

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Charles R. Hawkins

2. **Bill Number** SB 726

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Motor Vehicle Sales and Use Tax;
Increase in Tax Rate

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the Motor Vehicle Sales and Use Tax from its current rate of 3% to 5% and would raise the minimum tax levied on the sale of a motor vehicle from \$35 to \$55. The revenue generated from the increase in the Motor Vehicle Sales and Use Tax would be dedicated solely for transportation purposes. This bill mandates that if the General Assembly appropriates the revenue generated from the increase in the tax for purposes other than transportation, the authority to impose the additional tax would cease on December 31 of that same year.

The effective date of this bill is not specified.

This is an Executive bill.

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

Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$0	NGF
2006-07	\$380.7 million	NGF
2007-08	\$422.4 million	NGF
2008-09	\$426.7 million	NGF
2009-10	\$434.4 million	NGF
2010-11	\$437.7 million	NGF
2011-12	\$444.1 million	NGF

7. Budget amendment necessary:

The Governor has proposed the necessary budget amendments through executive amendments.

8. Fiscal implications:

It is estimated that this bill would generate approximately \$380.7 million in FY 2007, \$422.4 million in FY 2008, \$426.7 million in FY 2009, \$434.4 million in FY 2010, \$437.7 million in FY 2011, and \$444.1 million in FY 2012.

Under this bill, the revenue generated from the increase in the Motor Vehicle Sales and Use Tax would be dedicated solely for transportation purposes. In addition, this bill would mandate that if the General Assembly appropriates the revenue generated from the increase in the tax for purposes other than transportation, the authority to impose the additional tax would cease on December 31 of that same year.

The implementation of this bill would only have a minimal fiscal impact on the Department of Motor Vehicles.

9. Specific agency or political subdivisions affected:

Department of Motor Vehicles

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Current Position

Virginia also imposes a minimum tax levy in the amount of \$35.

Currently, Virginia has the eighth lowest Motor Vehicle Sales Tax rate in the nation, ranking 44th out of 51 jurisdictions. Alaska, Delaware, Montana, New Hampshire and Oregon impose neither a Retail Sales and Use Tax nor a Motor Vehicle Sales and Use Tax on the sale of motor vehicles.

Even with this proposed rate increase, Virginia would still effectively maintain a tax rate that is less than or equal to 31 other states. In addition, despite an increase in the Motor Vehicle Sales Tax rate, Virginia would still have a rate that is equal to or more favorable than 5 of its 6 surrounding states and districts.

State**Rate of Tax on
Motor Vehicles**

- | | |
|------------------------|-----------|
| • Tennessee | • 7% |
| • District of Columbia | • 6% - 7% |
| • Kentucky | • 6% |
| • Maryland | • 5% |
| • West Virginia | • 5% |
| • North Carolina | • 3% |

This bill would conform Virginia's tax on motor vehicles with the tax applied to all other retail purchases. In so doing, this bill would bring Virginia in conformity with the 32 other states whose tax rate on motor vehicles also conforms to their general state sales tax rate.

Similar legislation

House Bill 1611 is identical to this bill.

cc : Secretary of Finance

Date: 02/04/2006 KP
DLAS File Name: SB726F161.doc