

DEPARTMENT OF TAXATION

2020 Fiscal Impact Statement

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| 1. Patron Emmett W. Hanger, Jr. | 2. Bill Number <u>SB 588</u> |
| | House of Origin: |
| 3. Committee Passed House and Senate | <u> </u> Introduced |
| | <u> </u> Substitute |
| | <u> </u> Engrossed |
| 4. Title Local Government Taxing Authority;
Equalizes Municipal and County Taxing
Authorities | Second House: |
| | <u> </u> In Committee |
| | <u> </u> Substitute |
| | <u> X </u> Enrolled |

5. Summary/Purpose:

This bill would grant counties the same taxing powers now granted to cities and towns. Under current law, when compared to cities and towns, counties are not authorized to impose certain taxes and are limited in the rates that they may impose for other taxes.

The provisions of this bill related to cigarette taxes would become effective July 1, 2021. The other provisions of this bill would become effective July 1, 2020.

6. Budget amendment necessary: No

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

8. Fiscal implications:

Administrative Costs

This bill could result in unknown administrative costs related to the new taxing authority of counties. It would have no impact on state administrative costs.

Revenue Impact

This bill could result in a positive revenue impact to counties as a result of the change in taxing authority. It would have no impact on state revenues.

9. Specific agency or political subdivisions affected: All counties

10. Technical amendment necessary: No

11. Other comments:

Taxing Authority of Counties

Limitations currently apply to counties' taxing authority that are not applicable to cities and towns. Under current law:

- Counties are not permitted to levy a tax on admissions charged for attendance at any event unless given specific authority under state law.
- The food and beverage tax rate that counties may impose is not to exceed four percent and the tax may only be levied if approved in a referendum.
- The tax rate that counties may impose on transient occupancies is limited to two percent unless specifically authorized by state law.
- Only two counties (Arlington and Fairfax) are permitted to levy a local tax on cigarettes.

Under current law, any city or town having general taxing powers established by charter is authorized to levy excise taxes on cigarettes, admissions, transient room rentals, meals, and travel campgrounds.

The issue of equalizing city and county taxing authority was addressed in the report of the Commission on Virginia's State and Local Tax Structure for the 21st Century (2001 House Document No. 22). The Commission recommended that the distinction in the taxing authority of Virginia's cities and counties be eliminated. The Commission report states that the distinction is "based solely on an historical legalism and which has no relevancy to modern service responsibilities." The Commission report also notes that equalizing city and county taxing authority will broaden "the potential revenue base of counties, reduce their dependence on their real estate tax base, and make the potential revenue bases and therefore the measurement of revenue effort of cities and counties directly comparable."

Proposal

The bill would authorize any county to levy a tax on admissions charged for attendance at any event, except in any county in which a state sales and use tax is imposed at a rate of at least one percent, a portion of which is dedicated to the promotion of tourism.

It would also authorize counties to levy a transient occupancy tax at a rate greater than two percent, provided that:

- Any excess from a rate over two percent will be designated and spent solely for such purpose as was authorized under this article prior to January 1, 2020;
- If no purpose was authorized prior to January 1, 2020, any excess from a rate over two percent but not exceeding five percent will be designated and spent solely for tourism and travel, marketing of tourism or initiatives; or
- For any county that imposes a transient occupancy tax, any excess over five percent will not be restricted in its use and may be spent in the same manner as general revenues.

Any county, city, or town would be authorized to levy taxes upon the sale or use of cigarettes subject to limitations:

- If a locality is (i) a city or town that, on January 1, 2020, had in effect a rate not exceeding two cents (\$0.02) per cigarette sold or (ii) a county, then the maximum rate shall be two cents (\$0.02) per cigarette sold; or
- If a locality is a city or town that, on January 1, 2020, had in effect a rate exceeding two cents (\$0.02) per cigarette sold, then the maximum rate shall be the rate in effect on January 1, 2020.

Counties would also be authorized to levy a food and beverage tax at a rate of not more than six percent and without first holding a referendum on the tax. However, no county that held a referendum regarding food and beverage tax under current law and prior to July 1, 2020, that was defeated would be permitted to impose a tax under this bill until six years after the date of such referendum, unless a successful referendum was held after the defeated referendum and before July 1, 2020.

The provisions of this bill related to cigarette taxes would become effective July 1, 2021. The other provisions of this bill would become effective July 1, 2020.

Similar Legislation

House Bill 785 is identical to this bill.

cc: Secretary of Finance

Date: 3/24/2020 SK
SB588FER161