

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** L. Scott Lingamfelter

2. **Bill Number** HB 5025

3. **Committee** House Appropriations

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax: Re-Allocation of
Sales and Use Tax Revenues

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase retail sales and use tax revenues dedicated to the Transportation Trust Fund by one-quarter percent, from one-half percent to three-quarters percent. Likewise, this bill would decrease by one-quarter percent retail sales and use tax revenues dedicated to the General Fund.

The effective date of this bill is not specified. 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 2006.

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

Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	(\$130.1 million) \$130.1 million	GF – Unrestricted TTF
2007-08	(\$273.2 million) \$273.2 million	GF – Unrestricted TTF
2008-09	(\$287.0 million) \$287.0 million	GF – Unrestricted TTF
2009-10	(\$299.8 million) \$299.8 million	GF – Unrestricted TTF
2010-11	(\$312.8 million) \$312.8 million	GF – Unrestricted TTF

7. Budget amendment necessary: Yes.

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8. Fiscal implications:

Administrative Costs

If this bill is passed, TAX would incur administrative costs of \$50,890 in FY 2007 to make the necessary systems changes.

Revenue Impact

This bill would increase the sales tax revenues allocated to the Transportation Trust Fund by ¼% and decrease the revenues dedicated to the General Fund by ¼%. The shift of sales tax revenue from the General Fund to the Transportation Trust Fund would be \$130.1 million in FY 2007, \$273.2 million in FY 2008, \$287.0 million in FY 2009, \$299.8 million in FY 2010, \$312.8 million in FY 2011, and \$325.9 million in FY 2012. To implement a revenue shift of this magnitude from the General Fund to the Transportation Trust Fund would require a reduction of an equal amount of General Fund support from other areas with significant General Fund support.

9. Specific agency or political subdivisions affected:

Department of Taxation
Transportation Trust Fund

10. Technical amendment necessary: No.

11. Other comments:

Generally

The Transportation Trust Fund was established in 1986 as a permanent fund and received all the revenue generated as a result of the ½% retail sales and use tax increase effective January 1, 1987. Moneys in this fund are dedicated to transportation needs in the Commonwealth.

This bill does not increase the overall sales tax rate, but relocates the existing state sales tax to provide for increased revenues being paid into the Transportation Trust Fund. This increased allocation will reduce revenues paid into the unrestricted General Fund that are available for appropriations.

The sales tax rate on food was reduced from 3% to 1½% in July 2005. Of this 1½%, one-half percent is already allocated to the Transportation Trust Fund and the remaining one

percent is allocated to localities. Therefore, there will be no remaining tax to allocate the additional one-half percent to the Transportation Trust Fund, without diverting dedicated local tax revenues.

cc : Secretary of Finance

Date: 09/21/2006 WBS
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