DEPARTMENT OF TAXATION
2014 Fiscal Impact Statement

1. Patron Jeffrey L. Campbell

2. Bill Number HB 605

House of Origin:
X **Introduced**
____ **Substitute**
____ **Engrossed**

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

3. Committee House Appropriations

4. Title Retail Sales and Use Tax; Distribution to Localities with High Unemployment

5. Summary/Purpose:

This bill would dedicate the state sales and use tax revenue generated by a one percent sales and use tax to counties and cities with an unemployment rate greater than six percent in the immediately preceding fiscal year. If more than one county or city is eligible for the distribution, then the revenues would be distributed based on the locality's proportionate share of the total population, according to the most recent United States Census, of all eligible localities in the immediately preceding fiscal year. No distribution would be made if no county or city has an unemployment rate greater than six percent in the immediately preceding fiscal year. The counties and cities would be required to use the revenues for economic development purposes. The bill would also dedicate one percent of any sales and use tax revenues collected from remote sellers to counties and cities with an unemployment rate greater than six percent in the immediately preceding fiscal year.

This bill also would provide that one-half of the funds from the Governor's Development Opportunity Fund ("Fund") must be awarded for economic development projects in counties, cities, or towns with an unemployment rate greater than six percent in the immediately preceding fiscal year. Additionally, the bill would require that no less than one-half of the moneys appropriated to the Fund in every five fiscal year period must be awarded to counties and cities having an unemployment rate greater than six percent in the immediately preceding fiscal year. However, if the requirement would not be met because the projects in such counties and cities would not meet any applicable minimum private investment or new jobs requirement, the remainder of the funds would be awarded to counties and cities with an unemployment rate greater than the statewide average rate for the immediately preceding calendar year.

Under current law, no less than one-third of the moneys appropriated to the Governor's Development Opportunity Fund in every five fiscal year period must be awarded to counties and cities with an unemployment rate greater than the statewide average rate for the immediately preceding calendar year.

The effective date of this bill is not specified.

6. Budget amendment necessary: Yes.

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

8. Fiscal implications:

Administrative Costs

Department of Taxation

The Department considers implementation of this bill as “routine,” and does not require additional funding.

Virginia Economic Development Partnership

The Virginia Economic Development Partnership does not anticipate being impacted by this bill.

Revenue Impact

This bill would dedicate approximately $1.1 billion in Fiscal Year 2015, $1.2 billion in Fiscal Year 2016, $1.2 billion in Fiscal Year 2017, $1.3 billion in Fiscal Year 2018, $1.3 billion in Fiscal Year 2019, and $1.4 billion in Fiscal Year 2020 to counties and cities with an unemployment rate greater than six percent in the immediately preceding fiscal year. This would result in a corresponding decrease in General Fund revenues available for other areas in the introduced budget. As of calendar year 2012, 89 localities in the Commonwealth had unemployment rates greater than six percent. The number of Virginia cities and counties with an annual unemployment rate of greater than six percent has varied since 1990 from one locality (the city of Martinsville) in calendar year 2000 to 118 localities in calendar year 2010. The average number of cities or counties with unemployment rates greater than six percent was 45 during this period.

Under the Marketplace Fairness Act (S. 743), states would not be able to require remote collection of sales and use tax until the first day of the calendar quarter (January, April, July, October) that is at least 6 months after the date the state enacts legislation to exercise the authority granted by the bill. As Virginia has already passed legislation exercising the authority, if Congress were to grant states the authority to collect retail sales and use taxes from remote sellers by December 31, 2014, remote seller collections of sales and use tax could begin as early as April 1, 2015. For purposes of this bill, it is assumed that remote collections would begin July 1, 2015. If Congress were to grant remote collection authority, this bill would dedicate an estimated additional $51.1 million in Fiscal Year 2016, $57.9 million in Fiscal Year 2017, $59.9 million in Fiscal Year 2018, $61.9 million in Fiscal Year 2019, and $64.0 million in Fiscal Year 2020 to counties and cities with an unemployment rate greater than six percent in the immediately preceding fiscal year. There would be a corresponding decrease in General Fund revenues available for other areas in the introduced budget.

9. Specific agency or political subdivisions affected:

Department of Taxation
All Localities

10. Technical amendment necessary: No.

11. Other comments:

<u>Generally</u>

Counties and cities are entitled to a portion of sales tax revenue generated by the one percent rate, which is dedicated to localities for education purposes and is apportioned according to school-age population. Prior to 2010, the law directed the Department of Education to conduct a statewide census of school population, which was used as the basis for the distribution to counties and cities. The 2010 General Assembly enacted legislation changing the basis for the one-percent distribution. Under current law, the one-percent revenue is distributed based on Weldon Cooper's latest yearly estimate of the population of cities and counties ages five to nineteen.

<u>Proposal</u>

This bill would dedicate the state sales and use tax revenue generated by a one percent sales and use tax to counties and cities with an unemployment rate greater than six percent in the immediately preceding fiscal year. If more than one county or city is eligible for the distribution, then the revenues would be distributed based on the locality's proportionate share of the total population, according to the most recent United States Census, of all eligible localities in the immediately preceding fiscal year. No distribution would be made if no county or city has an unemployment rate greater than six percent in the immediately preceding fiscal year. The counties and cities would be required to use the revenues for economic development purposes. The bill would also dedicate one percent of any sales and use tax revenues collected from remote sellers to counties and cities with an unemployment rate greater than six percent in the immediately preceding fiscal year.

This bill also would provide that one-half of the funds from the Governor's Development Opportunity Fund ("Fund") must be awarded for economic development projects in counties, cities, or towns with an unemployment rate greater than six percent in the immediately preceding fiscal year. Additionally, the bill would require that no less than one-half of the moneys appropriated to the Fund in every five fiscal year period must be awarded to counties and cities having an unemployment rate greater than six percent in the immediately preceding fiscal year. However, if the requirement would not be met because the projects in such counties and cities would not meet any applicable minimum private investment or new jobs requirement, the remainder of the funds would be awarded to counties and cities with an unemployment rate greater than the statewide average rate for the immediately preceding calendar year.

The effective date of this bill is not specified.

Similar Legislation

Senate Bill 112 would require the General Assembly to appropriate an amount sufficient to pay on behalf of taxpayers the total amount of BPOL Tax and Machinery and Tools Tax owed to a locality beginning in any calendar year in which the unemployment rate of the locality in the most recent calendar year for which data is available is equal to or greater than twice the statewide average unemployment rate.

cc : Secretary of Finance

Date: 1/19/2014 AM
DLAS File Name: HB605F161