

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Mary Margaret Whipple

2. **Bill Number** SB 267

3. **Committee** House Finance

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax: Increase in Sales
Tax Rate in Northern Virginia Transportation
District

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would impose an additional ¼% state sales and use tax in the Cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington and Fairfax, upon the passage of local ordinances by the affected localities whose populations equal or exceed 90% of the total population in all affected localities. All moneys generated as a result of this additional sales and use tax would be distributed to the Northern Virginia Transportation Commission and used for debt service of the Washington Metropolitan Area Transit Authority.

The effective date of this bill is not specified.

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

Revenue Impact:

<i>Fiscal Year</i>	<i>Locality</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	Arlington County	\$5.5 million	NGF
	Fairfax County	\$26.4 million	NGF
	Alexandria City	\$4.1 million	NGF
	Fairfax City	\$1.9 million	NGF
	Falls Church City	\$0.64 million	NGF
2007-08	Arlington County	\$7.3 million	NGF
	Fairfax County	\$35.2 million	NGF
	Alexandria City	\$5.5 million	NGF
	Fairfax City	\$2.5 million	NGF
	Falls Church City	\$0.85 million	NGF

2008-09	Arlington County	\$7.3 million	NGF
	Fairfax County	\$35.2 million	NGF
	Alexandria City	\$5.5 million	NGF
	Fairfax City	\$2.5 million	NGF
	Falls Church City	\$0.85 million	NGF
2009-10	Arlington County	\$7.3 million	NGF
	Fairfax County	\$35.2 million	NGF
	Alexandria City	\$5.5 million	NGF
	Fairfax City	\$2.5 million	NGF
	Falls Church City	\$0.85 million	NGF
2010-11	Arlington County	\$7.3 million	NGF
	Fairfax County	\$35.2 million	NGF
	Alexandria City	\$5.5 million	NGF
	Fairfax City	\$2.5 million	NGF
	Falls Church City	\$0.85 million	NGF
2011-12	Arlington County	\$7.3 million	NGF
	Fairfax County	\$35.2 million	NGF
	Alexandria City	\$5.5 million	NGF
	Fairfax City	\$2.5 million	NGF
	Falls Church City	\$0.85 million	NGF

7. Budget amendment necessary: Yes.

Page 1, Revenue Estimates

Item 265, Department of Taxation

8. Fiscal implications:

Administrative Costs Impact

If this bill were passed, TAX would incur administrative costs for systems development of \$243,300.

As drafted, if this bill is enacted, the ¼% tax increase for the affected localities would be effective on the first day of the next month following 60 days from the date that ordinances have been enacted to impose this additional tax by the affected localities whose populations comprise at least 90% of the total population of the affected localities. Assuming the required ordinances are enacted in July 2006, this tax increase could take effect October 1, 2006.

TAX implemented a new Integrated Revenue Management System (IRMS) in August 2005. IRMS replaced 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.

The modifications to IRMS necessary to allow TAX to process the anticipated level of sales tax returns that report sales tax based on three different rates – 5% on sales of nonfood items in all but the five Northern Virginia localities, 2 ½% on sales of qualifying food items statewide and 5 ¼% on nonfood sales in the five Northern Virginia localities would require changes to virtually **all** of the IRMS subsystems.

Because of the time needed by TAX to make the necessary systems and forms changes, TAX would have to begin work on such changes prior to the time that the required ordinances are enacted. Even if the tax increase never becomes effective, TAX would nonetheless have to make the expenditures necessary to change its processes to collect and distribute the tax. If TAX was allowed sufficient time between the time that the necessary ordinances are enacted and the time the new tax becomes effective, these problems would be avoided. TAX is suggesting an amendment that would delay the effective date of the new tax for a 90-day period after the sufficient number of ordinances are enacted, but no earlier than July 1, 2007, to give TAX sufficient time to make the required changes.

TAX's direct costs would be paid from the Special Sales and Use Tax Fund Account of the Northern Virginia Transportation Commission. As the TAX would incur substantial costs to implement this bill before any revenues from the new tax are deposited into the Fund, a budget amendment to allow the Department to obtain a treasury loan would be necessary. The treasury loan would be repaid when there are sufficient revenues in the Fund.

Revenue Impact

Assuming that a sufficient number of localities enact ordinances to satisfy the threshold and the tax increase is effective October 1, 2006, total additional sales and use tax revenues collected from the affected localities would be \$38.6 million in FY 2007, \$51.5 million in FY 2008, \$51.5 million in FY 2009, \$51.5 million in FY 2010, \$51.5 million in FY 2011, and \$51.5 million in FY 2012. The individual locality breakdown of this revenue is shown on Line 6b.

9. Specific agency or political subdivisions affected:

Department of Taxation
Washington Metropolitan Area Transit Authority
Counties of Arlington and Fairfax
Cities of Alexandria, Fairfax and Falls Church
Northern Virginia Transportation Commission

10. Technical amendment necessary: Yes.

In order to provide TAX sufficient time to implement the additional tax impose by this bill, the following amendments are recommended:

Page 5, Line 282, after, taxpayers

Insert: and after retaining moneys to pay for the Department of Taxation's direct costs of administering this additional tax

Page 5, Line 300, after: following

Strike: 60

Insert: 90

Page 5, Line 301, after: satisfied

Insert: , but no sooner than July 1, 2007

11. Other comments:

Generally

This bill would impose an additional ¼% state sales and use tax, upon approval of a local ordinance, in the Cities of Alexandria, Fairfax, and Falls Church, and the counties of Arlington and Fairfax. All moneys generated as a result of this additional sales and use tax would be distributed to the Northern Virginia Transportation Commission and used for debt service of the Washington Metropolitan Area Transit Authority.

Vending Machine Sales

The increase of state sales and use tax proposed in this bill would also apply to sales made through vending machines. Currently, dealers selling items through vending machines, or other means that make the collection of the sales tax unfeasible, such dealers may remit the sales tax on the wholesale cost of products being sold at the rate of 5%, for a total state and local sales and use tax rate of 6%. The increase proposed in this bill would require vending machine dealers to remit the sales and use tax on the wholesale cost of goods being sold at the total rate of 6¼%, 5¼% for state and 1% for local.

Ordinance Qualification

The ¼% additional state sales and use tax proposed in this bill for the Cities of Alexandria, Fairfax, and Falls Church and counties of Arlington and Fairfax is contingent upon the approval of an ordinance by the governing bodies of those localities. The localities approving an ordinance must have a combined population of at least 90% of the population make-up of all affected localities. The ¼% state sales and use tax increase proposed in this bill would be imposed in all affected localities or not at all, depending on population make-up of those localities that pass ordinances. If sufficient ordinances are approved, as drafted, the increase in the state sales tax rate would be levied and imposed on the first day of the next month following 60 days from the date the ordinances are passed.

Matching Federal Funds

This bill would only be effective in the event that matching federal funds are appropriated and distributed to the Washington Metropolitan Area Transit Authority. Currently, H.R. 3496 is pending before the 109th Congress. This federal legislation would authorize the appropriation of \$1.5 billion in increments over 10 years beginning in federal fiscal year 2007, or until expended for grants to the WMATA for purposes of funding in part capital and preventive maintenance projects.

TAX's Implementation

In order to allow TAX sufficient time to implement the tax increase proposed in this bill, TAX is recommending technical amendments that would set the effective date of the tax increase to 90 days after the first day of the next month following the passage of the ordinances, no sooner than July 1, 2007.

cc : Secretary of Finance

Date: 02/21/2006 WBS
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