

**DEPARTMENT OF TAXATION
2009 Fiscal Impact Statement**

REVISED

1. Patron David L. Englin

3. Committee House Finance

4. Title Individual Income Tax; Corporate Income Tax; Sales Tax

2. Bill Number HB 2588

House of Origin:

 Introduced

 X **Substitute**

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

TAX understands that the patron plans to amend this bill to change the effective dates related to the sales tax on food for human consumption and to appropriate any net gain in General Fund revenue resulting from the passage of this bill to personal property tax relief. This impact statement addresses the amended bill.

This bill would alter the Virginia taxable income brackets and tax rates for the individual income tax. This bill would divide the highest income bracket, which is 5.75 percent on income in excess of \$17,000, into three new brackets with different tax rates for taxable years beginning January 1, 2010. Taxpayers with a Virginia taxable income between \$17,001 and \$75,000 would be subject to a rate of 5.6 percent. Taxpayers with a Virginia taxable income between \$75,001 and \$400,000 would be subject to the existing rate, 5.75 percent. Taxpayers with a Virginia taxable income of \$400,001 or higher would be subject to a rate of 6.85 percent. The chart below details the brackets that would be created by this bill.

Virginia Taxable Income	Tax Rate
\$0 - \$3000	2%
\$3001 - \$5000	3%
\$5001 - \$17,000	5%
\$17,001 - \$75,000	5.6%
\$75,001 - \$400,000	5.75%
\$400,001 and up	6.85%

This bill would also exempt corporations with less than \$100,000 in Virginia taxable income from the 6 percent corporation income tax for taxable years beginning on or after January 1, 2010.

Additionally, this bill would eliminate the state Retail Sales and Use Tax on food purchased for human consumption effective January 1, 2010. In order to offset the

revenue loss to the Transportation Trust Fund and to the General Fund distribution to localities based on school age population resulting from this exemption, this bill would increase the portion of state Retail Sales and Use Tax revenues allocated to the Transportation Trust Fund from 0.5 percent to 0.575 percent and increase the portion of state Retail Sales and Use Tax revenues allocated to the General Fund for redistribution to localities based on school age population from 1 percent to 1.149 percent. This bill would not affect the 1 percent local Retail Sales and Use Tax on food for human consumption.

Any net gain in General Fund revenue resulting from the passage of this bill would be appropriated to personal property tax relief under the Personal Property Tax Relief Act of 1998 (the "PPTRA").

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

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

ITEM(S): Page 1, Revenue Estimates
471, Personal Property Tax Relief Program

8. Fiscal implications:

Administrative Impact

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

This bill would provide for a net gain in General Fund revenue of approximately \$19.6 million in Fiscal Year 2010, \$17.1 million in Fiscal Year 2011, \$28.0 million in Fiscal Year 2012, \$44.3 million in Fiscal Year 2013, \$61.2 million in Fiscal Year 2014, and \$91.4 million in Fiscal Year 2015. This impact estimate accounts for significant shifts in revenue from the unrestricted General Fund to the Transportation Trust Fund and the restricted portion of the General Fund. To the extent that the passage of this bill results in additional General Fund revenues, the additional revenues would be appropriated to localities for PPTRA relief.

Individual Income Tax

The individual income tax component of this bill would increase General Fund revenue by approximately \$121.6 million in Fiscal Year 2010, \$254.9 million in Fiscal Year 2011, \$275.7 million in Fiscal Year 2012, \$302.5 million in Fiscal Year 2013, \$330.2 million in Fiscal Year 2014, and \$360.3 million in Fiscal Year 2015.

Corporation Income Tax

The corporation income tax component of this bill would decrease General Fund revenue by approximately \$13.9 million in Fiscal Year 2010, \$20.1 million in Fiscal Year 2011, \$21.9 million in Fiscal Year 2012, \$22.2 million in Fiscal Year 2013, \$22.1 million in Fiscal Year 2014, and \$22 million in Fiscal Year 2015.

Retail Sales and Use Tax

The retail sales and use tax component of this bill would require significant shifts from the unrestricted General Fund to the Transportation Trust Fund and the restricted portion of the General Fund that is used for redistribution to localities based on school age population. Therefore, this bill would decrease unrestricted General Fund revenues available by \$88.1 million in Fiscal Year 2010, \$217.7 million in Fiscal Year 2011, \$225.8 million in Fiscal Year 2012, \$236 million in Fiscal Year 2013, \$246.9 million in Fiscal Year 2014, and \$246.9 million in Fiscal Year 2015.

Summary

The following table summarizes the changes to the unrestricted General Fund, the Transportation Trust Fund, and the restricted General Fund.

Net Impact of House Bill 2588						
(In millions)						
Fiscal Year	Individual Income Tax	Corporate Income Tax	Sales and Use Tax on Food	Offsetting Transfers	Appropriation s to Localities for PPTRA	Net Impact by Fund
2010						
GF Unrestricted	\$121.6	-\$13.9		-\$88.1	\$19.6	\$0.0
GF Restricted			-\$58.7	\$58.7	\$0.0	\$0.0
TTF			-\$29.4	\$29.4	\$0.0	\$0.0
2011						
GF Unrestricted	\$254.9	-\$20.1		-\$199.5	\$17.1	\$0.0
GF Restricted			-\$145.1	\$145.1	\$0.0	\$0.0
TTF			-\$72.6	\$72.6	\$0.0	\$0.0
2012						
GF Unrestricted	\$275.7	-\$21.9		-\$225.8	\$28.0	\$0.0
GF Restricted			-\$150.5	\$150.5	\$0.0	\$0.0
TTF			-\$75.3	\$75.3	\$0.0	\$0.0

2013						
GF Unrestricted	\$302.5	-\$22.2		-\$236.0	\$44.3	\$0.0
GF Restricted			-\$157.3	\$157.3	\$0.0	\$0.0
TTF			-\$78.7	\$78.7	\$0.0	\$0.0
2014						
GF Unrestricted	\$330.2	-\$22.1		-\$246.9	\$61.2	\$0.0
GF Restricted			-\$164.6	\$164.6	\$0.0	\$0.0
TTF			-\$82.3	\$82.3	\$0.0	\$0.0
2015						
GF Unrestricted	\$360.3	-\$22.0		-\$246.9	\$91.4	\$0.0
GF Restricted			-\$164.6	\$164.6	\$0.0	\$0.0
TTF			-\$82.3	\$82.3	\$0.0	\$0.0

9. Specific agency or political subdivisions affected:

Department of Taxation
All localities

10. Technical amendment necessary: Yes.

TAX understands that the Patron will offer amendments to (1) make the elimination of the state Retail Sales and Use Tax on food purchased for human consumption effective January 1, 2010, and (2) appropriate any net gain in General Fund revenue resulting from the passage of this bill to personal property tax relief.

In order to make the elimination of the state Retail Sales and Use Tax on food purchased for human consumption effective January 1, 2010, the following technical amendment is suggested:

Page 1, Line 53, after consumption beginning

Strike: July 1, 2010

Insert: January 1, 2010

In order to amend the sales tax distribution statute at the same time that food for home consumption is exempted from the state sales tax, the following technical amendment is suggested:

Page 5, Line 275, at the beginning of the line

Insert: 2. That the provisions of this act amending § 58.1-638 are effective beginning with the Retail Sales and Use Tax return for January, 2010 sales due in February, 2010.

In order to appropriate any net gain in General Fund revenue resulting from the passage of this bill to personal property tax relief, the following technical amendment is suggested:

Page 5, Line 275, at the beginning of the line

Insert: 3. That any net gain in General Fund revenue resulting from the enactment of this bill shall be deposited into the General Fund and dedicated to car tax relief in accordance with the provisions of Chapter 35.1 of Title 58.1 (§§ 58.1-3523 et seq.).

11. Other comments:

Individual Income Tax

The Virginia individual income tax applies to the Virginia taxable income of Virginia residents and nonresident individuals. The tax rate is dependent upon the amount of Virginia taxable income. The table below demonstrates the current tax rates.

Virginia Taxable Income	Tax Rate
\$0 - \$3000	2%
\$3001 - \$5000	3%
\$5001 - \$17,000	5%
\$17,001 and up	5.75%

Corporation Income Tax

The corporation income tax is imposed at a rate of 6 percent on the Virginia taxable income of every corporation organized under the laws of Virginia and every foreign corporation having income from Virginia sources. The following corporations are excluded from the tax: certain public service corporations, banks subject to the bank franchise tax, credit unions, insurance companies, and nonprofit corporations.

Income of a multistate corporation is determined by a double-weighted sales factor in which the sales factor is weighted 50 percent and the payroll and property factors are 25 percent each. Special formulas are provided for motor carriers, financial corporations, railway companies, and construction corporations using the completed contract method of accounting.

Retail Sales and Use Tax

The 1999 General Assembly established the Food Tax Reduction Program to reduce the state Retail Sales and Use Tax rate on food for human consumption by 0.5 percent per year over a four-year period, beginning January 1, 2000 and extending through April 1, 2003, if certain conditions were met. Effective April 1, 2003, when fully implemented, the

state Retail Sales and Use Tax rate on food for human consumption would have been 1.5 percent. However, the conditions required to fully implement were not met, and only the initial 0.5 percent reduction took effect.

The 2005 General Assembly reduced the state Retail Sales and Use Tax on food purchased for human consumption from 3 percent to 1.5 percent effective July 1, 2005. The 1 percent local option sales tax, the 1 percent portion of the state Retail Sales and Use Tax redistributed to localities on the basis of school age population, and the 0.5 percent portion of the Retail Sales and Use Tax allocated to the Transportation Trust Fund remain in effect.

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%.

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

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cc : Secretary of Finance

Date: 1/29/2009 JKL
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