

**DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement**

1. Patron W. Roscoe Reynolds

3. Committee Senate Finance

4. Title Personal Property Tax Relief Act

2. Bill Number SB 737

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would modify the changes to the personal property tax relief program for motor vehicles provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) by (1) replacing the requirement that localities provide tax relief through lower tax rates with a requirement that localities provide tax relief in an equitable manner, (2) providing that reimbursements to localities be paid in 12 equal monthly installments beginning with the month of May each year, and (3) providing that the Comptroller shall determine reimbursement payments to localities no later than April 30, 2006.

The provisions of this bill are effective for tax years beginning in 2006 and all tax years thereafter.

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

7. Budget amendment necessary: Yes

ITEM(S): 503, Personal Property Tax Relief Program

8. Fiscal implications:

It is estimated that this bill would increase PPTRA reimbursements to localities by \$158.3 million in Fiscal Year 2006 by requiring that the \$950 million in PPTRA reimbursement payments required by Senate Bill 5005 be made to localities (1) starting in May, 2006 rather than in July 2007 and (2) in equal monthly payments rather than on a flexible schedule that corresponds with each locality's personal property tax due date.

9. Specific agency or political subdivisions affected:

Department of Taxation
All localities

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 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. The Comptroller will determine reimbursement payments to localities no later than March 1, 2006. Reimbursement payments to localities will be made over the 12-month period beginning with the month of July. Localities will provide tax relief through one or more tax rates that are lower than the tax rate applicable to the general class of tangible personal property.

Proposal

This bill would modify the changes to the personal property tax relief program for motor vehicles provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I). This bill would replace the requirement that localities provide tax relief through lower tax rates with a requirement that localities provide tax relief in an equitable manner.

The bill would also provide that reimbursements to localities be paid in 12 equal monthly installments beginning with the month of May each year. Finally, the bill provides that the Comptroller shall determine reimbursement payments to localities no later than April 30, 2006.

Other Legislation

House Bills 1536 and 1654 would reverse the changes made by Senate Bill 5005.

House Joint Resolution 620 would propose an amendment to the Virginia Constitution exempting privately owned motor vehicles used for nonbusiness purposes from property taxes.

Senate Bill 781 would modify the changes made by Senate Bill 5005 by providing that 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 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: 1/25/2005 JEM