

*Commission on Local Government*

**Estimate of Local Fiscal Impact**  
2010 General Assembly Session

**Bill:** HB 613      **Patron:** Purkey      **Date:** January 20, 2010

In accordance with the provisions of §30-19.03 – 30-19.03:1.1 of the Code of Virginia, the staff of the Commission on Local Government offers the following analysis of the above-referenced legislation:

**I. Bill Summary**

HB 613 amends Va. Code §§ 58.1-1101 and 58.1-3507 to reclassify machinery and tools used in manufacturing, mining, processing or reprocessing and television broadcasting – except for machinery and equipment used by farm wineries – placed in service on or after July 1, 2010 as intangible personal property and not subject to local taxation.

According to the Auditor of Public Account's 2008 Amended Comparative Report of Local Government Revenues and Expenditures, local revenues derived from the machinery and tools tax totaled \$200.3 million in Fiscal Year 2008. Of that amount, cities collected \$74.7 million; counties collected \$121.1 million; and the towns reporting data to the APA collected \$4.4 million. Note: All Virginia counties, cities, towns with a population of 3,500 or more, and towns operating a separate school division are required to submit comparative data to the Auditor of Public Accounts annually.

**II. Fiscal Impact Analysis**

The Commission on Local Government received fiscal impact statements from 16 localities – the Counties of Arlington, Augusta, Campbell, Fauquier, Henrico, New Kent, Pulaski, Rappahannock, Roanoke, Rockingham, Scott, Spotsylvania and York and the Cities of Danville, Lynchburg and Roanoke.

One locality – Rappahannock County – indicated that they do not anticipate a reduction in revenue as a result of HB 613 because they do not currently have any personal property on record that would be affected by the bill. The County notes, however, that should any such property be brought into the county in the future, it will not be subject to local taxation, and they will therefore not receive the revenues they would have absent this bill. Two localities – the Counties of Arlington and New Kent – estimated that they would experience a net reduction of revenue of less than \$5,000.

Thirteen localities - the Counties of Augusta, Campbell, Fauquier, Henrico, Pulaski, Roanoke, Rockingham, Scott, Spotsylvania and York and the Cities of Danville, Lynchburg and Roanoke – estimated that they would experience a net reduction of

revenue of \$5,000 or more. These estimates ranged from \$15,000 to \$2,572,000 in total first year reduction in revenues as a result of HB 613 as follows:

Pulaski County	\$ 15,000
York County	\$ 78,000
Lynchburg City	\$ 100,000 - \$200,000
Henrico County	\$ 156,000
Scott County	\$ 225,000
Campbell County	\$ 300,000
Fauquier County	\$ 375,000
Augusta County	\$ 400,000
Roanoke County	\$ 420,000
Roanoke City	\$ 457,000
Spotsylvania County	\$1,000,000 (total machinery and tools taxes collected in FY 08)
Danville City	\$1,000,000
Rockingham County	\$2,572,000

These estimates were based on the portion of machinery and tools tax revenues that each locality attributes to the types of machinery and tools that would be re-classified under HB 613 and the new investment in such machinery and tools that can be reasonably anticipated. A number of the localities pointed out that, as the specified machinery and tools currently in service are replaced, they will be reclassified as intangible personal property under HB 613 and no longer subject to local taxation. Most localities acknowledged that it is difficult to anticipate – especially in the current economy – what new investments businesses will make in such machinery and tools and whether any new businesses will locate in their locality that will place into service such machinery and tools. One locality indicated that a half-time position would be required to track and report newly purchased machinery and tools at an estimated annual cost of \$15,000.

### **III. Conclusion**

The fiscal impact of HB 613 will vary considerably from locality to locality depending on whether there are businesses located in the locality that use the types of machinery and tools that would be reclassified as intangible personal property under the bill and the rate at which these businesses will purchase the specified machinery and tools in the future. In addition to the immediate reduction in revenue that local governments will experience when businesses located within their jurisdictions make new investments in the types of machinery and tools specified in HB 613, as new businesses locate in their jurisdictions and place into service and current businesses replace such machinery and tools, local governments will not realize the revenue growth they would have if the property had not been reclassified as intangible and therefore not subject to local taxation.