

**DEPARTMENT OF TAXATION  
2008 Fiscal Impact Statement**

1. **Patron** Harry R. Purkey

2. **Bill Number** HB 1120

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Motor Vehicle Repair Labor and Services  
Tax; Compensation to Dealers

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

5. **Summary/Purpose:**

This bill would compensate providers of motor vehicle repair services with a percentage of the local sales and use tax collected in the Northern Virginia Transportation Authority ("NVTA") and the Hampton Roads Transportation Authority ("HRTA") on motor vehicle repair labor and services in the same manner as registered dealers are compensated for collecting and accounting for the Retail Sales and Use Tax.

The effective date of this bill is not specified.

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

6a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2007-08	\$86,000	GF
2008-09	\$9,000	GF
2009-10	\$6,000	GF
2010-11	\$6,000	GF
2011-12	\$6,000	GF
2012-13	\$7,000	GF
2013-14	\$7,000	GF

6b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2007-08	\$0	NVTA
	\$0	HRTA
2008-09	(\$0.91 million)	NVTA
	(\$0.51 million)	HRTA
2009-10	(\$1.00 million)	NVTA
	(\$0.57 million)	HRTA
2010-11	(\$1.00 million)	NVTA
	(\$0.59 million)	HRTA

2011-12	(\$1.00 million) (\$0.61 million)	NVTA HRTA
2012-13	(\$1.00 million) (\$0.64 million)	NVTA HRTA
2013-14	(\$1.00 million) (\$0.64 million)	NVTA HRTA

**7. Budget amendment necessary:** Yes.  
Item 273, Department of Taxation

**8. Fiscal implications:**

The Motor Vehicle Repair Labor and Services Sales and Use Tax ("Repair Tax") is imposed by the Northern Virginia Transportation Authority and the Hampton Roads Transportation Authority ("Authorities") and is administered by TAX in much the same manner as the Retail Sales and Use Tax. However, TAX considers the Repair Tax to be a distinct tax from the Retail Sales and Use Tax and administers it using different forms and a different accounting system. Additionally, revenues from the Repair Tax are distributed to the Authorities, while Retail Sales and Use Tax revenues are general fund revenues.

TAX is suggesting technical amendments to clearly separate the dealer discounts for the two taxes. If the dealer discounts are not separated, calculations for determining the dealer discount would be difficult, and might require a consolidated return and accounting system for the Repair Tax and the Retail Sales and Use Tax. Also, the revenue impact of this bill would be a general fund revenue impact. TAX's administrative costs and revenue impact for this bill are based on the assumption that these technical amendments will be adopted. If the amendments are not adopted, TAX's administrative costs will increase and the general fund will be adversely impacted.

Administrative Costs

Assuming that the technical amendments suggested by TAX are accepted, TAX would incur estimated administrative expenses of \$86,000 in Fiscal Year 2008, \$9,000 in Fiscal Year 2009, \$6,000 in Fiscal Year 2010, \$6,000 in Fiscal Year 2011, \$6,000 in Fiscal Year 2012, \$7,000 in Fiscal Year 2013, and \$7,000 in Fiscal Year 2014 for the systems and forms changes necessary to implement this bill. In the event that the technical amendments are not accepted, TAX's administrative expenses would increase.

Revenue Impact

In the event that TAX's technical amendments are accepted, the proposal to extend a dealer discount to the Repair Tax would have an estimated revenue loss to the Northern Virginia Transportation Authority of \$0.91 million in Fiscal Year 2009, and \$1.00 million in Fiscal Year 2010 and in each Fiscal Year thereafter and to the Hampton Roads

Transportation Authority of \$0.51 million in Fiscal Year 2009, \$0.57 million in Fiscal Year 2010, \$0.59 million in Fiscal Year 2011, \$0.61 million in Fiscal Year 2012, \$0.64 million in Fiscal Year 2013, and \$0.64 million in Fiscal Year 2014. If TAX's technical amendments are not accepted, this revenue loss would be a General Fund revenue loss.

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

Department of Taxation  
Hampton Roads Transportation Authority  
Northern Virginia Transportation Authority

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

If the intent of this bill is to provide a dealer discount to compensate providers collecting the Repair Tax that is separate dealer discount from that currently granted to dealers collecting the state Retail Sales and Use Tax, the following technical amendments are suggested:

Page 3, Line 176, After beginning of line  
Insert: A.

Page 3, Line 178, After of  
Strike: (i) the first three percent of the tax levied by §§ 58.1-603 and 58.1-604, and (ii) the entire tax levied by subsection K of § 58.1-605 and subsection H of § 58.1-606,  
Insert: the first three percent of the tax levied by §§ 58.1-603 and 58.1-604

Page 4, Line 186, After this  
Strike: section  
Insert: subsection

Page 4, Line 187, After the end of the line  
Insert: B. For the purpose of compensating a dealer for accounting for and remitting the tax levied by subsection K of § 58.1-605 and subsection H of § 58.1-606, such dealer shall be allowed the following percentages of the entire tax levied by subsection K of § 58.1-605 and subsection H of § 58.1-606 and accounted for in the form of a deduction in submitting his return and paying the amount due by him if the amount due was not delinquent at the time of payment.

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

The discount allowed by this subsection shall be computed according to the schedule provided, regardless of the number of certificates of registration held by a dealer.

## 11. Other comments:

### Background

House Bill 3202 (*Acts of Assembly* 2007, Chapter 896) authorized the Hampton Roads Transportation Authority and the Northern Virginia Transportation Authority (“Authority”) to impose in their member localities a sales and use tax at the rate of 5 percent on (i) charges for separately stated labor or services in the repair of motor vehicles and (ii) charges for the repair of a motor vehicle in cases in which the true object of the repair is a service provided within an Authority. TAX administers the sales and use tax on motor vehicle repairs and remits the revenues collected monthly to the respective Authority minus the direct costs of administration.

The Hampton Roads Transportation Authority embraces the Cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg and the Counties of Isle of Wright, James City, and York. The Hampton Roads Transportation Authority has voted to impose the 5 percent Motor Vehicle Repair Tax effective April 1, 2008.

The Northern Virginia Transportation Authority embraces the Cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park and the Counties of Arlington, Fairfax, Loudoun, and Prince William. The Northern Virginia Transportation Authority imposed the 5 percent sales and use tax on motor vehicle repairs effective January 1, 2008.

### Dealer Discount

Under current law, for accounting for and remitting Virginia Retail Sales and Use Tax, a dealer holding a certificate of registration under *Va. Code* § 58.1-613 is allowed a deduction of the first three percent of the state Retail Sales and Use Tax that the dealer accounts for in submitting his return and paying the amount due in the following percentages:

- 4 percent, if the monthly taxable sales of the dealer is \$0 to \$62,500;
- 3 percent, if the monthly taxable sales of the dealer is \$62,501 to \$208,000; and
- 2 percent if the monthly taxable sales of the dealer is \$208,001 and above.

The discount is computed using monthly taxable sales, regardless of the number of certificates of registration held by a dealer. The discount is not allowed if the amount of tax due is delinquent at the time of payment.

### Proposal

As introduced, this bill would modify the current formula that compensates registered Retail Sales and Use Tax dealers with a percentage of the Retail Sales and Use Tax they collect by including any Repair Tax they collect in the Northern Virginia Transportation Authority and the Hampton Roads Transportation Authority in the base on which their dealer discount is calculated.

TAX is suggesting technical amendments that would clearly separate the dealer discounts for the Repair Tax and the Retail Sales and Use Tax. If the dealer discounts are not separated, calculations for determining the dealer discount would be difficult, and might require a consolidated return and accounting system for the Repair Tax and the Retail Sales and Use Tax. Also, the revenue impact of this bill would be a general fund revenue impact. TAX's administrative costs and revenue impact for this bill are based on the assumption that these technical amendments will be adopted. If the amendments are not adopted, TAX's administrative costs will increase and the general fund will be adversely impacted.

### Similar Legislation

**House Bill 579** is identical to this bill.

**House Bill 361** would provide that the sales and use tax on motor vehicle repairs does not include charges for towing and storage of motor vehicles.

**House Bill 450** would prohibit any entity that has agreed to pay for vehicle repair services under a written indemnification agreement from requiring or recommending that the vehicle owner of a vehicle registered in a county or city embraced by an Authority use a repair facility in a city or county not embraced by an Authority unless it also provides the vehicle owner the option of using a repair facility in a city or county that is embraced by an Authority.

**House Bill 507** would eliminate in the Hampton Roads Transportation Authority the sales and use tax on motor vehicle repairs, the initial vehicle registration fee, the congestion relief fee, and the increased commercial real estate tax, and would increase the motor vehicle fuel sales tax, the car rental fee, and the annual vehicle license fee. This bill would also revise the number of members needed to impose taxes and fees in the Hampton Roads Transportation Authority and required for a quorum at meetings, and eliminate references to certain projects.

**House Bill 828** would remove the Cities of Hampton and Poquoson, and York County from the Hampton Roads Transportation Authority.

**House Bill 829, House Bill 1444, and Senate Bill 676** would abolish the Hampton Roads Transportation Authority and eliminate the taxes, fees, and charges that it was authorized to impose.

**Senate Bill 176** would eliminate in the Hampton Roads Transportation Authority the sales and use tax on motor vehicle repairs, and reduce the annual motor vehicle inspection fee and the grantor's fee. This bill would also increase the motor vehicle fuel sales tax and the car rental fee.

cc : Secretary of Finance

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