DEPARTMENT OF TAXATION
2009 Fiscal Impact Statement

1. Patron David B. Albo

2. Bill Number HB 1669

House of Origin:

_____ **Introduced**
__X__ **Substitute**
_____ **Engrossed**

Second House:

_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Appropriations

4. Title Individual Income Tax; Sharing with Localities.

5. Summary/Purpose:

TAX understands that the patron will be introducing an amendment in the nature of a substitute for this bill. This fiscal impact statement is applicable to that substitute version.

This bill would require the Commonwealth to return to each county and city 50 percent of the growth in the individual income tax revenue collected in the preceding fiscal year. The 50 percent growth share would be based on the individual income tax liability for residents of the county or city as determined by TAX.

The first payment due under the provisions of this bill would be required to be made on January 1, 2010.

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

Budget amendment necessary: No.

8. Fiscal implications:

<u>Administrative Costs</u>

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as “routine,” and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not “routine.” Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

This bill would have no impact on General Fund revenues, but it could significantly reduce revenues available for appropriation by requiring a distribution of a portion of the revenue generated by the individual income tax to localities. Based on the November updates to the official revenue forecast, no distribution would be made on January 1, 2010, from Fiscal Year 2009 revenues, as the individual income tax revenue is projected to decline from Fiscal Year 2008. The exact amount of the distribution in each year is highly dependent on economic conditions and is subject to the same variation as the official revenue forecast.

The following table shows the actual Fiscal Year 2008 and the forecasted Fiscal Year 2009 through Fiscal Year 2015 amounts of individual income tax revenue and the projected total to be distributed to localities.

Individual Income Tax - Net Revenue

Fiscal Year	Total Net Revenue	Growth	Distribution Amt. (50 % of growth)	Distribution Date
2008	$10,114.8			
2009	$10,045.4	$-69.4	$0.0	N/A
2010	$10,387.8	$342.4	$171.2	January 1, 2011
2011	$10,982.6	$594.8	$297.4	January 1, 2012
2012	$11,591.6	$609.0	$304.5	January 1, 2013
2013	$12,241.9	$650.3	$325.2	January 1, 2014
2014	$12,890.9	$649.0	$324.5	January 1, 2015
2015	$13,568.7	$677.8	$338.9	January 1, 2016

*All figures in millions

9. Specific agency or political subdivisions affected:

Department of Taxation
All Cities and Counties

Technical amendment necessary: No.

Other comments:

This bill would require the Commonwealth to return to each county and city 50 percent of the growth in the individual income tax revenue collected in the preceding fiscal year. The 50 percent growth share would be based on the individual income tax liability for residents of the county or city as determined by TAX.

The revenue would be distributed to localities using a two step process. First, TAX would determine the amount of the increase in revenue growth associated with net individual income taxes. This would encompass any withholding or non-withholding payments made over the fiscal year, minus any refunds. Using this data would ensure that the

Commonwealth was distributing revenue that it actually possesses at the time of the distribution.

Because the calculation of individual income tax revenue collected is made on a fiscal year basis, TAX would compare the individual income tax revenue collected in the most recent fiscal year to the same type of revenue collected in the next preceding fiscal year. If there was any growth in the most recent fiscal year, TAX would determine the amount of growth and divide that number by two. The resulting amount would represent the portion of money to be divided among the localities.

The second step would be to determine the shares for each locality. TAX would utilize data regarding the tax liability for residents of localities in each taxable year. TAX would establish the total amount of individual income tax liability for the residents of the locality using data from the most recent calendar year for which tax liability has been calculated by locality. From that amount, TAX would subtract the individual income tax liability for the residents of the locality from the next preceding calendar year.

If this process showed that a locality had no growth or negative growth, that locality would not receive a share of the money to be distributed. For the remaining localities that did have a growth in individual income tax liability, TAX would determine each of their percentages of the total overall increase in tax liability. These percentages would then be applied to the portion of money available for distribution.

The share of the individual income taxes that will be returned to the county or city will be paid no later than January 1 of each year. In any year during which the Commonwealth makes a withdrawal from the Revenue Stabilization Fund, the 50 percent share will not be paid to the county or city.

The revenues transferred to the county or city must be used for (i) new road construction or new public transit construction, (ii) public transit operating costs above and beyond that which the locality provided in the immediately preceding fiscal year if such operating funds are matched by the federal government, or (iii) new school construction or renovation of existing schools provided that the percentage of the county or city budget spent on school construction or renovation is above the percentage spent for school construction or renovation in the immediately preceding fiscal year.

cc : Secretary of Finance

Date: 1/16/2009 JKL
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