

Department of Planning and Budget 2006 Fiscal Impact Statement

1. **Bill Number:** HB 976

House of Origin	<input type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input checked="" type="checkbox"/> Engrossed
Second House	<input checked="" type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. **Patron:** Suit

3. **Committee:** Finance

4. **Title:** Sales and Use Tax Exemption for Military Personnel

5. **Summary/Purpose:** The proposed legislation, as engrossed, modifies §58.1-2403(10) to include registration certificates issued by the United States Armed Forces as valid documents which can be used by the holder to gain exemption from payment of motor vehicle sales and use tax (SUT). This version of the bill also expands the types of vehicles eligible for the exemption by delineating that for vehicles being registered less than 12 months from date of purchase, only those vehicles purchased in the United States are subject to providing proof that SUT was paid to another state. As such, all vehicles purchased outside the U.S., if they hold a valid registration from another state or the military, regardless of the time that has lapsed from the date of purchase, do not have to meet the "previously paid SUT" requirement and can qualify for exemption from SUT payment. Under current law, only vehicles validly registered and more than 12 months from date of purchase can qualify for the exemption without providing proof of SUT paid.

Enactment of this bill would address concerns with the imposition of motor vehicle sales and use tax on military personnel formerly stationed outside the U.S. The law is currently structured to charge SUT to military personnel who purchase vehicles overseas, obtain an Armed Forces registration certificate, and then return stateside when it has been more than 12 months since the vehicle was purchased. Given the current law, for exemption purposes, the Department of Motor Vehicles (DMV) cannot accept Armed Forces registrations as valid documents.

The engrossed version of the bill also amends subsection (16) to provide an SUT exemption to vehicles being acquired by a local government group self-insurance pool.

6. **Fiscal impacts are indeterminate.** With respect to the engrossed version of the bill, DMV anticipates that, due to the expansion from the introduced bill of the exemption delineated in subsection (10), the bill could now significantly impact sales and use tax revenues.

Please see Item #8 for additional information.

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

- 8. Fiscal implications:** Passage of this bill as engrossed would have an unknown, but potentially significant, impact on revenue collected for highway/transportation construction, maintenance and operation. Pursuant to §58.1-2425, the SUT revenue collected by DMV is allocated to the Virginia Department of Transportation (VDOT) solely for the construction, reconstruction, and maintenance of highways and for the regulation of traffic on those highways. The depositories for these monies are the Transportation Trust Fund, which receives one-third and the Highway Maintenance and Operating Fund, which receives two-thirds.

DMV does not track the number of customers who present Armed Forces registration certificates, but DMV anticipates that this change will apply to a very limited group of individuals and, if only looking at this portion of the bill, the SUT revenue impact would be minimal.

Additionally, looking solely at the modifications to the exemption under subsection (16) to include vehicles acquired by a local government group self-insurance pool pursuant to total loss claims, it is believed that this is a limited group of vehicles and that the impact of only this amendment will be minimal. It is estimated by a representative of the self-insurance pool that about 15 vehicles per year, with an approximate value of \$8,500 each, are obtained by the pool as total loss vehicles. Based upon these figures, the impact to SUT revenue would be approximately \$3,825.

Notwithstanding the minimal SUT impacts from the individual parts of the bill described above, the engrossed version as a whole expands the original bill and now provides a sales and use tax exemption to all individuals, regardless of military affiliation or duration of vehicle ownership, who purchase and register a vehicle outside the U.S. and then register the vehicle in Virginia. This would include Canada and Mexico where a vehicle can easily be transported into the U.S.

DMV does not currently track the location where a vehicle being registered was purchased. As such, the impact of exempting foreign-purchased vehicles on sales and use tax revenue cannot be ascertained. However, because of the broad language found in the engrossed version of the bill, DMV anticipates that a significant number of previously non-exempt vehicles would be exempt under this bill, thus detrimentally impacting sales and use tax revenue.

- 9. Specific agency or political subdivisions affected:** Virginia Department of Transportation, Department of Motor Vehicles.

- 10. Technical amendment necessary:** None.

- 11. Other comments:** Amendments could be considered to ensure that this measure only benefits military personnel, to ensure that non-military individuals would not benefit from this proposal through purchases of vehicles from Canada or Mexico.

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cc: Secretary of Transportation