DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

1. Patron Jeffrey M. Frederick

2. Bill Number HB 1377

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Appropriations

4. Title Personal Property Tax Relief

5. Summary/Purpose:

This bill would repeal the changes to the Personal Property Tax Relief Act of 1998 (the "PPTRA") provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) and set the PPTRA reimbursement level at 100 percent.

This bill would be effective January 1, 2007.

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

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2005-06	$0	0	
2006-07	$173,640	0	GF
2007-08	$1,277,460	7	GF
2008-09	$447,534	7	GF
2009-10	$463,084	7	GF
2010-11	$478,650	7	GF
2011-12	$494,234	7	GF

6b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2005-06	$0	GF
2006-07	<$386.1 million>	GF
2007-08	<$511.1 million>	GF
2008-09	<$607.0 million>	GF
2009-10	<$679.5 million>	GF
2010-11	<$753.6 million>	GF
2011-12	<$831.2 million>	GF

7. Budget amendment necessary: Yes.
ITEM(S): Page 1, Revenue Estimates
459, Personal Property Tax Relief Program
265 and 269, Department of Taxation

8. Fiscal implications:

Revenue Impact

It is estimated that this bill would require the transfer of unrestricted General Fund revenues to localities of $386.1 million in Fiscal Year 2007, $511.1 million in Fiscal Year 2008, $607.0 million in Fiscal Year 2009, $679.5 million in Fiscal Year 2010, $753.6 million in Fiscal Year 2011, and $ 831.2 million in Fiscal Year 2012. To implement this transfer, a reduction of an equal amount of General Fund support from other areas in the introduced budget would be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant General Fund support.

This estimate is the difference between the $950 million annual PPTRA relief provided for by 2004 Senate Bill 5005 (Chapter 1, 2004 Acts of Assembly, Special Session I) and the estimated cost of reimbursements at the 100% rate. The following chart compares PPTRA relief provided for under current law by 2004 Senate Bill 5005 and the estimated cost of reimbursements under House Bill 1377 at the 100% reimbursement rate:

FISCAL YEAR	PPTRA RELIEF UNDER 2004 SENATE BILL 5005	PPTRA RELIEF UNDER HOUSE BILL 1377	ADDITIONAL COST OF PPTRA RELIEF UNDER HOUSE BILL 1377
2006	$692.7 million	$ 692.7 million	$0
2007	$950.0 million	$ 1,336.1 million	$386.1 million
2008	$950.0 million	$1,461.1 million	$511.1 million
2009	$950.0 million	$1,557.0 million	$607.0 million
2010	$950.0 million	$1,629.5 million	$679.5 million
2011	$950.0 million	$1,703.6 million	$753.6 million
2012	$950.0 million	$1,781.2 million	$831.2 million

Administrative Costs - Department of Taxation

This bill would extend the need for the Department of Taxation to audit the PPTRA program beyond Fiscal Year 2006. Additionally, this bill would transfer the responsibility for the PPTRA program from the Department of Motor Vehicles' ("DMV") to the Department of Taxation.

TAX implemented a new Integrated Revenue Management System (IRMS) in August 2005, replacing TAX's 20-year-old tax processing system. IRMS includes an imaging system, a data entry system, a remittance system, a customer relationship management system, a collections system, an audit system, an Internet suite of systems, and back-office systems that process the registrations of taxpayers and the processing of their returns and payments. Since the implementation, there has been a significant software modification to implement 2005 legislative changes. In addition, other necessary enhancements to the system have been developed. Other additional software releases are planned throughout the summer of 2006.

This bill would require TAX to make complex changes to IRMS. TAX would need to integrate PPTRA processing into its suite of IRMS applications, requiring the following systems to be changed: data entry, imaging, customer relationship management, Internet and Advantage Revenue. Unfortunately, the separate DMV and TAX systems are incompatible and cannot communicate with one another. TAX would need to write new data conversion programs to convert DMV data to TAX data. Many interface programs would need to be written to allow the exchange of data with the Department of Accounts ("DOA") and local governments. TAX would need to develop new online functionality and reporting capabilities to allow TAX representatives to view the new data in order to assist localities and taxpayers. A major testing effort would need to take place with all 135 local governments. Historically, TAX has found similar test efforts to be manually intensive and lengthy processes. Instead of building new systems from the ground up, TAX has examined the option of transferring DMV's existing systems to TAX. This option is not feasible because as noted, DMV's systems are based on older technology that is incompatible with TAX's new technology platform.

Given the extent of the systems changes required, TAX would not be able to assume responsibility for the functions transferred from DMV until January 1, 2008. It is estimated that the Department would incur administrative expenses of $173,640 in Fiscal Year 2007, $1,277,460 in Fiscal Year 2008, $447,534 in Fiscal Year 2009, $463,084 in Fiscal Year 2010, $478,650 in Fiscal Year 2011, and $494,234 in Fiscal Year 2012 to implement this bill, including 7 full time employees and the necessary systems changes. As these costs are not reflected in the 2006-2008 budget, a budget amendment would be necessary.

9. Specific agency or political subdivisions affected:

Department of Accounts
Department of Motor Vehicles
Department of Taxation
All localities

10. Technical amendment necessary: Yes.

In order to allow TAX sufficient time to make the systems changes necessary to assume responsibility of the PPTRA from DMV, the following technical amendment is required:

Page 9, Line 525, after 2.;
Strike: Remainder of line.
Insert: That the provisions of this act transferring administration of the personal property tax relief program from the Department of Motor Vehicles to the Department of Taxation shall become effective January 1, 2008 for tax year 2008 and tax years thereafter. The remaining provisions of this act shall become effective January 1, 2007.

11. Other comments:

<u>Personal Property Tax Relief Act of 1998</u>

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 was 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 was not met. When revenue growth was sufficient, the percentage of tax relief increased to the next highest level of tax relief. The level of tax relief never exceeded 70%.

PPTRA Compliance Program

Language in past budget bills required the Department, with cooperation from the DMV, the Department of Accounts and local officials, to develop and implement a comprehensive PPTRA compliance program to enhance taxpayer knowledge and compliance with the PPTRA and to ensure that relief under the PPTRA is only granted to qualifying vehicles. The program includes methods for educating motor vehicle owners, certifications from motor vehicle owners during any vehicle registration that the vehicle qualifies for relief, and a periodic audit of the personal property tax records of localities to ensure compliance with the PPTRA. DMV is currently responsible for reconciling the amount paid by the Commonwealth to each locality.

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 repeal the changes to the PPTRA provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) and set the PPTRA reimbursement level at 100 percent for tax years 2007 and tax years thereafter. This bill would also transfer the responsibility for the PPTRA program from DMV to the Department of Taxation.

Other Legislation

House Bill 140 would reinstate the PPTRA reimbursement program with 100% reimbursement for qualifying vehicles.

House Bill 306 would repeal the PPTRA program and dedicate 17.5% of the state individual income tax collections to localities.

House Bill 1385 would reinstate the PPTRA reimbursement program and gradually increase the level of relief for qualifying vehicles to 100% over a six-year period.

House Bill 1549 would require the Commonwealth to make PPTRA payments to localities within 15 days of each locality's billing date for the tangible personal property tax in effect on January 1, 1998.

cc : Secretary of Finance

Date: 02/03/2006 JEM