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HOUSE BILL NO. 2588

Offered January 22, 2009

A BILL to amend and reenact §§ 58.1-320, 58.1-400, 58.1-611.1 and 58.1-638 of the Code of Virginia, relating to restructuring the individual income tax brackets; eliminating the corporate income tax for certain businesses; and eliminating the state sales and use tax on food purchased for human consumption.

Patrons—Englin, Marsden, Morrissey, Armstrong, Barlow, Bowling, Brink, Ebbin, Eisenberg, Herring, Mathieson, Nichols, Shuler, Toscano and Ward

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-320, 58.1-400, and 58.1-611.1 of the Code of Virginia are amended and reenacted as follows:

§ 58.1-320. Imposition of tax.

A tax is hereby annually imposed on the Virginia taxable income for each taxable year of every individual as follows:

Two percent on income not exceeding \$3,000;

Three percent on income in excess of \$3,000, but not in excess of \$5,000;

Five percent on income in excess of \$5,000, but not in excess of \$12,000 for taxable years beginning before January 1, 1987;

Five percent on income in excess of \$5,000 but not in excess of \$14,000 for taxable years beginning January 1, 1987, through December 31, 1987;

Five percent on income in excess of \$5,000 but not in excess of \$15,000 for taxable years beginning January 1, 1988, through December 31, 1988;

Five percent on income in excess of \$5,000 but not in excess of \$16,000 for taxable years beginning January 1, 1989, through December 31, 1989;

Five percent on income in excess of \$5,000 but not in excess of \$17,000 for taxable years beginning January 1, 1990;

Five and six-tenths percent on income in excess of \$17,000 but not in excess of \$75,000 for taxable years beginning January 1, 2010;

Five and three-quarters percent on income in excess of \$12,000 for taxable years beginning before January 1, 1987;

Five and three-quarters percent on income in excess of \$14,000 for taxable years beginning January 1, 1987, through December 31, 1987;

Five and three-quarters percent on income in excess of \$15,000 for taxable years beginning January 1, 1988, through December 31, 1988;

Five and three-quarters percent on income in excess of \$16,000 for taxable years beginning January 1, 1989, through December 31, 1989; and

Five and three-quarters percent on income in excess of \$17,000 for taxable years beginning on and after January 1, 1990 \$75,000 but not in excess of \$400,000 for taxable years beginning January 1, 2010; and

Six and eighty-five hundredths percent on income in excess of \$400,000 for taxable years beginning January 1, 2010.

§ 58.1-400. Imposition of tax.

A tax at the rate of six percent is hereby annually imposed on the Virginia taxable income for each taxable year of every corporation organized under the laws of the Commonwealth and every foreign corporation having income from Virginia sources. *However, for every year in which a corporation has less than \$100,000 of Virginia taxable income and would otherwise be subject to the provisions of this article, such corporation shall be exempt from the tax imposed hereunder, for taxable years beginning on or after January 1, 2010.*

§ 58.1-611.1. Rate of tax on sales of food purchased for human consumption.

A. The tax imposed by under §§ 58.1-603 and 58.1-604 shall not be imposed on food purchased for human consumption beginning July 1, 2010. shall be levied and distributed as follows:

1. From January 1, 2000, through midnight on June 30, 2005, the tax rate on such food shall be three percent of the gross sales price. The revenue from the tax shall be distributed as follows: (i) the revenue from the tax at the rate of one-half percent shall be distributed as provided in subsection A of § 58.1-638; (ii) the revenue from the tax at the rate of one percent shall be distributed as provided in

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58 subsections B, C and D of § 58.1-638, and (iii) the revenue from the tax at the rate of one and one-half
59 percent shall be used for general fund purposes.

60 2. On and after July 1, 2005, the tax rate on such food shall be one and one-half percent of the gross
61 sales price. The revenue from the tax shall be distributed as follows: (i) the revenue from the tax at the
62 rate of one-half percent shall be distributed as provided in subsection A of § 58.1-638 and (ii) the
63 revenue from the tax at the rate of one percent shall be distributed as provided in subsections B, C and
64 D of § 58.1-638.

65 B. The provisions of this section shall not affect the imposition of tax on food purchased for human
66 consumption pursuant to §§ 58.1-605 and 58.1-606.

67 C. As used in this section, "food purchased for human consumption" has the same meaning as "food"
68 defined in the Food Stamp Act of 1977, 7 U.S.C. § 2012, as amended, and federal regulations adopted
69 pursuant to that Act, except it shall not include seeds and plants which produce food for human
70 consumption. For the purpose of this section, "food purchased for human consumption" shall not include
71 food sold by any retail establishment where the gross receipts derived from the sale of food prepared by
72 such retail establishment for immediate consumption on or off the premises of the retail establishment
73 constitutes more than 80 percent of the total gross receipts of that retail establishment, including but not
74 limited to motor fuel purchases, regardless of whether such prepared food is consumed on the premises
75 of that retail establishment. For purposes of this section, "retail establishment" means each place of
76 business for which any "dealer," as defined in § 58.1-612, is required to apply for and receive a
77 certificate of registration pursuant to § 58.1-613.

78 § 58.1-638. Disposition of state sales and use tax revenue; localities' share; Game Protection Fund.

79 A. The Comptroller shall designate a specific revenue code number for all the state sales and use tax
80 revenue collected under the preceding sections of this chapter.

81 1. The sales and use tax revenue generated by the one-half a 0.575 percent sales and use tax increase
82 enacted by the 1986 Special Session of the General Assembly shall be paid, in the manner hereinafter
83 provided in this section, to the Transportation Trust Fund as defined in § 33.1-23.03:1. Of the funds paid
84 to the Transportation Trust Fund, an aggregate of 4.2 percent shall be set aside as the Commonwealth
85 Port Fund as provided in this section; an aggregate of 2.4 percent shall be set aside as the
86 Commonwealth Airport Fund as provided in this section; and an aggregate of 14.5 percent in fiscal year
87 1998-1999 and 14.7 percent in fiscal year 1999-2000 and thereafter shall be set aside as the
88 Commonwealth Mass Transit Fund as provided in this section. The Fund's share of such net revenue
89 shall be computed as an estimate of the net revenue to be received into the state treasury each month,
90 and such estimated payment shall be adjusted for the actual net revenue received in the preceding
91 month. All payments shall be made to the Fund on the last day of each month.

92 2. There is hereby created in the Department of the Treasury a special nonreverting fund which shall
93 be a part of the Transportation Trust Fund and which shall be known as the Commonwealth Port Fund.

94 a. The Commonwealth Port Fund shall be established on the books of the Comptroller and the funds
95 remaining in such Fund at the end of a biennium shall not revert to the general fund but shall remain in
96 the Fund. Interest earned on such funds shall remain in the Fund and be credited to it. Funds may be
97 paid to any authority, locality or commission for the purposes hereinafter specified.

98 b. The amounts allocated pursuant to this section shall be allocated by the Commonwealth
99 Transportation Board to the Board of Commissioners of the Virginia Port Authority to be used to
100 support port capital needs and the preservation of existing capital needs of all ocean, river, or tributary
101 ports within the Commonwealth.

102 c. Commonwealth Port Fund revenue shall be allocated by the Board of Commissioners to the
103 Virginia Port Authority in order to foster and stimulate the flow of maritime commerce through the
104 ports of Virginia, including but not limited to the ports of Richmond, Hopewell and Alexandria.

105 3. There is hereby created in the Department of the Treasury a special nonreverting fund which shall
106 be part of the Transportation Trust Fund and which shall be known as the Commonwealth Airport Fund.
107 The Commonwealth Airport Fund shall be established on the books of the Comptroller and any funds
108 remaining in such Fund at the end of a biennium shall not revert to the general fund but shall remain in
109 the Fund. Interest earned on the funds shall be credited to the Fund. The funds so allocated shall be
110 allocated by the Commonwealth Transportation Board to the Virginia Aviation Board. The funds shall
111 be allocated by the Virginia Aviation Board to any Virginia airport which is owned by the
112 Commonwealth, a governmental subdivision thereof, or a private entity to which the public has access
113 for the purposes enumerated in § 5.1-2.16, or is owned or leased by the Metropolitan Washington
114 Airports Authority (MWAA), as follows:

115 Any new funds in excess of \$12.1 million which are available for allocation by the Virginia Aviation
116 Board from the Commonwealth Transportation Fund, shall be allocated as follows: 60 percent to
117 MWAA, up to a maximum annual amount of \$2 million, and 40 percent to air carrier airports as
118 provided in subdivision A 3 a. Except for adjustments due to changes in enplaned passengers, no air
119 carrier airport sponsor, excluding MWAA, shall receive less funds identified under subdivision A 3 a

than it received in fiscal year 1994-1995.

Of the remaining amount:

a. Forty percent of the funds shall be allocated to air carrier airports, except airports owned or leased by MWAA, based upon the percentage of enplanements for each airport to total enplanements at all air carrier airports, except airports owned or leased by MWAA. No air carrier airport sponsor, however, shall receive less than \$50,000 nor more than \$2 million per year from this provision.

b. Forty percent of the funds shall be allocated by the Aviation Board for air carrier and reliever airports on a discretionary basis, except airports owned or leased by MWAA.

c. Twenty percent of the funds shall be allocated by the Aviation Board for general aviation airports on a discretionary basis.

4. There is hereby created in the Department of the Treasury a special nonreverting fund which shall be a part of the Transportation Trust Fund and which shall be known as the Commonwealth Mass Transit Fund.

a. The Commonwealth Mass Transit Fund shall be established on the books of the Comptroller and any funds remaining in such Fund at the end of the biennium shall not revert to the general fund but shall remain in the Fund. Interest earned on such funds shall be credited to the Fund. Funds may be paid to any local governing body, transportation district commission, or public service corporation for the purposes hereinafter specified.

b. The amounts allocated pursuant to this section shall be used to support the public transportation administrative costs and the costs borne by the locality for the purchase of fuels, lubricants, tires and maintenance parts and supplies for public transportation at a state share of 80 percent in 2002 and 95 percent in 2003 and succeeding years. These amounts may be used to support up to 95 percent of the local or nonfederal share of capital project costs for public transportation and ridesharing equipment, facilities, and associated costs. Capital costs may include debt service payments on local or agency transit bonds. The term "borne by the locality" means the local share eligible for state assistance consisting of costs in excess of the sum of fares and other operating revenues plus federal assistance received by the locality.

c. Commonwealth Mass Transit Fund revenue shall be allocated by the Commonwealth Transportation Board as follows:

(1) Funds for special programs, which shall include ridesharing, experimental transit, and technical assistance, shall not exceed 1.5 percent of the Fund.

(2) The Board may allocate these funds to any locality or planning district commission to finance up to 80 percent of the local share of all costs associated with the development, implementation, and continuation of ridesharing programs.

(3) Funds allocated for experimental transit projects may be paid to any local governing body, transportation district commission, or public corporation or may be used directly by the Department of Rail and Public Transportation for the following purposes:

(a) To finance up to 95 percent of the capital costs related to the development, implementation and promotion of experimental public transportation and ridesharing projects approved by the Board.

(b) To finance up to 95 percent of the operating costs of experimental mass transportation and ridesharing projects approved by the Board for a period of time not to exceed 12 months.

(c) To finance up to 95 percent of the cost of the development and implementation of any other project designated by the Board where the purpose of such project is to enhance the provision and use of public transportation services.

d. Funds allocated for public transportation promotion and operation studies may be paid to any local governing body, planning district commission, transportation district commission, or public transit corporation, or may be used directly by the Department of Rail and Public Transportation for the following purposes and aid of public transportation services:

(1) At the approval of the Board to finance a program administered by the Department of Rail and Public Transportation designed to promote the use of public transportation and ridesharing throughout Virginia.

(2) To finance up to 50 percent of the local share of public transportation operations planning and technical study projects approved by the Board.

e. At least 73.5 percent of the Fund shall be distributed to each transit property in the same proportion as its operating expenses bear to the total statewide operating expenses and shall be spent for the purposes specified in subdivision 4 b.

f. The remaining 25 percent shall be distributed for capital purposes on the basis of 95 percent of the nonfederal share for federal projects and 95 percent of the total costs for nonfederal projects. In the event that total capital funds available under this subdivision are insufficient to fund the complete list of eligible projects, the funds shall be distributed to each transit property in the same proportion that such capital expenditure bears to the statewide total of capital projects.

181 g. There is hereby created in the Department of the Treasury a special nonreverting fund known as
182 the Commonwealth Transit Capital Fund. The Commonwealth Transit Capital Fund shall be part of the
183 Commonwealth Mass Transit Fund. The Commonwealth Transit Capital Fund subaccount shall be
184 established on the books of the Comptroller and consist of such moneys as are appropriated to it by the
185 General Assembly and of all donations, gifts, bequests, grants, endowments, and other moneys given,
186 bequeathed, granted, or otherwise made available to the Commonwealth Transit Capital Fund. Any funds
187 remaining in the Commonwealth Transit Capital Fund at the end of the biennium shall not revert to the
188 general fund, but shall remain in the Commonwealth Transit Capital Fund. Interest earned on funds
189 within the Commonwealth Transit Capital Fund shall remain in and be credited to the Commonwealth
190 Transit Capital Fund. Proceeds of the Commonwealth Transit Capital Fund may be paid to any political
191 subdivision, another public entity created by an act of the General Assembly, or a private entity as
192 defined in § 56-557 and for purposes as enumerated in subdivision 4c of § 33.1-269 or expended by the
193 Department of Rail and Public Transportation for the purposes specified in this subdivision. Revenues of
194 the Commonwealth Transit Capital Fund shall be used to support capital expenditures involving the
195 establishment, improvement, or expansion of public transportation services through specific projects
196 approved by the Commonwealth Transportation Board. Projects financed by the Commonwealth Transit
197 Capital Fund shall receive local, regional or private funding for at least 20 percent of the nonfederal
198 share of the total project cost.

199 5. Funds for Metro shall be paid by the Northern Virginia Transportation Commission (NVTC) to the
200 Washington Metropolitan Area Transit Authority (WMATA) and be a credit to the Counties of
201 Arlington and Fairfax and the Cities of Alexandria, Falls Church and Fairfax in the following manner:

202 a. Local obligations for debt service for WMATA rail transit bonds apportioned to each locality
203 using WMATA's capital formula shall be paid first by NVTC. NVTC shall use 95 percent state aid for
204 these payments.

205 b. The remaining funds shall be apportioned to reflect WMATA's allocation formulas by using the
206 related WMATA-allocated subsidies and relative shares of local transit subsidies. Capital costs shall
207 include 20 percent of annual local bus capital expenses. Hold harmless protections and obligations for
208 NVTC's jurisdictions agreed to by NVTC on November 5, 1998, shall remain in effect.

209 Appropriations from the Commonwealth Mass Transit Fund are intended to provide a stable and
210 reliable source of revenue as defined by Public Law 96-184.

211 B. The sales and use tax revenue generated by a ~~one~~ 1.149 percent sales and use tax shall be
212 distributed among the counties and cities of this Commonwealth in the manner provided in subsections
213 C and D.

214 C. The localities' share of the net revenue distributable under this section among the counties and
215 cities shall be apportioned by the Comptroller and distributed among them by warrants of the
216 Comptroller drawn on the Treasurer of Virginia as soon as practicable after the close of each month
217 during which the net revenue was received into the state treasury. The distribution of the localities' share
218 of such net revenue shall be computed with respect to the net revenue received into the state treasury
219 during each month, and such distribution shall be made as soon as practicable after the close of each
220 such month.

221 D. The net revenue so distributable among the counties and cities shall be apportioned and
222 distributed upon the basis as certified to the Comptroller by the Department of Education, of the number
223 of children in each county and city according to the most recent statewide census of school population
224 taken by the Department of Education pursuant to § 22.1-284, as adjusted in the manner hereinafter
225 provided. No special school population census, other than a statewide census, shall be used as the basis
226 of apportionment and distribution except that in any calendar year in which a statewide census is not
227 reported, the Department of Education shall adjust such school population figures by the same percent of
228 annual change in total population estimated for each locality by The Center for Public Service. The
229 revenue so apportionable and distributable is hereby appropriated to the several counties and cities for
230 maintenance, operation, capital outlays, debt and interest payments, or other expenses incurred in the
231 operation of the public schools, which shall be considered as funds raised from local resources. In any
232 county, however, wherein is situated any incorporated town constituting a school division, the county
233 treasurer shall pay into the town treasury for maintenance, operation, capital outlays, debt and interest
234 payments, or other expenses incurred in the operation of the public schools, the proper proportionate
235 amount received by him in the ratio that the school population of such town bears to the school
236 population of the entire county. If the school population of any city or of any town constituting a school
237 division is increased by the annexation of territory since the last preceding school population census,
238 such increase shall, for the purposes of this section, be added to the school population of such city or
239 town as shown by the last such census and a proper reduction made in the school population of the
240 county or counties from which the annexed territory was acquired.

241 E. Beginning July 1, 2000, of the remaining sales and use tax revenue, the revenue generated by a
242 two percent sales and use tax, up to an annual amount of \$13 million, collected from the sales of

243 hunting equipment, auxiliary hunting equipment, fishing equipment, auxiliary fishing equipment,
244 wildlife-watching equipment, and auxiliary wildlife-watching equipment in Virginia, as estimated by the
245 most recent U.S. Department of the Interior, Fish and Wildlife Service and U.S. Department of
246 Commerce, Bureau of the Census National Survey of Fishing, Hunting, and Wildlife-Associated
247 Recreation, shall be paid into the Game Protection Fund established under § 29.1-101 and shall be used,
248 in part, to defray the cost of law enforcement. Not later than 30 days after the close of each quarter, the
249 Comptroller shall transfer to the Game Protection Fund the appropriate amount of collections to be
250 dedicated to such Fund. At any time that the balance in the Capital Improvement Fund, established
251 under § 29.1-101.1, is equal to or in excess of \$35 million, any portion of sales and use tax revenues
252 that would have been transferred to the Game Protection Fund, established under § 29.1-101, in excess
253 of the net operating expenses of the Board, after deduction of other amounts which accrue to the Board
254 and are set aside for the Game Protection Fund, shall remain in the general fund until such time as the
255 balance in the Capital Improvement Fund is less than \$35 million.

256 F. 1. Of the net revenue generated from the one-half percent increase in the rate of the state sales
257 and use tax effective August 1, 2004, pursuant to enactments of the 2004 Special Session I of the
258 General Assembly, the Comptroller shall transfer from the general fund of the state treasury to the
259 Public Education Standards of Quality/Local Real Estate Property Tax Relief Fund established under
260 § 58.1-638.1 an amount equivalent to one-half of the net revenue generated from such one-half percent
261 increase as provided in this subdivision. The transfers to the Public Education Standards of
262 Quality/Local Real Estate Property Tax Relief Fund under this subdivision shall be for one-half of the
263 net revenue generated (and collected in the succeeding month) from such one-half percent increase for
264 the month of August 2004 and for each month thereafter.

265 2. For the purposes of the Comptroller making the required transfers under subdivision 1, the Tax
266 Commissioner shall make a written certification to the Comptroller no later than the twenty-fifth of each
267 month certifying the sales and use tax revenues generated in the preceding month. Within three calendar
268 days of receiving such certification, the Comptroller shall make the required transfers to the Public
269 Education Standards of Quality/Local Real Estate Property Tax Relief Fund.

270 G. If errors are made in any distribution, or adjustments are otherwise necessary, the errors shall be
271 corrected and adjustments made in the distribution for the next quarter or for subsequent quarters.

272 H. The term "net revenue," as used in this section, means the gross revenue received into the general
273 fund or the Transportation Trust Fund of the state treasury under the preceding sections of this chapter,
274 less refunds to taxpayers.