

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** David B. Albo

2. **Bill Number** HB 53

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Personal Property Tax; Equally Apportion
Car Tax Reimbursement

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require that beginning in tax year 2013, the \$950 million reimbursement that Virginia distributes to localities for providing tangible personal property tax relief for motor vehicles would be apportioned in an equal dollar amount among all vehicles in the locality qualifying for tax relief, regardless of value. The reimbursement amount could not exceed the tangible personal property tax on the vehicle.

Under current law, Virginia distributes \$950 million annually to localities as reimbursement for the personal property tax relief each locality provides its citizens. Each locality's share of the \$950 million state reimbursement for tax year 2006 and subsequent tax years is based upon its pro rata share of the total state reimbursement for tax year 2004. In order to be entitled to the state reimbursement, each locality must reduce its rate on the first \$20,000 of value on the qualifying vehicle so that the sum of local tax revenue and state reimbursements to the locality approximates what the locality would have received based on the valuation method and the tax rate before the car tax rebate became law

This bill would be effective for tax years 2013 and all subsequent tax years.

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

7. **No Fiscal Impact:** (See Line 8.)

8. **Fiscal implications:**

This bill would have no impact on state or local revenues. The Commonwealth would continue to distribute the \$950 million in annual reimbursements that it currently distributes to localities in the same amounts that have been distributed since 2006. Only the amount allocated to each taxpayer within a locality would change.

9. **Specific agency or political subdivisions affected:**

All localities

10. Technical amendment necessary: No.

11. Other comments:

Personal Property Tax Relief Act of 1998

Originally, the PPTRA 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 reimbursed localities for the amount of the tax relief. The PPTRA provided a mechanism for freezing the tax relief if the Commonwealth's growth was 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 would increase to the next highest level of tax relief. The level of tax relief never exceeded 70%.

Senate Bill 5005 (2004)

Senate Bill 5005 (Chapter 1, 2004 Special Session 1) 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 pro rata share of the total state reimbursement for tax year 2004. The state reimburses localities over a 12-month period that runs from July to June. In order to be entitled to the state reimbursement, each locality must reduce its rate on the first \$20,000 of value on the qualifying vehicle so that the sum of local tax revenue and state reimbursements to the locality approximates what the locality would have received based on the valuation method and the tax rate before the car tax rebate became law.

Current Methods for Applying PPTRA Tax Relief

Localities generally use one of three methods to apply personal property tax relief to qualifying vehicles: 1) a reduced rate method (RR), 2) a specific relief method that provides the same percentage of relief for all qualifying vehicles (SRSP), or 3) a specific relief method that provides a declining percentage of relief as the vehicle's value rises (SRDP). Most localities use the specific relief method that provides the same percentage of relief for all qualifying vehicles.

Proposal

This bill would require that beginning in tax year 2013, the \$950 million reimbursement that Virginia distributes to localities for providing tangible personal property tax relief for motor vehicles would be apportioned in an equal dollar amount among all vehicles with a tax situs in that locality that qualify for tax relief regardless of value. Localities would no

longer be required or permitted to fix reduced tax rates to apply to the value of the vehicle at their discretion. As a result, localities would be prohibited from extending greater tax relief to some vehicles, while excluding others. The reimbursement amount could not exceed the tangible personal property tax on the vehicle.

The effective date of this bill is not specified.

Similar Legislation

House Bill 41 would change the rules for determining situs for personal property tax purposes to provide that the situs of a motor vehicle used by a full-time student attending an institution of higher education is the domicile of the owner of the motor vehicle, rather than the locality in which the vehicle is normally garaged or parked.

cc : Secretary of Finance

Date: 1/21/2012 KP
DLAS File Name: HB53F161