

Commission on Local Government

Estimate of Local Fiscal Impact

2019 General Assembly Session

Bill: HB2440

Patron: Campbell

Date: 1/17/2019

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

Bill Summary:

Intangible personal property; classification and exemption of certain business property. Classifies as intangible property, and exempts from taxation, personal property that is employed in a trade or business, has an original cost of less than \$25, and is not classified as machinery and tools, merchants' capital, or short-term rental property.

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**Executive Summary:**

Localities have evaluated a negative fiscal impact ranging from \$0.00 - \$188,346.00. It should be noted that most localities that responded indicated that this bill would have little to no fiscal impact. One locality is concerned that the provision of the bill could instigate future bills that would push the threshold amount even higher. Of those localities responding with an impact, one locality noted that the bill would require additional auditors, which is the reason for the higher range in fiscal impact. This locality also noted that the potential for reduction of revenue could be significant but difficult to quantify. Another locality noted that the exact impact of the bill is indeterminate, but they expect the costs to be minimal. This locality also noted that the exclusion of machinery and tool is important to minimize the impact.

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**Local Analysis:**

**Locality:** City of Harrisonburg

**Estimated Fiscal Impact:** \$0.00

Not able to estimate but loss in personal property tax revenue would be minimal.

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Locality: City of Norfolk

Estimated Fiscal Impact: \$0.00

This bill would have little to no impact on the City of Norfolk. The tax loss is expected to be \$0.43 per \$25 on very small businesses that would try to itemize something that costs under \$25. The potential loss in tax revenue would be very minimal.

The concern from the City of Norfolk is this bill may instigate future bills that push the threshold amount even higher.

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**Locality:** City of Virginia Beach

**Estimated Fiscal Impact:** \$188,346.00

The fiscal impact number cited above is only the cost of additional expenditures that will be incurred by the City of Virginia Beach as a result of this bill. There will also be untold revenue loss, but this sum is nearly impossible to calculate at this time.

Most business filers in the City of Virginia Beach submit personal property tax information in the aggregate by product. Therefore, the City can not deduce how many businesses may have personal property with values of under \$25. Adoption of this law may mean that filers shift to submitting individual property records in order to take advantage of the provisions of this bill. In order to guard against situations by which filers either a) use average values of similar products within their possession to reduce the cost of each to under \$25, or b) understate the value of a product, the City of Virginia Beach would have to hire additional auditors in the office of the Commissioner of the Revenue. Our office anticipates that three auditors would be needed to maintain our current personal property tax reviews and compliance checks with the additional workload generated by this bill. With salary and benefits of \$62,782 apiece for Auditor Is, the total additional expenditure cost of this bill would be \$188,346.

As for revenue, while there is no way to properly evaluate the total impact, for reference there are 23,000 business filers in the City. These filers pay over \$30 million in personal property taxes to the City every year, which is 18% of our total personal property tax revenue. If every business in the city had only one piece of personal property that would qualify under the provision of this law, the cost to the City would be nearly \$25,000. However, given that many businesses have multiple products of \$25 or less, the revenue cost to the City would be quite substantial, possibly into the millions.

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Locality: City of Winchester

Estimated Fiscal Impact: \$0.00

Nominal change, no real impact

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**Locality:** Town of Blacksburg

**Estimated Fiscal Impact:** \$0.00

The town does not tax personal property. Can see the benefit of exempting the cost less than \$25 as the tax would be very minimal on that.

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Locality: Town of Luray

Estimated Fiscal Impact: \$500.00

While the Town anticipates some fiscal impact, it is difficult to estimate. The exclusion of machinery and tools capital is important to minimize fiscal impact

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**Locality:** Town of Marion.

**Estimated Fiscal Impact:** \$0.00

Negligible impact

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