

# DEPARTMENT OF TAXATION

## 2007 Fiscal Impact Statement

1. **Patron** H. Russell Potts, Jr.

3. **Committee** Senate Finance

4. **Title** Tangible Personal Property Tax Relief:  
Repeal

2. **Bill Number** SB 1365

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would repeal the tangible personal property tax relief for tax years beginning on or after January 1, 2009. The annual \$950 million currently dedicated for tangible personal property tax relief would be appropriated for transportation purposes beginning with Fiscal Year 2010.

This bill would be effective for tax years beginning on or after January 1, 2009.

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

7. **Budget amendment necessary:** No.

**8. Fiscal implications:**

Administrative Costs

TAX would incur no costs in the implementation of this bill.

Revenue Impact

This bill would have no impact on state revenues nor would it affect the amount of revenues available for appropriation. The annual \$950 million currently dedicated to tangible personal property relief would be appropriated for transportation purposes. Localities would be required to collect the full amount of the local tangible personal property taxes owed on vehicles that currently qualify for car tax relief from owners of the vehicles.

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

All localities

10. **Technical amendment necessary:** No.

## 11. Other comments:

### Personal Property Tax Relief Act of 1998

The PPTRA originally was intended to eliminate the tangible personal property tax imposed on the first \$20,000 of value on passenger cars, pickup or panel trucks, and motorcycles owned or leased by natural persons and used for nonbusiness purposes.

The tax was originally scheduled to be eliminated over five years with 12.5% of the tax eliminated in 1998, 27.5% in 1999, 47.5% in 2000, 70% in 2001, and 100% in 2002 and thereafter. The tax on vehicles valued at \$1,000 or less was completely eliminated in 1998. The amount of the tax relief was shown on the taxpayer's bill and the Commonwealth reimburses localities for the amount of the tax relief.

The PPTRA provided a mechanism for freezing the tax relief if the Commonwealth's revenue growth is insufficient. The percentage of tax relief was frozen at the current percentage of tax relief in effect if any one of three revenue growth tests was not met. When revenue growth was sufficient, the percentage of tax relief increased to the next highest level of tax relief. The level of tax relief never exceeded 70%.

### PPTRA Compliance Program

Language in past budget bills required TAX, with cooperation from the DMV, the Department of Accounts and local officials, to develop and implement a comprehensive PPTRA compliance program to enhance taxpayer knowledge and compliance with the PPTRA and to ensure that relief under the PPTRA is only granted to qualifying vehicles. The program included methods for educating motor vehicle owners, certifications from motor vehicle owners during any vehicle registration that the vehicle qualified for relief, and a periodic audit of the personal property tax records of localities to ensure compliance with the PPTRA. DMV was responsible for reconciling the amount paid by the Commonwealth to each locality.

### Senate Bill 5005

Senate Bill 5005 (Chapter 1, 2004 Special Session I) changed the personal property tax relief program for motor vehicles. The state currently distributes \$950 million annually to localities as reimbursement for the personal property tax relief provided by each locality. Each locality's share of the \$950 million state reimbursement for tax year 2006 and subsequent tax years is based upon its share of the total state reimbursement for tax year 2005.

### Proposal

This bill would repeal the tangible personal property tax relief. The annual \$950 million reimbursements currently provided by the Commonwealth to localities for tangible personal property tax relief on qualifying vehicles would be appropriated for transportation purposes beginning with the Fiscal Year 2010. The \$950 million appropriated by this bill for transportation purposes would not be used to reduce the share of federal, state, or

local revenues otherwise available to a locality. Tangible personal property tax relief on qualifying vehicles for tax years prior to January 1, 2009 would not be reduced or affected.

#### Other Legislation

**House Joint Resolution 586** and **655** (Identical) would propose an amendment to the *Constitution of Virginia* exempting from property taxes privately owned motor vehicles used for nonbusiness purposes.

**House Bill 1615** would repeal the changes to the PPTRA provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) and set the PPTRA reimbursement level at 100 percent.

**House Bill 1709** would transfer an amount equal to three-quarters of one percent (.0075) of the taxable individual income to every county and city whose personal property tax rate on motor vehicles is no greater than \$0.01 per \$100 of assessed value, based on each county's and city's share of total Virginia taxable income.

**House Bill 1880** would expand the PPTRA definition of "qualifying vehicle" to include motor vehicles that are held in a private trust for personal use by an individual beneficiary.

**House Bill 1894** would repeal the changes to the PPTRA provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) and gradually increase the level of relief for qualifying vehicles to 100% over a six-year period.

**House Bill 2262** would (1) exempt motor vehicles used for nonbusiness purposes from the local tangible personal property tax, (2) repeal the PPTRA, and (3) dedicate 17.5% of total individual income tax revenues actually collected to localities based on each locality's share of total taxable Virginia income.

**House Bill 2611** would allow localities to impose a local income tax at a rate either 0.5% or 1% upon the Virginia taxable income of individuals, trusts, estates, and corporations; provided that the personal property tax rate does not exceed \$0.01 per \$100 of value on personally owned motor vehicles.

**Senate Bill 1365** would repeal tangible personal property tax relief. The annual \$950 million currently dedicated for tangible personal property relief would be appropriated for transportation purposes.

cc : Secretary of Finance

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