

DEPARTMENT OF TAXATION

2008 Fiscal Impact Statement

1. **Patron** John A. Cosgrove

2. **Bill Number** HB 579

3. **Committee** House Finance

House of Origin:

 Introduced

 X **Substitute**

 Engrossed

4. **Title** Motor Vehicle Repair Labor and Services
Tax; Compensation to Dealers

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

TAX understands that the patron plans to introduce a substitute bill. This impact statement addresses the substitute bill.

This bill would compensate providers of motor vehicle repair services with a percentage of the local sales and use tax collected in the Northern Virginia Transportation Authority ("NVTA") and the Hampton Roads Transportation Authority ("HRTA") on the Motor Vehicle Repair Labor and Services Sales and Use Tax ("Repair Tax") in the same manner as registered dealers are compensated for collecting and accounting for the Retail Sales and Use Tax.

The effective date of this bill is not specified.

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

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2007-08	\$86,000	NGF
2008-09	\$9,000	NGF
2009-10	\$6,000	NGF
2010-11	\$6,000	NGF
2011-12	\$6,000	NGF
2012-13	\$7,000	NGF
2013-14	\$7,000	NGF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2007-08	\$0	NVTA
	\$0	HRTA
2008-09	(\$0.55 million)	NVTA
	(\$0.30 million)	HRTA

2009-10	(\$0.60 million) (\$0.34 million)	NVTA HRTA
2010-11	(\$0.60 million) (\$0.36 million)	NVTA HRTA
2011-12	(\$0.60 million) (\$0.37 million)	NVTA HRTA
2012-13	(\$0.60 million) (\$0.38 million)	NVTA HRTA
2013-14	(\$0.60 million) (\$0.38 million)	NVTA HRTA

7. Budget amendment necessary: No.

8. Fiscal implications:

Administrative Costs

TAX would incur estimated administrative expenses of \$86,000 in Fiscal Year 2008, \$9,000 in Fiscal Year 2009, \$6,000 in Fiscal Year 2010, \$6,000 in Fiscal Year 2011, \$6,000 in Fiscal Year 2012, \$7,000 in Fiscal Year 2013, and \$7,000 in Fiscal Year 2014 for the systems and forms changes necessary to implement this bill. Item 270(F) of the introduced budget allows TAX to recover the direct costs of administration of the Repair Tax from the tax collected.

Revenue Impact

The proposal to extend a dealer discount to the Repair Tax would have an estimated revenue loss to the Northern Virginia Transportation Authority of \$0.55 million in Fiscal Year 2009, and \$0.60 million in Fiscal Year 2010 and in each Fiscal Year thereafter and to the Hampton Roads Transportation Authority of \$0.30 million in Fiscal Year 2009, \$0.34 million in Fiscal Year 2010, \$0.36 million in Fiscal Year 2011, \$0.37 million in Fiscal Year 2012, \$0.38 million in Fiscal Year 2013, and \$0.38 million in Fiscal Year 2014.

9. Specific agency or political subdivisions affected:

Department of Taxation
Hampton Roads Transportation Authority
Northern Virginia Transportation Authority

10. Technical amendment necessary: No.

11. Other comments:

Background

House Bill 3202 (*Acts of Assembly* 2007, Chapter 896) authorized the Hampton Roads Transportation Authority and the Northern Virginia Transportation Authority (“Authority”) to impose in their member localities a sales and use tax at the rate of 5 percent on (i) charges for separately stated labor or services in the repair of motor vehicles and (ii) charges for the repair of a motor vehicle in cases in which the true object of the repair is a service provided within an Authority. TAX administers the sales and use tax on motor vehicle repairs and remits the revenues collected monthly to the respective Authority minus the direct costs of administration.

The Hampton Roads Transportation Authority embraces the Cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg and the Counties of Isle of Wright, James City, and York. The Hampton Roads Transportation Authority has voted to impose the 5 percent Motor Vehicle Repair Tax effective April 1, 2008.

The Northern Virginia Transportation Authority embraces the Cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park and the Counties of Arlington, Fairfax, Loudoun, and Prince William. The Northern Virginia Transportation Authority began imposing the 5 percent sales and use tax on motor vehicle repairs effective January 1, 2008.

Dealer Discount

Under current law, for accounting for and remitting Virginia Retail Sales and Use Tax, a dealer holding a certificate of registration under *Va. Code* § 58.1-613 is allowed a deduction from the first three percent of the state Retail Sales and Use Tax that the dealer accounts for in submitting his return and paying the amount due in the following percentages:

- 4 percent, if the monthly taxable sales of the dealer is \$0 to \$62,500;
- 3 percent, if the monthly taxable sales of the dealer is \$62,501 to \$208,000; and
- 2 percent if the monthly taxable sales of the dealer is \$208,001 and above.

The discount is computed using monthly taxable sales, regardless of the number of certificates of registration held by a dealer. The discount is not allowed if the amount of tax due is delinquent at the time of payment.

Proposal

This bill would compensate providers of motor vehicle repair services with a percentage of the local sales and use tax collected in the Northern Virginia Transportation Authority (“NVTA”) and the Hampton Roads Transportation Authority (“HRTA”) on the Motor Vehicle Repair Labor and Services Sales and Use Tax (“Repair Tax”) in the same manner as

registered dealers are compensated for collecting and accounting for the Retail Sales and Use Tax.

The bill would allow a deduction from the first three percent of the Repair Tax that the dealer accounts for in submitting his return and paying the amount due in the following percentages:

- 4 percent, if the monthly taxable sales of the dealer is \$0 to \$62,500;
- 3 percent, if the monthly taxable sales of the dealer is \$62,501 to \$208,000; and
- 2 percent if the monthly taxable sales of the dealer is \$208,001 and above.

The discount is computed using monthly taxable sales, regardless of the number of certificates of registration held by a dealer. The discount is not allowed if the amount of tax due is delinquent at the time of payment.

Similar Legislation

House Bill 1120 is identical to this bill.

House Bill 361 would provide that the sales and use tax on motor vehicle repairs does not include charges for towing and storage of motor vehicles.

House Bill 450 would prohibit any entity that has agreed to pay for vehicle repair services under a written indemnification agreement from requiring or recommending that the vehicle owner of a vehicle registered in a county or city embraced by the Northern Virginia Transportation Authority or the Hampton Roads Transportation Authority (“Authority”) use a repair facility in a city or county not embraced by an Authority unless it also provides the vehicle owner the option of using a repair facility in a city or county that is embraced by an Authority.

House Bill 507 would eliminate in the Hampton Roads Transportation Authority the sales and use tax on motor vehicle repairs, the initial vehicle registration fee, the congestion relief fee, and the increased commercial real estate tax, and would increase the motor vehicle fuel sales tax, the car rental fee, and the annual vehicle license fee. This bill would also revise the number of members needed to impose taxes and fees in the Hampton Roads Transportation Authority and required for a quorum at meetings, and eliminate references to certain projects.

House Bill 828 would remove the Cities of Hampton and Poquoson, and York County from the Hampton Roads Transportation Authority.

House Bill 829 would abolish the Hampton Roads Transportation Authority and eliminate the taxes, fees, and charges that it was authorized to impose.

Senate Bill 176 would eliminate in the Hampton Roads Transportation Authority the sales and use tax on motor vehicle repairs, and reduce the annual motor vehicle inspection fee and the grantor’s fee. This bill would also increase the motor vehicle fuel sales tax and the car rental fee.

cc : Secretary of Finance

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