DEPARTMENT OF TAXATION
2023 Fiscal Impact Statement

1. **Patron** Mark D. Sickles

2. **Bill Number** HB 2176
House of Origin:
X **Introduced**
____ **Substitute**
____ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Individual Income Tax; Distribution of Revenues; Local School Construction

5. **Summary/Purpose:**

This bill would require that five percent of the individual income tax revenue collected from residents of a locality be distributed to that locality for school construction or renovation purposes.

If enacted during the 2023 regular session of the General Assembly, this bill would become effective July 1, 2023.

6. **Budget amendment necessary:** Yes.
Item(s): Page 1, Revenue Estimates
274 and 276, Department of Taxation

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

Fiscal Year	***Dollars***	***Positions***	***Fund***
2023-24	$330,800	0	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation would incur administrative costs of $330,800 in Fiscal Year 2024. Any costs thereafter would be considered routine. These costs would be incurred for purposes of updating the Department's systems to ensure accurate distributions are made to each locality based upon tax return data. Such costs are based on the assumption that the Department would make distributions based on annual net individual income tax payments.

The Department of Treasury considers implementation of this bill as routine, and does not require additional funding. This bill would result in unknown administrative costs for the Department of Accounts ("DOA") associated with the establishing the separate special funds for each locality.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact and an unknown positive revenue impact on the localities. Based upon the official General Fund revenue forecast, the table below shows the estimated annual payments that would be distributed to localities based upon net individual income tax revenue. This data incorporates net individual income tax from all returns, not just resident returns. Because this bill would be limited only to revenue generated by residents, the actual impact would be slightly less.

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Net Individual Income Tax	$19,356.44	$20,887.91	$21,650.19	$22,379.36	$23,057.23	$23,984.33
Estimated 5% to Localities	$967.82	$1,044.40	$1,082.51	$1,118.97	$1,152.86	$1,199.22

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Accounts
Treasury

10. Technical amendment necessary: Yes. It is unclear whether this bill would apply revenues from part-year residents who are moving into or moving out of Virginia during the taxable year and file a part-year income tax return. The Department suggests clarifying how this bill would apply to part-year residents.

The Department also suggests clarifying that the revenue distribution would be based upon annual net individual income tax revenue for residents of each respective locality. It is not feasible to distribute revenues based upon estimated or withholding payments. Withholding payments are made by employers and, at the time the withholding payment is made, there is no information provided to indicate the portion of a withholding payment is attributable to a specific taxpayer or the locality in which a specific taxpayer resides. Withholding payments are reconciled when individual taxpayers file their annual individual income tax returns.

11. Other comments:

Proposed Legislation

This bill would require five percent of the individual income tax revenue collected from residents of a locality to be distributed to that locality for school construction or renovation purposes. Such funds would be required to be repaid if used for any other purpose.

This bill would define “resident income tax revenues” as the amount of individual income tax revenues collected from the residents of a locality.

All resident income tax revenues collected would be paid into a special fund that would be created for each locality. Such special funds would be called “Collections of Additional Local Income Tax in ___ (INSERT NAME OF LOCALITY)”.

After the resident income tax revenues have been paid into the state treasury in any month for the preceding month, the Comptroller would be required to draw a warrant of the State Treasurer in the proper amount for each locality and such amounts would be charged to each locality’s special fund. If errors are made in any such payment, or adjustments are otherwise necessary, the errors would be corrected and adjustments made with one-half of the total adjustment included in the payments for the next two months. In addition, the payment would include a refund of amounts erroneously not paid to each locality and not previously refunded during the three years preceding the discovery of the error.

If any revenues distributed to localities are used for any purpose other than the construction or renovation of schools, such localities would be required to repay such revenues to the Department and such revenues would revert to the General Fund.

A locality receiving the income tax revenues would be to maintain its level of expenditure for public school purposes at the amount it appropriated for such purposes for its most recent fiscal year ending prior to July 1, 2023. However, a locality would be permitted to reduce its level of expenditure to account for a loss of revenue resulting from a reduction in machinery and tool taxes.

If enacted during the 2023 regular session of the General Assembly, this bill would become effective July 1, 2023.

cc : Secretary of Finance

Date: 1/26/2023 JLOF
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