25,000 to modify state sales tax returns and instructions and to notify affected businesses.

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.

Proposal

This bill would authorize local governments to exempt from tangible personal property tax up to the first \$20,000 of value of personal use vehicles. A county or city that exempts between \$7,000 and \$14,000 of value would be authorized to increase its local sales and use tax rate from one percent to one and one-half percent. A county or city that exempts the first \$14,000 of value would be authorized to increase its local sales and use tax rate from one percent to two percent. The additional sales and use tax would not apply to food purchased for human consumption. Any town providing personal property tax relief that is located in a county that provides personal property tax relief would share in any additional sales and use tax revenues. The state sales tax rate would be reduced from four percent to three percent to account for the potential one percent increase in the local sales tax rate.

The provisions of this bill would only become effective if an amendment to Article X, Section 6 of the Constitution of Virginia is enacted authorizing localities to exempt up to the first \$20,000 of value of personal use motor vehicles from the tangible personal property tax.

Other Legislation

Senate Joint Resolution 405 proposes that the Virginia Constitution be amended to allow the General Assembly to authorize, by general law, the governing body of any locality to exempt from property taxation up to the first \$20,000 of fair market value of privately owned motor vehicles used for nonbusiness purposes.

House Bill 1536 and **House Bill 1654** would repeal the changes to the PPTRA provided by 2004 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 Bill 2498 would repeal the PPTRA, grant counties the same taxing authority as cities, and authorize all localities to impose a local income tax.

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 2004 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 2004 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.

cc : Secretary of Finance

Date: 1/24/2005 JEM