

**DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement**

REVISED

1. Patron Robert D. Hull

2. Bill Number HB 5003

3. Committee House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. Title Education and Transportation Improvement
Act of 2004

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would increase the tax on gasoline, diesel fuel, and alternative fuel by five and one-half cents per gallon, increase the motor carrier road tax to twenty-five cents per gallon of fuel used in the Commonwealth, and increase the alternative use fee for certain motor carriers from \$100 to \$150 (the fee is an alternative to paying the motor carrier road tax).

The bill increases all motor vehicle registration fees by \$10. The revenue generated is to be used to fund the Transportation Trust Fund.

The bill also provides that the council of any city and the governing body of any county may increase the local retail sales and use taxes from one percent to one and one-half cent to provide revenue for the general fund of such city or county.

The one-half of one percent of the retail sales and use tax currently dedicated to the Transportation Trust Fund would be redistributed, allocating one-half to a new "At-Risk Student Academic Achievement Fund" and one-half to localities based on the average daily membership of public schools.

This bill does not specify an effective date.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$0	GF
2004-05	\$1,557,154	GF
2005-06	\$29,159	GF
2006-07	\$15,202	GF
2007-08	\$15,658	GF
2008-09	\$16,127	GF
2009-10	\$16,611	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>FUNDS (amounts in millions)</i>			<i>Local*</i>
	<i>TTF</i>	<i>HMOF</i>	<i>NGF</i>	
2003-04	\$0	\$0	\$0	\$0
2004-05	(67.5)	\$0.9	\$381.2	\$178.0
2005-06	(\$127.1)	\$0.9	\$478.3	\$479.9
2006-07	(\$137.0)	\$0.9	\$497.5	\$499.1
2007-08	(\$150.9)	\$0.9	\$518.6	\$520.2
2008-09	(\$167.8)	\$0.8	\$541.6	\$543.2
2009-10	(\$185.8)	\$0.8	\$565.7	\$567.3

* The estimates for local revenue assume that all localities adopt the optional ½% local sales and use tax effective January 1, 2005.

7. Budget amendment necessary: Yes.

Item(s): Page 1, Revenue Estimates
284 & 286, Department of Taxation

8. Fiscal implications:

The administrative and revenue impact assume that the additional local sales tax rate changes are effective January 1, 2005.

Administrative Impact

The Department of Taxation would incur administrative costs of \$1,557,154 in Fiscal Year 2005, \$29,159 in Fiscal Year 2006, \$15,202 in Fiscal Year 2007, \$15,658 in Fiscal Year 2008, \$16,127 in Fiscal Year 2009, and \$16,611 in Fiscal Year 2010. The costs include systems changes to capture and process two possible local tax rates, and printing and postage to publicize the changes and provide new forms and instructions to all registered sales and use tax dealers. The Department is scheduled to implement a major upgrade to TAX's systems in the fall of 2004. Because of the short time between the implementation of TAX's new systems and the proposed amended effective date of the local sales tax rate changes, there is a risk that any problems with implementation of the new systems could affect successful implementation of the local tax rate changes for 2005. Delaying the effective date of local tax rate changes from January 1, 2005 until April 1, 2005, would greatly reduce the risk.

The Department of Motor Vehicles would incur minimal costs to implement the increase in the motor fuel tax, the road tax, and the registration fees.

Revenue Impact

This impact statement has been revised to reflect the change in the effective date of the provisions of this bill that would be effective in due course. Article IV, § 13 of the Constitution of Virginia states that all laws enacted during a special session other than the Appropriations Act and emergency legislation will take effect on the first day of the fourth month following the month of adjournment of the special session. As the month of March has expired and the special session has not adjourned, **all laws enacted during a special session effective in due course will become effective on August 1, 2004, assuming the special session adjourns before the end of April.** This impact statement has been revised to reflect an August 1, 2004, effective date for the provisions of this bill affecting the motor fuels tax, road tax and registration fees, as well as the rededication of the one-half of one percent sales tax revenue.

This bill would have no impact on state General Fund revenue, but would reduce the Transportation Trust Fund, increase the Highway Maintenance and Operating Fund, and increase other non-general funds. The net of these impacts would increase state Non-General Fund revenue by \$314.6 million in Fiscal Year 2005, \$352.1 million in Fiscal Year 2006, \$361.4 million in Fiscal Year 2007, \$368.6 million in Fiscal Year 2008, \$374.6 million in Fiscal Year 2009, and \$380.7 million in Fiscal Year 2010. However, the bill would also redirect the one-half of one percent sales and use tax currently deposited to the Transportation Trust Fund to localities. The net impact of the additional state revenue and redirected revenue is a decrease in state Non-General Fund revenue for transportation purposes of \$66.6 million in Fiscal Year 2005, \$127.1 million in Fiscal Year 2006, \$137.0 million in Fiscal Year 2007, \$150.9 million in Fiscal Year 2008, \$167.8 million in Fiscal Year 2009, and \$185.8 million in Fiscal Year 2010. The Transportation Trust Fund would be increased by the revenue from increased motor vehicle registration fees and fuel taxes, but would lose the one-half percent of the state sales tax currently dedicated to the TTF. The Highway Maintenance and Operating Fund would be increased by the revenue from the increased road taxes.

A new fund (the At-Risk Student Academic Achievement Fund) would be created and receive one-half of the state sales tax revenue that currently is dedicated to the TTF. The other half of the TTF sales tax revenue would be distributed to localities based on average daily membership of public schools. In addition, localities may increase their local sales and use tax rates from one percent to one and one-half percent.

Revenue Impact – July Effective Date

If the motor fuels tax, road tax and registration fees, as well as the rededication of the one-half of one percent sales tax revenue proposed by this bill are effective on July 1, 2004, this bill would result in an increase in state Non-General Fund revenue by \$343.2 million in Fiscal Year 2005, \$352.1 million in Fiscal Year 2006, \$361.4 million in Fiscal Year 2007, \$368.6 million in Fiscal Year 2008, \$374.6 million in Fiscal Year 2009, and \$380.7 million in Fiscal Year 2010. The net impact of the additional state revenue and redirected revenue is a decrease in state Non-General Fund revenue for transportation purposes of \$75.0 million in Fiscal Year 2005, \$127.1 million in Fiscal Year 2006, \$137.0

million in Fiscal Year 2007, \$150.9 million in Fiscal Year 2008, \$167.8 million in Fiscal Year 2009, and \$185.8 million in Fiscal Year 2010.

Revenue Components

The tables below shows the state and local impact of the proposed bill broken down by its major components (assuming August 1, 2004, for components effective in due course).

State Revenue Impact of HB 5003 by Component						
(\$ millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Transportation Trust Fund						
Motor Vehicle Registration Fees	\$58.7	\$64.1	\$64.6	\$64.6	\$64.6	\$64.6
Motor Vehicle Fuel Tax	\$255.0	\$287.1	\$295.9	\$303.1	\$309.2	\$315.3
0.5% Sales tax from TTF to Localities	(\$381.2)	(\$478.3)	(\$497.5)	(\$518.6)	(\$541.6)	(\$565.7)
Total TTF Impact	(\$67.5)	(\$127.1)	(\$137.0)	(\$150.9)	(\$167.8)	(\$185.8)
Highway Maintenance Operating Fund						
Motor Vehicle Road Tax	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.1)	(\$1.1)
Motor Vehicle Alternative Road Tax	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9
Total HMOF Impact	\$0.9	\$0.9	\$0.9	\$0.9	\$0.8	\$0.8
Total State Revenue Impact	(\$66.6)	(\$126.2)	(\$136.1)	(\$150.0)	(\$167.0)	(\$185.0)
Additional Local Funds						
Share of 0.5% state sales tax (formerly TTF) Distributed To Localities For:						
At-Risk Student Academic Achievement Fund	\$190.6	\$239.1	\$248.7	\$259.2	\$270.8	\$282.9
Distribution per pupil based on average daily membership	\$190.6	\$239.1	\$248.7	\$259.2	\$270.8	\$282.9
Local Option Sales and Use Tax*						
Additional 0.5% local sales tax*	\$178.0	\$479.9	\$499.1	\$520.2	\$543.2	\$567.3
Total Local Impact	\$559.2	\$958.1	\$996.5	\$1,038.6	\$1,084.8	\$1,133.1

* Assumes that all localities adopt the additional 0.5% sales tax effective January 1, 2005.

9. Specific agency or political subdivisions affected:

Department of Motor Vehicles
Department of Taxation
Department of Treasury
Department of Transportation
Department of Education
Department of Accounts
Cities, Counties and Towns

10. Technical amendment necessary: Yes.

To correct a typographical error:
Page 1, Line 18, After subdivision
Strike: E
Insert: D

To correct a reference to repealed language:

Page 5, Line 271, After § 33.1-23.03:1.
Strike: As provided in subsection A of § 58.1-638, of such
Insert: Such

In order to clarify that the additional one-half percent sales and use tax is a local option, the following amendments are suggested:

Page 5, Line 281, after rate of one
Insert: percent or one

Page 5, Line 288, after first day of a
Strike: month
Insert: year, provided that such day is

Page 6, Line 357, after rate of one
Insert: percent or one

Page 7, Line 368, after first day of a
Strike: month
Insert: year, provided that such day is

Because localities may impose a local sales and use tax at either a 1% or 1.5% rate, corresponding changes must be made to the bracket tables.

Page 8, Line 438, after ~~one-half~~
Strike: five percent
Insert: the state tax rate plus the local tax rate enacted by the applicable locality

Businesses that have entered into long-term contracts with fixed prices may not be able to adjust the price to reflect the increase in local tax rates. When the state tax rate was increased in 1986 transitional provisions were included in Va. Code § 58.1-639. If similar transitional provisions are desired for increases in local tax rates a substitute will be required.

11. Other comments:

Sales and Use Tax

Current Law

Virginia's combined state and local sales tax rate is 4.5%. The 4.5% sales tax rate is composed of a 3.5% state sales tax rate and a 1% sales tax rate imposed at the local level. All localities in Virginia impose a uniform local tax of 1%. Currently, one-half percent of the 3.5% sales and use tax rate is distributed to the Transportation Trust Fund. In addition, 1% of the 3.5% state sales and use tax rate is distributed among the counties and cities of the Commonwealth based on school age population. For sales of \$5 or less the statute provides a bracket table to simplify collection of the tax for retail dealers.

Proposed Change

This bill would allow localities to increase the local sales and use tax from one percent to one and one-half percent by adopting an ordinance at least 60 days before the intended effective date. Technical amendments are suggested to ensure that any local tax increases will become effective on January 1 of the year.

Of the state tax rate, the one-half of one percent that is currently dedicated to the Transportation Trust Fund would instead be distributed one-half to a new "At-Risk Student Academic Achievement Fund" and one-half to localities based on a set per-pupil amount. The revenues would be distributed as follows:

Sales Tax Components	Under Current Law	Proposed Change
1% Local Sales Tax	Distributed to localities based on point of sale	Localities may increase the rate to 1.5%
1% of State Sales Tax	Distributed to localities based on school age population	No Change
2% of State Sales Tax	General Fund (except for revenue from certain bond-financed public facilities)	No Change
0.5% of State Sales Tax	Transportation Trust Fund	<ul style="list-style-type: none"> ▪ Half to new "At-Risk Student Academic Achievement" fund ▪ Half to localities based on set per-pupil amount

If localities have the option of imposing a local tax at either a 1% or 1.5% rate, then Virginia's state and local tax would not be uniform throughout the state and Virginia's ability to participate in Project Streamline may be jeopardized. Virginia and other states are participating in Project Streamline to make state sales and use taxes more uniform

among the states and to simplify compliance burdens for out-of-state businesses that sell into a state via mail, telephone and internet. Currently, states are prohibited from requiring such businesses to collect sales and use taxes on sales to their residents when the business has no physical presence in the state. Under Project Streamline some businesses have voluntarily registered to collect Virginia tax, and eventually Congress may enact laws requiring such businesses to collect state taxes.

Motor Vehicle Fuel Tax

Current Law

A state tax is imposed on motor fuels at the following rates: 17½ cents per gallon on gasoline and gasohol and 16 cents per gallon on diesel fuel and liquid alternative fuel. Motor carriers pay a road tax equivalent to 19½ cents per gallon with a credit of 16 cents per gallon for fuel purchased in Virginia.

Proposed Change

The tax on motor fuels would be increased to 21½ cents per gallon on gasoline, gasohol diesel fuel and liquid alternative fuel. The additional revenue would be deposited into the Transportation Trust Fund as required by existing law. The increase would be effective August 1, 2004.

Motor Vehicle Registration Fees

Current Law

Motor vehicles are charged a fee for registration that varies according to the type of vehicle and weight.

Proposed Change

All motor vehicle registration fees would be increased by \$10. The bill would require that the increased revenue be deposited into the Transportation Trust Fund. The increase would be effective August 1, 2004.

Motor Vehicle Road Tax

Current Law

Motor carriers pay a road tax of nineteen and one-half cents per gallon of fuel used in the Commonwealth. They receive a credit for motor fuel taxes paid on fuel purchased in the Commonwealth at the rate of sixteen cents per gallon. In lieu of paying the road tax on a cents per gallon basis (net of the fuel tax credit), motor carriers may pay an alternative flat fee of \$100 per vehicle.

Proposed Change

The road tax would be increased to twenty-five cents per gallon, and the credit for Virginia fuel taxes paid would be increased to twenty-one and one-half cents per gallon. The alternative fee per vehicle would be increased to \$150. The additional revenue would be deposited into the Highway Maintenance and Operating Fund as required by existing law. The increase would be effective August 1, 2004.

cc : Secretary of Finance

Date: 4/5/2004