DEPARTMENT OF TAXATION
2007 Fiscal Impact Statement

1. Patron Jeffrey M. Frederick

2. Bill Number HB 1615

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

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

3. Committee House Appropriations

4. Title Personal Property Tax Relief

5. Summary/Purpose:

This bill would repeal the changes to the Personal Property Tax Relief Act of 1998 (the "PPTRA") provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) and set the PPTRA reimbursement level at 100 percent.

This bill would be effective January 1, 2008.

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

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2006-07	$0	0	GF
2007-08	$480,514	7	GF
2008-09	$851,549	7	GF
2009-10	$304,050	7	GF
2010-11	$312,734	7	GF
2011-12	$321,335	7	GF
2012-13	$330,854	7	GF

6b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2006-07	$0	GF
2007-08	<$389.4 million>	GF
2008-09	<$620.8 million>	GF
2009-10	<$722.4 million>	GF
2010-11	<$807.5 million>	GF
2011-12	<$888.8 million>	GF

7. Budget amendment necessary: Yes.
ITEM(S): Page 1, Revenue Estimates
459, Personal Property Tax Relief Program
265 and 269, Department of Taxation

8. Fiscal implications:

Administrative Costs

This bill would reinstate the need for TAX to audit the PPTRA program. Additionally, this bill would transfer the responsibility for the PPTRA program from the Department of Motor Vehicles ("DMV") to TAX.

This bill would require TAX to make complex changes to its new Integrated Revenue Management Systems ("IRMS"). TAX would need to integrate PPTRA processing into its suite of IRMS applications, requiring the following systems to be changed: data entry, imaging, customer relationship management, Internet and Advantage Revenue. Unfortunately, the separate DMV and TAX systems are incompatible and cannot communicate with one another. TAX would need to write new data conversion programs to convert DMV data to TAX data. Many interface programs would need to be written to allow the exchange of data with the Department of Accounts ("DOA") and local governments. TAX would need to develop new online functionality and reporting capabilities to allow TAX representatives to view the new data in order to assist localities and taxpayers. A major testing effort would need to take place with all local governments. Historically, TAX has found similar test efforts to be manually intensive and lengthy processes. Instead of building new systems from the ground up, TAX has examined the option of transferring DMV's existing systems to TAX. This option is not feasible because as noted, DMV's systems are based on older technology that is incompatible with TAX's new technology platform.

It is estimated that TAX would incur administrative expenses of $480,514 in Fiscal Year 2008, $851,549 in Fiscal Year 2009, $304,050 in Fiscal Year 2010, $312,734 in Fiscal Year 2011, $321,335 in Fiscal Year 2012, and $330,854 in Fiscal Year 2013 to implement this bill, including 7 full time employees and the necessary systems changes. As these costs are not reflected in the 2006-2008 budget, a budget amendment would be necessary.

Revenue Impact

It is estimated that this bill would require the transfer of unrestricted General Fund revenues to localities of $389.4 million in Fiscal Year 2008, $620.8 million in Fiscal Year 2009, $722.4 million in Fiscal Year 2010, $807.5 million in Fiscal Year 2011, and $888.8 million in Fiscal Year 2012. To implement this transfer, a reduction of an equal amount of General Fund support from other areas in the introduced budget would be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant General Fund support on a permanent basis.

This estimate is the difference between the $950 million annual PPTRA relief provided for by 2004 Senate Bill 5005 (Chapter 1, 2004 Acts of Assembly, Special Session I) and the estimated cost of reimbursements at the 100% rate. The following chart compares PPTRA relief provided for under current law by 2004 Senate Bill 5005 and the estimated cost of reimbursements under House Bill 1615 at the 100% reimbursement rate:

FISCAL YEAR	PPTRA RELIEF UNDER 2004 SENATE BILL 5005	PPTRA RELIEF UNDER HOUSE BILL 1615	ADDITIONAL COST OF PPTRA RELIEF UNDER HOUSE BILL 1615
2007	$950.0 million	$ 950.0 million	$0
2008	$950.0 million	$1,339.4 million	$389.4 million
2009	$950.0 million	$1,570.8 million	$620.8 million
2010	$950.0 million	$1,672.4 million	$722.4 million
2011	$950.0 million	$1,757.5 million	$807.5 million
2012	$950.0 million	$1,838.8 million	$888.8 million

9. Specific agency or political subdivisions affected:

Department of Accounts
Department of Motor Vehicles
Department of Taxation
All localities

10. Technical amendment necessary: No.

11. Other comments:

Personal Property Tax Relief Act of 1998

The PPTRA originally was intended to eliminate the tangible personal property tax imposed on the first $20,000 of value on passenger cars, pickup or panel trucks, and motorcycles owned or leased by natural persons and used for nonbusiness purposes.

The tax was originally scheduled to be eliminated over five years with 12.5% of the tax eliminated in 1998, 27.5% in 1999, 47.5% in 2000, 70% in 2001, and 100% in 2002 and thereafter. The tax on vehicles valued at $1,000 or less was completely eliminated in 1998. The amount of the tax relief was shown on the taxpayer's bill and the Commonwealth reimburses localities for the amount of the tax relief.

The PPTRA provided a mechanism for freezing the tax relief if the Commonwealth's revenue growth is insufficient. The percentage of tax relief was frozen at the current percentage of tax relief in effect if any one of three revenue growth tests was not met. When revenue growth was sufficient, the percentage of tax relief increased to the next highest level of tax relief. The level of tax relief never exceeded 70%.

PPTRA Compliance Program

Language in past budget bills required TAX, with cooperation from the DMV, the Department of Accounts and local officials, to develop and implement a comprehensive PPTRA compliance program to enhance taxpayer knowledge and compliance with the PPTRA and to ensure that relief under the PPTRA is only granted to qualifying vehicles. The program included methods for educating motor vehicle owners, certifications from motor vehicle owners during any vehicle registration that the vehicle qualified for relief, and a periodic audit of the personal property tax records of localities to ensure compliance with the PPTRA. DMV was responsible for reconciling the amount paid by the Commonwealth to each locality.

Senate Bill 5005

Senate Bill 5005 (Chapter 1, 2004 Special Session I) changed the personal property tax relief program for motor vehicles. The state currently distributes $950 million annually to localities as reimbursement for the personal property tax relief provided by each locality. Each locality's share of the $950 million state reimbursement for tax year 2006 and subsequent tax years is based upon its share of the total state reimbursement for tax year 2005.

Proposal

This bill would repeal the changes to the PPTRA provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) and set the PPTRA reimbursement level at 100 percent for tax years 2007 and tax years thereafter. This bill would also transfer the responsibility for the PPTRA program from DMV to the Department of Taxation.

Other Legislation

House Joint Resolution 586 and **665** (Identical) would propose an amendment to the *Constitution of Virginia* exempting from property taxes privately owned motor vehicles used for nonbusiness purposes.

House Bill 1709 would transfer an amount equal to three-quarters of one percent (.0075) of the taxable individual income to every county and city whose personal property tax rate on motor vehicles is no greater than $0.01 per $100 of assessed value, based on each county's and city's share of total Virginia taxable income.

House Bill 1880 would expand the PPTRA definition of "qualifying vehicle" to include motor vehicles that are held in a private trust for personal use by an individual beneficiary.

House Bill 1894 would repeal the changes to the PPTRA provided by Senate Bill 5005 (Chapter 1, 2004 Special Session I) and gradually increase the level of relief for qualifying vehicles to 100% over a six-year period.

House Bill 2262 would (1) exempt motor vehicles used for nonbusiness purposes from the local tangible personal property tax, (2) repeal the PPTRA, and (3) dedicate 17.5% of total individual income tax revenues actually collected to localities based on each locality's share of total taxable Virginia income.

House Bill 2611 would allow localities to impose a local income tax at a rate either 0.5% or 1% upon the Virginia taxable income of individuals, trusts, estates, and corporations; provided that the personal property tax rate does not exceed $0.01 per $100 of value on personally owned motor vehicles.

cc : Secretary of Finance

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