

**DEPARTMENT OF TAXATION  
2006 Fiscal Impact Statement**

1. **Patron** Thomas Davis Rust

3. **Committee** House Finance

4. **Title** Personal Property Tax Relief

2. **Bill Number** HB 306

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would (1) exempt motor vehicles used for nonbusiness purposes from the local tangible personal property tax, (2) repeal the Personal Property Tax Relief Act (PPTRA), and (3) dedicate 17.5% of total individual income tax revenues actually collected to localities based on each locality's share of total taxable Virginia income.

The provision of this bill would become effective January 1, 2009 if an amendment to the *Constitution of Virginia* making motor vehicles used for nonbusiness purposes exempt from taxation is ratified by the voters in the November 2008 elections.

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

7. **Budget amendment necessary:** No.

**8. Fiscal implications:**

Administrative Costs

Assuming the required constitutional amendment is ratified and this bill is enacted, it is estimated that the Department would incur administrative expenses of \$103,800 in Fiscal Year 2009 for systems changes necessary to implement this bill.

Revenue Impact

This bill would decrease the amount of General Fund revenues available for appropriations. Assuming the required constitutional amendment is ratified and this bill is enacted, it is estimated that this bill would decrease the amount of revenues available for appropriations by \$936.9 million in Fiscal Year 2010, \$1,041.0 million in Fiscal Year 2011 and \$1,151.7 million in Fiscal Year 2012. This estimate is the difference between the \$950 million annual PPTRA relief provided for by 2004 Senate Bill 5005 and the estimated cost of transferring 17.5 % of individual income tax revenues to localities.

The following chart compares PPTRA relief provided for under current law by 2004 Senate Bill 5005 and the estimated cost of transferring 17.5 % of individual income tax revenues to localities under House Bill 306:

<u>FISCAL YEAR</u>	<u>PPTRA RELIEF UNDER 2004 SENATE BILL 5005</u>	<u>TRANSFER OF INDIVIDUAL INCOME TAX REVENUES TO LOCALITIES UNDER HOUSE BILL 306</u>	<u>Difference</u>
2010	\$950.0 million	\$1,886.9 million	<\$936.9 million>
2011	\$950.0 million	\$1,991.0 million	<\$1,041.0 million>
2012	\$950.0 million	\$2,101.7 million	<\$1,151.7 million>

**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 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 2005.

## Exemptions from Taxation

Article X, §6 of the *Constitution of Virginia* provides that unless specifically provided in the *Constitution*, no property shall be exempt from state and local taxation.

## Proposal

The provisions of this bill would become effective January 1, 2009, if an amendment to the *Constitution of Virginia* making motor vehicles used for nonbusiness purposes exempt from taxation, is ratified by the voters in the November 2008 election. This bill would exempt motor vehicles used for nonbusiness purposes from the local tangible personal property tax and repeal the Personal Property Tax Relief Act (PPTRA).

This bill would also distribute 17.5% of total individual income tax revenues actually collected by the Department of Taxation in the prior fiscal year to localities based on each locality's share of total Virginia taxable income. The Commonwealth would be required to make this distribution by September 1 of each year, beginning in 2009.

## Other Legislation

**House Joint Resolution 34** would propose an amendment to the *Constitution of Virginia* exempting from property taxes privately owned motor vehicles used for nonbusiness purposes.

**House Bill 140** and **House Bill 1377** would reinstate the PPTRA reimbursement program with 100% reimbursement for qualifying vehicles.

**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: 01/25/2006 JEM