

**DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement**

1. **Patron** Linda T. Puller

2. **Bill Number** SB 2

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax on Motor Fuels

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would extend the 5% state and local retail sales and use tax to sales of motor fuels. The revenue generated by a four percent state retail sales tax on motor fuels would be deposited into the Transportation Trust Fund. The revenue generated by a one percent local retail sales tax on motor fuels would be returned to the locality in which the sale was made and would be used by the respective county or city solely for transportation purposes.

Under current law, fuels that are subject to the Virginia Fuels Tax Act are exempt from the retail sales and use tax.

The tax would be imposed on transactions on and after July 1, 2008.

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

6a. Expenditure Impact:

July 1, 2008 Effective Date:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2007-08	\$42,000	0	GF
2008-09	\$612,000	6	GF
2009-10	\$380,000	6	GF
2010-11	\$390,000	6	GF
2011-12	\$399,000	6	GF
2012-13	\$409,000	6	GF
2013-14	\$419,000	6	GF

6b. Revenue Impact:

July 1, 2008 Effective Date:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2007-08	\$0	TTF
	\$0	Local
2008-09	\$443.7 million	TTF
	\$113.2 million	Local
2009-10	\$479.7 million	TTF
	\$122.4 million	Local
2010-11	\$473.5 million	TTF
	\$120.8 million	Local
2011-12	\$471.7 million	TTF
	\$120.3 million	Local
2012-13	\$468.9 million	TTF
	\$119.6 million	Local
2013-14	\$460.2 million	TTF
	\$117.4 million	Local

7. Budget amendment necessary: Yes

Page 1, Revenue Estimates

Items 270 and 273, Department of Taxation

8. Fiscal implications:

Administrative Costs Impact

TAX would be able to impose this tax with an effective date of July 1, 2008; however, TAX could not make the necessary systems changes in time to provide the distribution of revenues to localities until February 2009.

TAX would incur estimated administrative expenses of \$42,000 in FY 2008, \$612,000 in FY 2009, \$380,000 in FY 2010, \$390,000 in FY 2011, \$399,000 in FY 2012, \$409,000 in FY 2013, and \$419,000 in FY 2014. These costs are related to the need for 6 full time employees, including 4 auditors, 1 customer service representative, and 1 employee to oversee the distributions to the localities, and the necessary systems and forms changes.

Because the retail sales and use tax on motor fuels would have an impact on an estimated 4,000 taxpayers, the additional auditors are needed to enforce compliance.

Revenue Impact

The proposal to extend the state and local retail sales and use tax to motor fuels using an effective date of July 1, 2008 is estimated to increase revenues to the Transportation Trust Fund by \$ 443.7 million in FY 2009, \$479.7 million in FY 2010, \$473.5 million in FY 2011, \$471.7 million in FY 2012, \$468.9 million in FY 2013, and \$460.2 million in FY 2014 and to cities and counties by \$113.2 million in FY 2009, \$122.4 million in FY 2010, \$120.8 million in FY 2011, \$120.3 million in FY 2012, \$119.6 million in FY 2013, and \$117.4 million in FY 2014.

This estimate assumes that the retail sales tax would be levied on the retail price of the fuels, which includes the federal and state excise taxes. The estimated revenue gain in FY 2009 from this proposal is equivalent to an increase of 11.7 cents per gallon to the current state excise tax rate of 17.5 cents per gallon on gasoline, gasohol, and diesel fuel.

9. Specific agency or political subdivisions affected:

TAX

All cities and counties

10. Technical amendment necessary: No.

11. Other comments:

Generally

Under current law, fuels subject to the Virginia Fuels Tax Act are exempt from the Virginia Retail Sales and Use Tax. The Virginia Fuels Tax is a state excise tax administered by the Department of Motor Vehicles and imposed at a rate of 17.5 cents per gallon on gasoline, gasohol, and diesel fuel. The Virginia Fuels Tax Act also imposes a tax on aviation gasoline and aviation jet fuel.

Effective January 1, 2001, the point of imposition of both the federal and state excise taxes on motor fuels was removed from the point of retail sale. Under current law, the taxes are imposed at the point the motor fuel is "removed from a refinery or a terminal and, upon removal, is subject to the federal excise tax imposed by 26 U.S.C. § 4081." Va. Code § 58.1-2218. The suppliers collect the tax from distributors and retailers and are charged with holding the tax payments in trust until such time the taxes are to be remitted to the Commonwealth.

The Northern Virginia Transportation District and the Potomac-Rappahannock Transportation District currently impose a 2% sales tax on motor vehicle fuels sold at retail in the two transportation districts. House Bill 3202 (Acts of Assembly 2007, Chapter 896) authorized the Hampton Roads Transportation Authority ("HRTA") to also impose a 2% sales tax on motor vehicle fuels sold at retail in the member localities of the HRTA. The HRTA voted to impose the tax effective April 1, 2008. While TAX administers the motor vehicle fuels taxes, all revenues from these taxes are remitted to the transportation districts and the HRTA.

Proposal

Under the provisions of this bill, the 5% state and local retail sales and use tax would be imposed on motor fuels sales. The revenue generated by the four percent state retail sales tax on motor fuels would be deposited into the Transportation Trust Fund. The revenue generated by the one percent local retail sales tax on motor fuels would be returned to the locality in which the sale was made and would be used by the respective county or city solely for transportation purposes.

The tax would be levied on the retail price of motor fuels and would be collected by retailers at the pump. Motor fuels would continue to be subject to the state excise tax which, along with the federal excise tax, is collected by suppliers of motor fuels.

Exemptions

By subjecting motor fuels to the Virginia Retail Sales and Use Tax, all applicable exemptions would be available to the purchaser. Such exemptions would include the sale for resale exemption and the exemption from the sales tax available to nonprofit entities.

Similar Legislation

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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