

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Lacey E. Putney

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Increase

2. **Bill Number** HB 1239

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the state and local Retail Sales and Use Tax from five percent to six percent beginning January 1, 2013, if the increase is approved in a voter referendum on November 6, 2012. The additional tax would not apply to food purchased for human consumption. The revenues generated by the increase would be dedicated in equal shares to the newly established Supplemental Highway Construction and Maintenance Fund and to the General Fund to be appropriated for funding the provision of mental health services, public K through 12 education, and public higher education.

The provisions of this bill would be effective January 1, 2013, provided a majority of those voting in the referendum vote in the affirmative.

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

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2011-12	\$0	0	GF
2012-13	\$267,000	0	GF
2013-14	\$0	0	GF
2014-15	\$0	0	GF
2015-16	\$0	0	GF
2016-17	\$0	0	GF
2017-18	\$0	0	GF

8. **Fiscal implications:**

Administrative Costs

The Department would incur administrative costs of \$267,000 in Fiscal Year 2013 for the systems and forms changes and notification mailers necessary to implement this bill.

Revenue Impact

If the Retail Sales and Use Tax increase is approved in the voter referendum, the bill would result in an estimated \$450.7 million in Fiscal Year 2013, \$1,119.0 million in Fiscal Year 2014, \$1,172.9 million in Fiscal Year 2015, \$1,230.2 million in Fiscal Year 2016, \$1,284.6 million in Fiscal Year 2017, and \$1,335.8 million in Fiscal Year 2018. Approximately \$225.3 million in Fiscal Year 2013, \$559.5 million in Fiscal Year 2014, \$586.4 million in Fiscal Year 2015, \$615.1 million in Fiscal Year 2016, \$642.3 million in Fiscal Year 2017, and \$667.9 million in Fiscal Year 2018 would be dedicated equally to both the newly established Supplemental Highway Construction and Maintenance Fund and the General Fund.

9. Specific agency or political subdivisions affected:

Department of Taxation
Commonwealth Transportation Board

10. Technical amendment necessary: No.

11. Other comments:

Generally

In addition to the four percent state sales and use tax imposed upon the retail sale and use of tangible personal property in Virginia, localities are permitted to impose a general retail sales tax at the rate of one percent to provide revenue for the general fund of that locality, for a total rate of five percent.

Food Purchased for Human Consumption

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

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 human 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 human consumption.

Vending Machines

This bill would also increase the tax applied 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 five percent. Dealers must still

remit the additional one percent local sales and use tax, for a total state and local sales and use tax rate of six percent. The increase proposed in this bill would require vending machine dealers to remit the sales and use tax on the wholesale cost of goods being sold at the total rate of six percent.

Proposal

This bill would increase the state and local Retail Sales and Use Tax from five percent to six percent beginning January 1, 2013, if the increase is approved in a voter referendum on November 6, 2012. The additional tax would not apply to food purchased for human consumption.

The revenues generated by the increase would be dedicated in equal shares to the newly established Supplemental Highway Construction and Maintenance Fund and to the General Fund to be appropriated for funding the provision of mental health services, public K through 12 education, and public higher education. Each fiscal year the Commonwealth Transportation Board would be required to use \$200 million from the deposited sales and use tax revenues for the construction, acquisition, reconstruction, improvements, or additions to the state highways, provided that \$100 million is used for such purposes in Fiscal Year 2013. The remaining revenues would be dedicated to the Highway Maintenance and Operating Fund and used by the Commonwealth Transportation Board to repair bridges and to maintain the state highways.

The provisions of this bill would be effective January 1, 2013, provided a majority of those voting in the referendum vote in the affirmative.

Similar Legislation

House Bill 23 would increase the amount of sales and use tax revenue dedicated to the Transportation Trust Fund from an amount generated by a 0.5 percent sales and use tax to an amount generated by a one percent sales and use tax. The increase would be phased in by a 0.1 percent increase over five years, with the first increase effective beginning July 1, 2012 and ending September 30, 2013.

House Bill 422 would impose a motor vehicle fuel sales tax at a rate of 1% of the sales price charged by distributors to retail dealers and reduce the sales and use tax rate on food for human consumption from 1.5% to 1%. The bill would also impose an additional 0.5 percent state retail sales and use tax and an increase in the grantor's tax by a rate of \$0.40 per \$100 of value in Northern Virginia with the revenues dedicated to the Northern Virginia Transportation Authority for transportation needs.

House Bill 723 would require a portion of the growth in state taxes attributable to economic activity generated or facilitated by the Dulles International Airport and the Ronald Reagan National Airport appropriated to the Northern Virginia Transportation Authority. The bill would also require a portion of the growth in state taxes attributable to economic activity generated or facilitated by i) the ports of Hampton Roads, ii) the Inland Port at Front Royal, and iii) the Port of Richmond to be deposited into special transportation revenue funds.

House Bill 892 would impose a 5% retail sales and use tax on sales of fuels subject to the Virginia Fuels Tax, excluding aviation fuel and dyed diesel fuel. The bill would also reduce the Virginia Fuels Tax by \$0.05 per gallon. Of the net additional revenues generated by the bill, \$250 million would be deposited into the Highway Maintenance and Operating Fund and the remainder would be deposited into the newly created Highway Construction Projects Trust Fund.

House Bill 898 would dedicate an amount generated by a 0.25 percent sales and use tax to the Highway Maintenance and Operating Fund. Additionally, beginning July 1, 2013, each fiscal year the bill would dedicate one-third of the Insurance License Tax revenues collected in the previous fiscal year, less one-third of the amount refunded in the previous fiscal year, to the Highway Maintenance and Operating Fund.

House Bill 1248 and **Senate Bill 639** would dedicate discretionary General Fund revenue to the Highway Maintenance and Operating Fund. The bills would also dedicate from the General Fund an amount equal to 25 percent of the estimated growth in the state tax revenues generated within transportation improvement districts to the Transportation Improvement District Fund.

cc : Secretary of Finance

Date: 1/24/2012 AM
DLAS File Name: HB1239F161