

**DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement**

1. **Patron** Adam P. Ebbin

2. **Bill Number** HB 5008

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:

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 applied by the Commission to each locality's obligations to the operating deficit, capital, and 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.)

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2006-07	\$1,161,244	0	GF
2007-08	\$2,700	0	GF
2008-09	\$2,781	0	GF
2009-10	\$2,863	0	GF
2010-11	\$2,949	0	GF
2011-12	\$0	0	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Locality</i>	<i>Dollars</i>	<i>Fund</i>
2007-08	Arlington County	\$8.3 million	NGF
	Fairfax County	\$39.1 million	NGF
	Alexandria City	\$6.3 million	NGF
	Fairfax City	\$3.5 million	NGF
	Falls Church City	\$1.1 million	NGF

2008-09	Arlington County	\$9.5 million	NGF
	Fairfax County	\$44.6 million	NGF
	Alexandria City	\$7.2 million	NGF
	Fairfax City	\$4.0 million	NGF
	Falls Church City	\$1.2 million	NGF
2009-10	Arlington County	\$10.0 million	NGF
	Fairfax County	\$46.7 million	NGF
	Alexandria City	\$7.6 million	NGF
	Fairfax City	\$4.1 million	NGF
	Falls Church City	\$1.3 million	NGF
2010-11	Arlington County	\$10.4 million	NGF
	Fairfax County	\$48.7 million	NGF
	Alexandria City	\$7.9 million	NGF
	Fairfax City	\$4.3 million	NGF
	Falls Church City	\$1.3 million	NGF
2011-12	Arlington County	\$10.8 million	NGF
	Fairfax County	\$50.8 million	NGF
	Alexandria City	\$8.2 million	NGF
	Fairfax City	\$4.5 million	NGF
	Falls Church City	\$1.5 million	NGF

7. Budget amendment necessary: Yes.

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Item 265, Department of Taxation

8. Fiscal implications:

Effective Date

Article IV, § 13 of the *Constitution of Virginia* states that all laws enacted during a special session other than the Appropriations Act and emergency legislation will take effect on the first day of the fourth month following the month of adjournment of the special session. This bill would become effective on January 1, 2007, assuming the special session adjourns before the end of September.

To allow for the time that it will take the affected localities to enact the required ordinances to satisfy the threshold for the additional tax and for TAX to make the necessary systems changes, it is assumed that the additional tax would be effective July 1, 2007.

Administrative Costs Impact

If this bill is passed, assuming a July 1, 2007 effective date for the increased tax rate, TAX would incur administrative costs for systems development of \$909,000 and programming, printing, and mailing costs of \$253,000, for a total administrative cost of \$1.162 million in FY 2007. TAX would also incur ongoing annual costs of less than \$3,000 beginning in FY 2008.

Revenue Impact

Total additional sales and use tax revenues collected from all affected localities would be \$58.3 million in FY 2008 (assuming the additional tax would be effective on July 1, 2007), \$66.6 million in FY 2009, \$69.6 million in FY 2010, \$72.6 million in FY 2011, and \$75.7 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: No.

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 applied by the Commission to each locality's obligations to the operating deficit, capital, and 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, the increase in the state sales tax rate would be effective July 1, 2007.

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.

cc : Secretary of Finance

Date: 09/25/2006 WBS
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