

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** H. Morgan Griffith

3. **Committee** House Finance

4. **Title** Personal Property Tax Relief; Payment
Dates to Localities

2. **Bill Number** HB 1549

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require the Commonwealth to make Personal Property Tax Relief Act ("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.

Under current law, the Commonwealth is required to make PPTRA payments to localities for each tax year starting in July of the tax year.

This bill would take effect beginning with the 2007 tax year.

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$0	GF
2006-07	<\$274.8 million>	GF
2007-08	\$0	GF
2008-09	\$0	GF
2009-10	\$0	GF
2010-11	\$0	GF
2011-12	\$0	GF

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

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8. **Fiscal implications:**

Revenue Impact

It is estimated that this bill would require the transfer of unrestricted General Fund revenues to localities of \$274.8 million in Fiscal Year 2007. 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 cost of making the \$950 million annual PPTRA relief provided for by 2004 Senate Bill 5005 (Chapter 1, 2005 Acts of Assembly, Special Session I) starting in July of the tax year and the estimated cost of reimbursements if the Commonwealth is required to make PPTRA payments to localities within 15 days of each locality's billing date for the tangible personal property tax. Effectively, this bill would accelerate PPTRA payments to localities that have personal property tax due dates prior to June 16 into the current fiscal year. This estimate assumes that in the event a locality has two due dates, it would receive ½ of its share of the \$950 million reimbursement with 15 days of each due date.

9. Specific agency or political subdivisions affected:

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 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%.

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 2004. The Commonwealth is required to make PPTRA payments to localities for each tax year over a 12 month period starting in July of the tax year.

Proposal

This bill would require that the Commonwealth make Personal Property Tax Relief Act ("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.

Other Legislation

House Bill 140 and **House Bill 1377** 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.

cc : Secretary of Finance

Date: 02/03/2006 JEM