DEPARTMENT OF TAXATION
2007 Fiscal Impact Statement

1. **Patron** A. Donald McEachin

2. **Bill Number** HB 2874
   House of Origin:
   _____ **Introduced**
   _X_ **Substitute**
   _____ **Engrossed**

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Distribution of Local Use Tax Revenues

   Second House:
   _____ **In Committee**
   _____ **Substitute**
   _____ **Enrolled**

5. **Summary/Purpose:**

   TAX understands that the patron of this bill will be introducing a substitute bill. This impact statement addresses the substitute bill.

   This bill would require that TAX, together with representatives from local governments, develop a list of "certified software products," the use of which would entitle dealers to a discount based on a percentage of the local sales and use tax and limited to the purchase price of the certified software. Each dealer would be required to annually certify to TAX the use of a certified software product in order to be eligible for the discount. "Certified software product" would be defined as any software product that has been certified by TAX as suitable for accounting for the local sales and use tax that accurately determines the locality of the taxable transaction. Under the provisions of this bill, TAX would be required to develop a list of certified software products and make that list available, both electronically and in hard copy, no later than September 15th of each year.

   The provisions of this bill would take effect July 1, 2008 and would apply to taxable transactions occurring on or after July 1, 2008.

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

Fiscal Year	Dollars	Fund
2006-07	$0	GF
2007-08	$486,600	GF
2008-09	$ 66,900	GF
2009-10	$ 49,500	GF
2010-11	$ 41,800	GF
2011-12	$ 38,400	GF
2012-13	$ 37,300	GF

7. **Budget amendment necessary:** Yes.
   ITEM(S): 265 and 269, Department of Taxation

8. Fiscal implications:

Administrative Costs

TAX would be required to redesign and reprint forms, inform dealers of their requirement to register with TAX in order to receive the dealer discount, and hire additional staff for software evaluation and error resolution in order to implement this bill. Assuming an effective date of July 1, 2008, TAX would incur costs of $486,600 in FY 2008, $66,900 in FY 2009, $49,500 in FY 2010, $41,800 in FY 2011, $38,400 in FY 2012, and $37,300 in FY 2013 in implementing this bill.

Revenue Impact

This bill would not affect the amount of state and local sales tax collected. However, this bill would affect local revenues in that the discount to dealers for use of the certified software products would be funded from local sales tax collections.

9. Specific agency or political subdivisions affected:

TAX
All Localities

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The 1% local use tax collected by dealers is distributed monthly to counties and cities based on the locality where the purchases are made by customers in Virginia, as reported by the dealers. Out-of-state vendors who hold certificates of registration to collect the use tax from their customers are required, to the extent reasonably practicable, to break down their shipments into Virginia by cities and counties. If the out-of state dealer is unable to accurately assign any shipment to a particular city or county, the local use tax is remitted to the Commonwealth by that dealer without attempting to assign the shipment to any city or county. That revenue is distributed proportionately each month among cities and counties based on taxable retail sales in each county and city in the month.

Virginia law allows dealers a discount from the state sales and use tax in order to compensate them for accounting for and remitting the state sales and use tax. Dealers are given a percentage amount of the first three percent of the state sales and use tax levied. Dealers must timely submit their returns and timely pay the amount due in order to qualify for this dealer's discount. The law prohibits offering a dealer's discount for the payment of local sales and use tax.

<u>Proposal</u>

This bill would offer a similar dealer's discount for dealers who collected local sales and use tax, provided the dealers use a certified software product to allocate the sales tax to appropriate local jurisdictions. Each dealer would be required to annually certify to TAX the use of a certified software product in order to be eligible for the discount.   "Certified software product" would be defined as any software product that has been certified by TAX as suitable for accounting for the local sales and use tax that accurately determines the locality of the taxable transaction. The dealer would receive a percentage of the 1% local sales and use tax levied, as follows:

<u>Monthly Taxable Sales</u>	<u>Percentage</u>
$0 to $62,500	4%
$62,501 to $208,000	3%
$208,001 and above	2%

The total discount amount provided to dealers could not exceed the purchase price of the certified software program. Under the provisions of this bill, TAX would be required to develop a list of certified software products and make that list available, both electronically and in hard copy, no later than September 15th of each year.