

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** John H. Chichester

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: Eliminating the
Estimated Payment for June Sales and
Use Tax Liability

2. **Bill Number** SB 709

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would eliminate the requirement that dealers make estimated sales and use tax payments for the month of June on or before June 25th of each year.

This bill contains an emergency clause and would be in effect immediately upon enactment.

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

Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2004-05	<\$187.0 million>	GF
2005-06	<\$65.7 million>	GF

7. **Budget amendment necessary:** Yes.

Line 1, Revenue Estimates

8. Fiscal implications:

TAX would incur minimal administrative costs in Fiscal Year 2005 for systems modifications.

Eliminating the requirement that dealers pay the June 2005 sales tax in June instead of July would shift \$187 million in state revenue from FY 2005 to FY 2006. Of the \$187 million amount, \$160.3 million would be available to offset the FY 2006 impact. The balance of \$26.7 million represents Transportation Trust Fund revenue that will be deposited into the Transportation Trust Fund in July 2005, rather than into the General Fund. The FY 2006 revenue loss from shifting \$226 million from FY 2006 to FY 2007 would be partially offset by the \$160.3 million of General Fund revenue shifted from June to July in 2005. The total loss of \$252.7 million is made up of the loss of the Transportation trust Fund amount (-\$26.7 million) that would otherwise have been

deposited into the General Fund in FY 2005, plus the June 2006 lost of \$226 million. The net reduction in revenue for FY 2006 is \$65.7 million.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Filing and Payment Requirements

Virginia law requires sales and use tax dealers to file a return and pay the amount of sales and use taxes due on the return by the twentieth day of the month following the month in which the taxable transactions occurred. The Tax Commissioner may also grant permission to taxpayers to file returns and pay the sales and use taxes due on the returns for periods less frequent than monthly. These returns are due on the twentieth day of the month following the close of the taxable period. Such taxpayers are generally allowed to file returns using a quarterly reporting period.

Dealers with taxable sales of \$1.3 million and direct payment permit holders with over \$1.3 million of purchases are required to make an additional estimated sales and use tax payment by June 25th of each year that is equal to 90% of the dealer's previous June sales and use tax liability. The amount of this estimated payment is used as a credit to offset the actual sales and use tax due by July 20th.

The accelerated sales tax payment was enacted by the General Assembly in Chapter 1042, 2003 Acts of Assembly. It was effective retroactively to June 1, 2002.

This Proposal

This bill would eliminate the need for the accelerated payment of sales and use taxes for the month of June.

Similar Legislation

House Bill 1876, Senate Bill 872, and Senate Bill 1010 are similar, except that these bills do not contain an emergency clause and would eliminate only the June 2006 accelerated payment, reducing state revenue by \$226 million in FY 2006.

cc : Secretary of Finance

Date: 1/17/2005 S.M.
SB709F161doc