

# DEPARTMENT OF TAXATION

## 2007 Fiscal Impact Statement

1. **Patron** David L. Englin

3. **Committee** House Finance

4. **Title** Local Income Tax; Freeze Real Estate Tax Amount

2. **Bill Number** HB 2746

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would allow localities to impose a local income tax upon the Virginia taxable income of individuals, trusts, estates, and corporations provided the amount of real property tax imposed by the county or city is frozen as of the date of the adoption of the local income tax. The localities would be required to continue to assess the value of real property and adopt income tax rates that would allow the county or city to collect local income tax revenues equal to the revenue lost by the freeze in real property tax. The authority to levy this tax may only be exercised if such a tax is approved of in a referendum within the locality. TAX would collect the tax and return it to localities based on taxpayers' residences. The bill would eliminate the requirement that all revenues generated by a local income tax are dedicated to transportation. The bill would also eliminate the five-year period of authority of cities and counties to levy tax and the mandate that revenue be spent for transportation purposes.

This bill would be effective January 1, 2008.

6. **No Fiscal Impact.** (See Line 8.)

7. **Budget amendment necessary:**

8. **Fiscal implications:**

#### Administrative Impact

TAX would not incur administrative costs as a result of this bill unless a locality exercised its authority under this legislation. These costs would be deducted from the local income tax revenue collected and would have no impact on the General Fund. Existing budget language allows TAX to obtain a Treasury Loan for the start up costs as soon as any locality indicates that it plans to enact a local income tax, and directs that the start up and operational costs be recovered from local income tax collections. If every locality in the Commonwealth adopted a local income tax effective for the 2008 taxable year, TAX would incur costs of \$433,069 for Fiscal Year 2008, \$1,749,312 for Fiscal Year 2009, and

\$372,072 for Fiscal Year 2010 for significant forms and systems changes, and 3 additional full time employees.

### Revenue Impact

There is no General Fund revenue impact associated with this bill. There is also no revenue impact for localities as the bill specifies that the rates and bracket amounts of any local income tax would replace the revenue lost by the real estate tax freeze. In order to maintain revenue neutrality the locality must take into account TAX's costs when setting the local income tax rate.

## **9. Specific agency or political subdivisions affected:**

Department of Taxation  
Cities and Counties

## **10. Technical amendment necessary: Yes**

To correct a drafting error:  
Page 1, Line 23, after local  
Strike: property  
Insert: income

## **11. Other comments:**

### Local Income Tax

Legislation enacted during the 1989 General Assembly session authorized certain cities and counties to impose a local income tax on individual residents of the localities and corporations, estates, and trusts with income from sources within the localities. Under current law, the city or county must hold a referendum and, upon voter approval, pass an ordinance to impose the tax. The 1989 legislation permits the levy of an income tax on individuals, estates, trusts and corporations at any increment of .25% up to a maximum rate of 1% above the state income tax rate. Counties and cities can levy an income tax for a period of not more than five years, and any revenue from the tax must be expended for transportation purposes. TAX would distribute local income tax to localities based upon an individual's residence. Corporations would be required to submit a schedule apportioning their income among the localities in which they operate, which would be used by TAX to distribute the corporation's local tax back to the appropriate locality. No city or county currently imposes the local income tax.

### Real Property Tax

Article X, Section 4 of the Constitution of Virginia dictates that real estate is subject to local taxation. The tax is based on the fair market value of the property. The localities have the authority to issue exemptions or deferrals of this tax to elderly and disabled citizens who meet certain income or net worth requirements.

## Proposal

This bill allows localities to impose a local income tax upon the Virginia taxable income of individuals, trusts, estates, and corporations provided the amount of real property tax imposed by the county or city is frozen as of the date of the adoption of the local income tax. The localities would be required to continue to assess the value of real property and adopt income tax rates that would allow the county or city to collect local income tax revenues equal to the revenue lost by the freeze in real property tax. The authority to levy this tax may only be exercised if such a tax is approved of in a referendum within the locality. TAX would collect the tax and return it to localities based on taxpayers' residences. The revenue remitted to the localities would be reduced by the cost of administering the tax pro-rata based on each localities share of the revenue. The bill would also eliminate the five-year period of authority of cities and counties to levy tax and the mandate that revenue be spent for transportation purposes.

cc : Secretary of Finance

Date: 1/26/2007 JOC  
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