

Department of Planning and Budget 2013 Fiscal Impact Statement

1. Bill Number: HB2253

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: Albo

3. Committee: House Finance

4. Title: Transportation funding.

5. Summary: The proposed legislation would impose a sales tax on motor vehicle fuels, effective January 1, 2016. An amount generated by a rate of 3.5 percent is to be deposited to the Highway Maintenance and Operating Fund (HMOF) to be used solely for maintenance projects on the state secondary system. The remaining 1.5 percent is to be deposited to the Transportation Trust Fund (TTF) for new construction projects. The bill would increase the annual license tax on electric motor vehicles from \$50 to \$102 and apply the tax to hybrid electric vehicles. The additional revenue is to be deposited to the HMOF.

The bill would make changes to the state income tax rates. The new rates would begin on January 1, 2016. The bill increases the amount of the general fund share of the state sales and use tax that is dedicated to public education from 1.0 percent, as cited in §58.1-638, Code of Virginia, to 1.23 percent. The bill does not amend the 0.125 percent cited in §58.1-638.1, Code of Virginia. In addition, the bill eliminates the 2.5 percent state and local sales tax currently applied to food for human consumption. The bill also eliminates certain tax credits.

The bill provides sources of revenue for local transportation funding in localities in Northern Virginia. The bill authorizes the Counties of Loudoun, Fairfax and Prince William to levy a tax of 4.0 percent on the value of food and beverages sold in restaurants. The bill authorizes the Cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park and the County of Arlington to impose additional sales tax.

In localities imposing the additional sales and use tax or the food and beverage tax, the bill would automatically impose additional taxes. A one-time license fee, beginning January 1, 2016, of 1.0 percent of the value of a vehicle would be charged the first time that it is registered in the locality. An additional recordation tax of \$0.20 per \$100 valuation and an additional transient occupancy tax of 2.0 percent would also be imposed. The revenue from these sources is to be used by the locality solely for highway construction projects that reduce congestion. The bill also restricts the ability of local governments to impose a local income tax if the locality has already imposed the additional sales tax or the food and beverage tax.

The bill would change the method of determining the sales factor for corporate income tax purposes for sales other than sales of tangible personal property from the costs-of-performance method to market-based sourcing. Under this bill, sales, other than sales of tangible personal property, would be deemed made in the Commonwealth if the taxpayer has exploited the market provided by the Commonwealth to the extent that any benefit or use of such sale is to a person or location in the Commonwealth. The bill would require the Department of Taxation to publish guidelines implementing market-based sourcing.

The bill imposes an additional 1.0 percent sales tax on localities in Hampton Roads region. The revenue generated is to be returned to the locality to be used for congestion reducing highway construction projects.

6. Budget Amendment Necessary: Yes, revenues on page 1 and Item 139, Item 446 and Item 447

7. Fiscal Impact Estimates: Preliminary, estimates from the Department of Taxation.

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2013	\$0	0	
2014	\$0	0	
2015	\$360,459	0	GF
2016	\$762,658	0	GF
2017	\$437,147	0	GF
2018	\$446,643	0	GF
2019	\$456,140	0	GF

7b. Revenue Impact: See next page.

HB 2253 Summary of Bill Components (\$ millions)							
Provision (Effective 1/1/16 unless noted)	Fund	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Individual Income Tax Rates	GF	0.00	0.00	(259.00)	(525.33)	(536.57)	(556.91)
Market-Based Sourcing (Effective 1/1/14)	GF	(9.67)	(19.34)	unknown gain	unknown gain	unknown gain	unknown gain
Repeal Land Preservation Tax Credit	GF	0.00	0.00	0.00	67.91	84.05	92.98
Repeal Long-Term Care Insurance Tax Credit	GF	0.00	0.00	unknown gain	unknown gain	unknown gain	unknown gain
Repeal Coalfield Employment Enhancement Credit	GF	0.00	0.00	0.00	0.00	0.00	23.40
5% Motor Fuels Tax (wholesale in addition to excise)	HMOF TTF	0.00	0.00	379.87	942.46	968.87	968.87
Hybrid and Electric Fee	HMOF TTF	0.00	0.00	6.46	14.70	16.87	19.30
Hybrid and Electric Refund	GF	0.00	0.00	0.00	(2.77)	(6.33)	(7.08)
Transient Occupancy Tax NoVA	Local	0.00	0.00	12.13	30.05	31.18	32.35
1% State Motor Vehicle Registration Fee NoVA	Local	0.00	0.00	27.45	68.76	68.68	68.68
\$0.20 per \$100 Recordation Fee in NoVA	Local	0.00	0.00	22.32	22.32	22.32	22.32
Food Exemption	See Below	0.00	0.00	(186.61)	(464.89)	(480.70)	(497.04)
<i>TTF Loss Revenue Impact</i>	<i>TTF</i>	<i>0.00</i>	<i>0.00</i>	<i>(37.47)</i>	<i>(93.35)</i>	<i>(96.53)</i>	<i>(99.81)</i>
<i>Local Revenue Impact</i>	<i>Local</i>	<i>0.00</i>	<i>0.00</i>	<i>(74.94)</i>	<i>(186.70)</i>	<i>(193.05)</i>	<i>(199.61)</i>
<i>K-12 Revenue Impact</i>	<i>K-12</i>	<i>0.00</i>	<i>0.00</i>	<i>(74.20)</i>	<i>(184.84)</i>	<i>(191.12)</i>	<i>(197.62)</i>
Repeal S&U Tax for Nonprofits - Includes 1.23% K-12	See Below	0.00	0.00	68.42	166.53	168.54	170.64
<i>General Fund Unrestricted</i>	<i>GF-U</i>	<i>0.00</i>	<i>0.00</i>	<i>28.99</i>	<i>68.88</i>	<i>68.03</i>	<i>68.87</i>
<i>General Fund Restricted</i>	<i>GF-R</i>	<i>0.00</i>	<i>0.00</i>	<i>16.76</i>	<i>40.80</i>	<i>41.29</i>	<i>41.80</i>
<i>TTF</i>	<i>TTF</i>	<i>0.00</i>	<i>0.00</i>	<i>6.87</i>	<i>16.72</i>	<i>16.92</i>	<i>17.13</i>
<i>Local</i>	<i>Local</i>	<i>0.00</i>	<i>0.00</i>	<i>13.74</i>	<i>33.44</i>	<i>33.84</i>	<i>34.26</i>
<i>HMOF</i>	<i>HMOF</i>	<i>0.00</i>	<i>0.00</i>	<i>2.06</i>	<i>6.69</i>	<i>8.46</i>	<i>8.57</i>
Increase Sales Tax Distribution to Localities (1.23%)	See Below	0.00	0.00	0.00	0.00	0.00	0.00
<i>K-12 Revenue Impact</i>	<i>K-12</i>	<i>0.00</i>	<i>0.00</i>	<i>117.19</i>	<i>291.94</i>	<i>301.87</i>	<i>312.13</i>
<i>General Fund Revenue Impact</i>	<i>GF</i>	<i>0.00</i>	<i>0.00</i>	<i>(117.19)</i>	<i>(291.94)</i>	<i>(301.87)</i>	<i>(312.13)</i>
4% Fairfax, Loudoun & PWC Food and Beverage Tax	Local	0.00	0.00	50.61	125.77	130.27	135.08
0.5% Local S&U in Arlington County and NoVA Cities	Local	0.00	0.00	17.83	44.42	45.93	47.49
1% Local S&U Tax Hampton Roads	Local	0.00	0.00	79.30	197.56	204.28	211.22

8. **Fiscal Implications:** The proposed legislation would generate (\$9.6 million) in FY2014, (\$19.34 million) in FY2015, \$100.6 million in FY2016, \$389.1 million in FY2017, \$405.2 million in FY2018, and \$404.9 million in FY2019.

The Department of Taxation would incur costs as a result of adopting a policy of market-based sourcing and making systems and forms changes related to the retail sales and use tax. Repealing the Land Preservation Tax Credit would result in a reduction of the Department of Taxation's administrative costs beginning in FY2016, as well as the costs of Department of Conservation and Recreation. However, because the costs of administering the Land Preservation Tax Credit are recovered from the two percent transfer fee, this provision of the bill would not result in a reduction of general fund appropriations. The repeal of the Land Preservation Tax Credit and the transfer fees associated with it would also reduce funds distributed to the Virginia Land Conservation Foundation. The total general fund support

required by the Department of Taxation to implement this legislation is noted in the expenditure impact under Item 7a.

9. Specific Agency or Political Subdivisions Affected: Department of Taxation, Department of Transportation, local governments in Northern Virginia and Hampton Roads

10. Technical Amendment Necessary: None.

11. Other Comments: None.

Date: 1/23/2013 dpb/smc

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