

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** K. Rob Krupicka

2. **Bill Number** HB 1589
House of Origin:

3. **Committee** Senate Finance

 Introduced
 Substitute
 Engrossed

4. **Title** Personal Property Tax Relief; Vehicles
Leased by Members of the Military

Second House:
 X **In Committee**
 Substitute
 Enrolled

5. **Summary/Purpose:**

This bill would require that, beginning with tax year 2016, any locality receiving reimbursement from the Commonwealth for providing tangible personal property tax relief for motor vehicles must ensure that the reimbursement payment pays for all of the tax attributable to the first \$20,000 of value on each qualifying vehicle leased by an active duty member of the United States military or his spouse if the vehicle would not be taxed in Virginia if it were owned by such active duty member or spouse. The vehicle must be leased pursuant to a contract requiring the member or spouse to pay the tangible personal property tax on the vehicle to be eligible for such relief.

The Servicemembers Civil Relief Act provides that the personal property owned by a nonresident service member may not be taxed by a jurisdiction where the service member is residing only because of military orders. In 2009, the Military Spouses Residency Relief Act amended the Servicemembers Civil Relief Act to extend the protection to property owned by spouses of service members that are present in the state solely to be with the service member in compliance with the service member's military orders and have the same residence or domicile as the service member.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

7. **No Fiscal Impact.** (See Line 8.)

8. **Fiscal implications:**

Under the Personal Property Tax Relief Act (PPTRA) program in effect since Tax Year 2006, localities have received a specific amount of funds from the state, with which they provide personal property tax relief. The program has been capped at \$950 million per tax year paid on a fiscal year basis. Although this bill would not alter the relief provided by the state, it would expand the pool of vehicles qualifying for the relief by an unknown amount, thereby reducing individual relief, as the fixed amount of funds was previously

distributed across a smaller pool of vehicles. This bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

All localities
Department of Motor Vehicles

10. Technical amendment necessary: No.

11. Other comments:

Personal Property Tax Relief Act of 1998

The PPTRA originally was intended to eliminate the tangible personal property tax imposed on the first \$20,000 of value on passenger cars, pickup or panel trucks, and motorcycles owned or leased by natural persons and used for nonbusiness purposes.

The tax was originally scheduled to be eliminated over five years with 12.5% of the tax eliminated in 1998, 27.5% in 1999, 47.5% in 2000, 70% in 2001, and 100% in 2002 and thereafter. The tax on vehicles valued at \$1,000 or less was completely eliminated in 1998. The amount of the tax relief was shown on the taxpayer's bill and the Commonwealth reimbursed localities for the amount of the tax relief.

The PPTRA provided a mechanism for freezing the tax relief if the Commonwealth's revenue growth is insufficient. The percentage of tax relief was frozen at the current percentage of tax relief in effect if any one of three revenue growth tests was not met. When revenue growth was sufficient, the percentage of tax relief increased to the next highest level of tax relief. The level of tax relief never exceeded 70%.

Senate Bill 5005

Senate Bill 5005 (Chapter 1, 2004 Special Session I) changed the personal property tax relief program for motor vehicles. The state currently distributes \$950 million annually to localities as reimbursement for the personal property tax relief provided by each locality. Each locality's share of the \$950 million state reimbursement for tax year 2006 and subsequent tax years is based upon its share of the total state reimbursement for tax year 2004.

Vehicles Currently Eligible for Relief

In order to be deemed a qualifying vehicle for purposes of granting personal property tax relief, the Commissioner of the Revenue of the county or city in which the vehicle has situs must determine that the vehicle is (i) privately owned; (ii) leased pursuant to a contract requiring the lessee to pay the tangible personal property tax on such vehicle; or (iii) held in a private trust for nonbusiness purposes.

Military and Leased Vehicles

The Servicemembers Civil Relief Act provides that the personal property owned by a nonresident service member may not be taxed by a jurisdiction where the service member is residing only because of military orders. In 2009, the Military Spouses Residency Relief Act amended the Servicemembers Civil Relief Act to extend the protection to property owned by spouses of service members that are present in the state solely to be with the service member in compliance with the service member's military orders and have the same residence or domicile as the service member.

On November 16, 2009, the Attorney General issued an advisory opinion (Op. No. 09-077, Nov. 16, 2009) stating that military service members and spouses are not considered the owners of a leased motor vehicle and that the lessor is liable for the personal property tax thereon. As such, motor vehicles leased by a military service member or spouse would not be entitled to relief under the federal law. In making his determination, the Attorney General stated that *Va. Code* § 46.2-100 provides that the lessor of a motor vehicle is deemed to be the owner of a leased motor vehicle and is therefore liable for the payment of the personal property tax.

Proposal

This bill would require that, beginning with tax year 2016, any locality receiving reimbursement from the Commonwealth for providing tangible personal property tax relief for motor vehicles must ensure that the reimbursement payment pays for all of the tax attributable to the first \$20,000 of value on each qualifying vehicle leased by an active duty member of the United States military or his spouse if the vehicle would not be taxed in Virginia if it were owned by such active duty member or spouse. The vehicle must be leased pursuant to a contract requiring the member or spouse to pay the tangible personal property tax on the vehicle to be eligible for such relief.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1340 and **Senate Bill 1219** would expand the pool of vehicles that are deemed "qualifying vehicles," and thus eligible for personal property tax relief by including autocycles.

cc : Secretary of Finance

Date: 2/13/2015 AM
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