

DEPARTMENT OF TAXATION

2013 Fiscal Impact Statement

1. **Patron** Joseph D. Morrissey

3. **Committee** House Finance

4. **Title** Miscellaneous Tax; Plastic Bag Tax

2. **Bill Number** HB 1381

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would impose a \$0.05 tax, beginning July 1, 2014, on every disposable plastic bag provided to consumers by retailers in grocery stores, convenience stores, or drug stores. Retailers would be required to collect and remit the new tax and file returns in the same manner as with the Retail Sales and Use Tax. The bill would also authorize retailers that collect the tax to retain one cent for every five cents collected, or two cents from every five cents collected if the store has a customer bag credit program. Revenues from the tax would be deposited into the Virginia Water Quality Improvement Fund. The Department of Taxation would be required to develop guidelines to implement the new tax.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes

Page 1, Revenue Estimates

Item 273, Department of Taxation

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2012-13	\$0	0	GF
2013-14	\$112,000	0	GF
2014-15	\$ 16,000	0	GF
2015-16	\$ 8,000	0	GF
2016-17	\$ 8,000	0	GF
2017-18	\$ 8,000	0	GF
2018-19	\$ 8,000	0	GF

8. Fiscal implications:

Administrative Costs Impact

The Department would incur costs of \$112,000 in Fiscal Year 2014, \$16,000 in Fiscal Year 2015, and \$8,000 each year from Fiscal Year 2016 through 2019 in implementing this tax. The Department would incur these costs expanding applicable tax forms to include additional lines, distributing mailers to affected taxpayers, and providing overtime to employees to absorb the additional work.

Revenue Impact

This bill would result in an increase in revenue, the magnitude of which is unknown. The proposed tax is very similar to the tax adopted in the District of Columbia in 2009, which is imposed at the rate of 5 cents per bag, with 1 cent or 2 cents retained by the retailer, depending upon whether the retailer has a customer bag credit program. Based upon the District of Columbia's revenue and the larger population in Virginia, the tax proposed in this bill could generate as much as \$26 million in revenue annually, initially.

If Virginia customers were given the choice of using plastic bags and paying a \$0.05 tax, or using paper bags, and paying no tax, many of those without their own bags would likely choose paper bags. Thus, it is unlikely that the revenue from the tax would be sustained at the \$26 million annual level.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Proposal

This bill would impose a \$0.05 tax, beginning July 1, 2014 on every disposable plastic bag provided to a consumer in grocery stores, convenience stores, and drug stores. This fee would not apply to paper bags. Durable plastic bags with handles that are at least 2.25 mils thick and are specifically designed and manufactured for multiple re-use would be exempt from this fee. An exemption would also be available for plastic bags used to carry ice cream, meat, fish, poultry, leftover restaurant food, newspapers, dry cleaning, and prescription drugs. In addition, multiple plastic bags sold in packages and intended for use as garbage, pet waste, and leaf removal bags would be exempt from the fee.

Under the terms of this bill, the fee would be collected along with the purchase price and any other fees and taxes, at the time the consumer pays for personal property. The fee would not be included in the sales price of the overall purchase, and therefore would not be subject to the Retail Sales and Use Tax. Retailers would be responsible for collecting and remitting the fee to the Department of Taxation in the same manner as they collect

and remit the Retail Sales and Use Tax. The Comptroller would be required to deposit the revenues from the tax into the Virginia Water Quality Improvement Fund.

The bill would also authorize qualifying retailers to retain \$0.01 from every \$0.05 collected as compensation for collecting the bag tax. In order to be entitled to the compensation, the retailer would need to deduct the amount of the compensation when submitting his returns, and would need to timely pay the amount due. Retailers with customer bag credit programs, in which the retailer pays its customers a credit of a specified amount for each bag provided by the customer for packaging the customer's purchases, would be entitled to \$0.02 from every \$0.05 collected, and would need to meet the same requirements.

Under the terms of this bill, any retailer who fails to collect and remit the fee would be subject to a fine of \$250 for the first offense, \$500 for the second offense, and \$1,000 for the third offense and each subsequent offense.

This bill would also require the Tax Commissioner to develop and distribute to the public guidelines that implement the provisions of this bill.

The effective date of this bill is not specified.

Other States

Currently, the District of Columbia imposes a fee or tax on plastic carry-out grocery bags. In the District of Columbia, retailers that sell food or alcohol must charge a \$0.05 fee for each paper or plastic disposable bag provided to customers at the point of sale. The proceeds are deposited in a fund to be used for river cleanup.

In addition, the City of Brownsville, Texas currently imposes a \$1 environmental fee on consumers who choose to use non-reusable plastic shopping bags.

cc : Secretary of Finance

Date: 1/6/2013 KP
DLAS File Name HB1381F161