

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Vivian E. Watts

3. **Committee** House Finance

4. **Title** Local Piggyback Income Tax and Personal  
Property Tax

2. **Bill Number** HB 578

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would allow localities to impose a local income tax at a rate of either 0.5% or 1% upon the Virginia taxable income of individuals, trusts, estates, and corporations provided the personal property tax rate does not exceed \$0.01 per \$100 of value on personally owned motor vehicles. The Tax Commissioner would collect the tax and return it to localities based on taxpayers' residences. A new classification for personal property tax purposes would be created for motor vehicles used for non-business purposes. The bill would also eliminate the five-year period of authority of cities and counties to levy tax and the mandate that revenue be spent for transportation purposes.

The provisions of the act would be effective January 1, 2007.

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

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

### 8. **Fiscal implications:**

#### **Revenue Impact**

It is not possible to provide an actual fiscal impact on localities because this bill would allow any county or city to impose the local option income tax at either 0.5% or 1% and it is not known which localities will choose to implement the local income tax. While localities would be required to reduce the tax rate on personal motor vehicles, they would continue to receive their share of the \$950 million annual distribution under the Personal Property Tax Reform Act ("PPTRA"). (See explanation on Line 10.) Therefore, the net effect of the rate reduction is the difference between the estimated tax on 100% of the value of personal motor vehicles and the PPTRA reimbursement.

The following tables illustrates the net impact of the reduction in personal property tax revenue, the revenue increase from the local income tax (based on 2003 income tax returns) and the impact of the Department's administrative expenses.

If all localities enact a 1% local income tax in 2007 effective for taxable year 2008, the net revenue impact would be:

(\$ millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Income Tax Revenue at 1%	\$835.11	\$1,748.99	\$1,763.05	\$1,816.57	\$1,874.21
Net Reduction in Revenue from Car Tax	202.88	(610.78)	(679.52)	(753.61)	(831.24)
TAX Administrative Cost	(0.40)	(1.79)	(0.22)	(0.23)	(0.24)
Net Revenue to localities	\$1,037.59	\$1,136.42	\$1,083.31	\$1,062.73	\$1,042.73

If all localities enact a 0.5% local income tax, the net revenue impact would be:

(\$ millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Income Tax Revenue at 0.5%	\$417.6	\$874.5	\$881.5	\$908.3	\$937.1
Net Reduction in Revenue from Car Tax	202.88	(610.78)	(679.52)	(753.61)	(831.24)
TAX Administrative Cost	(0.40)	(1.79)	(0.22)	(0.23)	(0.24)
Net Revenue to localities	620.08	\$261.93	\$201.76	\$154.46	\$105.62

### **Administrative Impact**

The Department would not incur administrative costs as a result of this bill unless a locality exercised its authority under this legislation. If every locality in the Commonwealth adopted a local income tax effective for the 2008 taxable year then the Department would incur costs of \$397,017 for Fiscal Year 2008, \$1,790,974 for Fiscal Year 2009, \$230,023 for Fiscal Year 2010, \$236,923 for Fiscal Year 2011, and \$244,033 for Fiscal Year 2012 to implement the bill. These costs would be deducted from the local income tax revenue collected and would have no impact on the General Fund. Existing budget language allows the Department to obtain a Treasury Loan for the start up costs as soon as any locality indicates that it plans to enact a local income tax.

### **9. Specific agency or political subdivisions affected:**

Department of Taxation  
Cities and Counties

### **10. Technical amendment necessary: Yes**

If the intent of the bill is to cease PPTRA distributions to any locality that enacts a local income tax, then a substitute would be required to amend § 58.1-3524 to specify when distributions to a locality would cease, and whether undistributed portions of the \$950 million would be reallocated to other localities or remain with the Commonwealth.

## 11. Other comments:

### **Background**

#### Local Income Tax

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individual residents of the localities and corporations, estates, and trusts with income from sources within the localities. Under current law, the city or county must hold a referendum and, upon voter approval, pass an ordinance to impose the tax. The 1989 legislation permits the levy of an income tax on individuals, estates, trusts and corporations at any increment of .25% up to a maximum rate of 1% above the state income tax rate. Counties and cities can levy an income tax for a period of not more than five years, and any revenue from the tax must be expended for transportation purposes. No city or county currently imposes the local income tax.

#### Personal Property Tax on Motor Vehicles

The PPTRA calls for the phase out of the tax based on local tax rates in effect on August 1, 1997. Under the PPTRA, the tax on the first \$20,000 of value of personal passenger cars, motorcycles, and pickup or panel trucks that weigh 7,500 pounds or less is scheduled to be eliminated upon the satisfaction of the certain revenue requirements enumerated under the PPTRA. The phase out involves Virginia's reimbursement to localities for the local revenues forgone under the phase out. The tax relief under this act is currently capped at \$950 million.

### **Proposal**

#### Local Income Tax

This bill would amend the local option income tax to allow any county or city to impose the tax at a rate either one-half or one percent with the adoption of an ordinance and provided the personal property tax rates does not exceed \$0.01 per \$100 of value on personally owned motor vehicles. This bill would also eliminate (i) the referendum requirement for the enactment of the local income tax, (ii) the current restriction that revenue from the local income tax must be spent solely on transportation and (iii) the expiration of the tax five years after its imposition. Localities would still receive a share of the \$950 million PPTRA tax reimbursement.

#### Classification of Personal Use Vehicles for Purposes of Local Taxation

This bill would create a separate classification of personal use motor vehicles in order for localities to apply a different Personal Property tax rate to these vehicles.

cc : Secretary of Finance  
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