

DEPARTMENT OF TAXATION

2008 Fiscal Impact Statement

1. **Patron** James M. Scott

3. **Committee** House Finance

4. **Title** Local Sales and Use Tax; Additional One-Half Percent Authorized

2. **Bill Number** HB 898

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize any locality to impose an additional ½% sales and use tax, in addition to the 1% local sales and use tax already imposed. The revenue generated from the additional tax would be required to be used solely for public school education purposes. The additional tax would not apply to food purchased for human consumption.

Under current law, localities are permitted to levy a local retail sales and use tax at the rate of one percent to provide revenue for the general fund of that locality. The 1% local tax rate is added to the rate of the state sales 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	\$176,000	GF
2008-09	\$247,000	GF
2009-10	\$ 72,000	GF
2010-11	\$ 72,000	GF
2011-12	\$ 72,000	GF
2012-13	\$ 73,000	GF
2013-14	\$ 73,000	GF

7. **Budget amendment necessary:** Yes (See Line 8).

ITEM(S): 270 and 273, Department of Taxation

8. **Fiscal implications:**

Administrative Costs

TAX would incur administrative costs in implementing this bill of \$176,000 in Fiscal Year 2008, \$247,000 in Fiscal Year 2009, \$72,000 in Fiscal Year 2010, \$72,000 in Fiscal Year 2011, \$72,000 in Fiscal Year 2012, \$73,000 in Fiscal Year 2013, and \$73,000 in Fiscal

Year 2014. The administrative costs would include costs to update Sales and Use Tax Forms and Vending Machine forms, additional data capture and error resolution costs associated with new lines and form changes and additional processing costs.

Revenue Impact

The amount of local revenue that would be raised by the additional tax is unknown, as it depends upon imposition by each local government. If all localities were to impose the tax, the additional revenue would total more than \$500 million annually. This estimate is based on the actual Fiscal Year 2007 distribution of the local option tax to localities, adjusted to remove food for human consumption and grown to reflect the official forecast for sales and use tax through Fiscal year 2014.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: Yes.

To allow TAX sufficient time to make the necessary systems and forms changes and to notify the affected sales tax dealers, TAX is suggesting a technical amendment to delay the effective date until January 1, 2009. TAX suggests the following technical amendment:

Page 6, Line 330, after the beginning of the line

Insert: 2. That the provisions of this act shall be effective January 1, 2009.

11. Other comments:

Generally

In addition to the 4% state sales and use tax imposed upon the retail sale and use of tangible personal property in Virginia, localities are permitted, pursuant to *Va. Code* § 58.1-605 and 606 to impose a general retail sales tax at the rate of 1% to provide revenue for the general fund of that locality. The local sales tax is administered and collected by the Tax Commissioner, and subsequently credited to the account of the locality in which the sale was made, without regard to the city or county of possible use by the purchasers.

Virginia law also authorizes the Hampton Roads Transportation Authority, which includes several localities in the Hampton Roads area, and the Northern Virginia Transportation Authority, which is comprised of several localities in the Northern Virginia area, 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 Motor Vehicle Repair Labor and Services Sales and Use Tax and remits the revenues collected monthly to the respective Authority minus the direct costs of administration.

Proposal

This bill would authorize any county or city to levy an additional ½% general retail sales tax. In order to levy this tax, the council or governing body of such locality would be required to adopt an ordinance to that effect. The ordinance imposing the tax would become effective the first day of a month at least 60 days after adoption of the ordinance. As with the general 1% local retail sales and use tax, the additional one-half percent local sales tax would be collected by the Tax Commissioner and credited to the account of each city or county in which the sales were made.

Food Purchased for Human Consumption

Food purchased for human consumption is subject to a different state sales tax rate than other tangible personal property. *Code of Virginia*, § 58.1-611.1 provides that the state tax rate on food purchased for human consumption is 1½ %. The local sales tax rate remains at 1%. Thus the combined state and local sales and use tax rate on food purchased for home consumption is 2½%.

Food purchased for human consumption includes most staple grocery food items and cold prepared foods packaged for home consumption. Specifically excluded from the definition of food for home consumption are alcoholic beverages, tobacco, and prepared hot foods sold for immediate consumption on and off the premises.

The provisions of this bill would not apply to food purchased for home consumption. Localities would not be authorized to impose the additional ½% tax on the purchase of food for home consumption.

Vending Machines

The increase of state sales and use tax proposed in this bill would also apply to sales made through vending machines. Currently, dealers engaging in the sale of items through vending machines, or other means that make the collection of the sales tax impractical, may remit the sales tax on the wholesale cost of products being sold at the rate of 5%. Dealers must still remit the additional 1% local sales and use tax, for a total state and local sales and use tax rate of 6%. The increase proposed in this bill would require vending machine dealers located in any locality that levies the additional ½% local sales tax to remit the sales and use tax on the wholesale cost of goods being sold at the total rate of 6 ½%.

cc : Secretary of Finance

Date: 1/31/2008 KP
DLAS File Name: HB 898F161.doc