

DEPARTMENT OF TAXATION

2011 Fiscal Impact Statement

1. **Patron** Robert H. Brink

2. **Bill Number** HB 1798

3. **Committee** Passed by House and Senate

House of Origin:

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Motor Vehicle Rental Tax; Transfer of Administration

Second House:

☐ In Committee

☐ Substitute

☒ Enrolled

5. **Summary/Purpose:**

This bill would transfer the administration and collection of the Motor Vehicle Rental Tax from the Department of Motor Vehicles ("DMV") to TAX.

This is a recommendation of the Governor McDonnell's Government Reform & Restructuring Commission.

The bill would be effective July 1, 2012.

6. **Budget amendment necessary:** No.

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

7a. **Expenditure Impact:**

Department of Taxation

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2010-11	\$0	0	NGF
2011-12	\$236,000	0	NGF
2012-13	\$111,000	1	NGF
2013-14	\$99,000	1	NGF
2014-15	\$99,000	1	NGF
2015-16	\$99,000	1	NGF
2016-17	\$99,000	1	NGF

Department of Motor Vehicles

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2010-11	\$0	0	NGF
2011-12	\$0	0	NGF
2012-13	(\$110,000)	(2)	NGF
2013-14	(\$110,000)	(2)	NGF
2014-15	(\$110,000)	(2)	NGF
2015-16	(\$110,000)	(2)	NGF
2016-17	(\$110,000)	(2)	NGF

8. Fiscal implications:

Administrative Costs

This bill would shift the administration of the Motor Vehicle Rental Tax currently administered by DMV. TAX would incur estimated administrative costs of \$236,000 in Fiscal Year 2012 and \$12,000 in Fiscal Year 2013 to implement the transfer of the Motor Vehicle Rental Tax. TAX would incur costs of approximately \$99,000 in Fiscal Year 2013 and each Fiscal Year thereafter to administer the tax, including costs for 1 full time employee. TAX would receive revenues from the motor vehicle rental tax to cover the direct costs of administering the tax. DMV would incur estimated administrative cost savings of \$110,000 in Fiscal Year 2013 and each Fiscal Year thereafter and an estimated 2 full time positions could be eliminated through the shift in administration. Once fully phased-in, the bill would have total estimated administrative savings of \$11,000 beginning in Fiscal Year 2014 and each Fiscal Year thereafter.

The administration of the vehicle rental taxes is very similar to the Retail Sales and Use Tax, which TAX administers. As such, TAX believes that it can place the vehicle rental taxes into its automated computer system and can automate much of the processing of the returns and payments of the vehicle rental taxes. Currently, DMV requires paper returns and manually processes the returns for the 480 taxpayers. By placing the taxes into TAX's systems, taxpayers would be able to register and file for the rental taxes online and any auditing would be handled by TAX's existing audit staff. This would relieve DMV of the necessity of building a system to automate the tax. Such a system would potentially cost the Commonwealth several hundred thousand dollars.

Revenue Impact

As TAX would administer the tax in substantially the same manner as DMV has, the bill would have no revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Motor Vehicles

10. Technical amendment necessary: No.

11. Other comments:

Background

Currently, DMV administers the Motor Vehicle Rental Taxes and Fee. The Motor Vehicle Rental Tax is imposed on motor vehicles with a gross vehicle weight rating or gross combined weight rating of 26,000 pounds or less at a rate of 4% of the gross proceeds. An additional motor vehicle rental tax is imposed on the rental of every motor vehicle regardless of the weight, except for motorcycles and manufactured homes, at a rate of 4% of the gross proceeds. A 2% rental fee is also levied on the gross proceeds from the rental of motor vehicles, except for motorcycles and manufactured homes. Most

passenger vehicles that are rented are subject to all of the taxes and fee at a combined rate of 10% of the gross proceeds.

The revenues from the vehicle rental tax of 4% that is imposed on motor vehicles with a gross vehicle weight rating or gross combined weight rating of 26,000 pounds or less, approximately \$30 million annually, are dedicated to the Rail Enhancement Fund. The revenues from the additional vehicle rental tax imposed on the rental of every motor vehicle at the rate of 4%, approximately \$34 million annually, are distributed quarterly to the city, town, or county where the vehicle was delivered to the rentee. The revenues from the 2% vehicle rental fee, approximately \$15 million annually, are dedicated to the General Fund to pay the debt service on bonds issued for the Statewide Agencies Radio System ("STARS"). The 2010 Appropriations Act dedicated the revenues from the 2% rental fee to the General Fund. The debt service on the bonds issued for STARS is currently paid for by General Fund appropriation.

Proposal

This bill would transfer the administration and collection of the Motor Vehicle Rental Tax from the Department of Motor Vehicles ("DMV") to TAX. The bill would continue the statutory language dedicating the revenues from the 2% rental fee on daily rental vehicles to pay the debt service on the bonds issued for the Statewide Agencies Radio System (STARS).

This is a recommendation of Governor McDonnell's Government Reform & Restructuring Commission, which worked to develop proposals for reforming state government to reduce costs and improve service delivery. On December 21, 2010, the Commission submitted its full report to the Governor with 133 recommendations and observations, including the transfer of the administration of this tax, as well as the Insurance Premiums Tax and the Prepaid E-911 Fee to TAX.

The bill would be effective July 1, 2012.

Similar Legislation

Senate Bill 1132 is identical to this bill.

cc : Secretary of Finance

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