

**DEPARTMENT OF TAXATION  
2019 Fiscal Impact Statement**

1. **Patron** James E. Edmunds, II

2. **Bill Number** HB 1634

3. **Committee** House Finance

**House of Origin:**  
  X   **Introduced**  
      **Substitute**  
      **Engrossed**

4. **Title** Sales and Use Tax: Additional County and City Sales Tax; County Appropriations to Incorporated Towns for Educational Purposes

**Second House:**  
      **In Committee**  
      **Substitute**  
      **Enrolled**

5. **Summary/Purpose:**

This bill authorizes counties and cities to impose, by ordinance, an additional local sales and use tax at a rate determined by the local governing body. The additional tax must first be approved by the voters at a referendum and initiated by a resolution of the local governing body. Revenue from the tax must be used solely for capital projects for the construction or improvement of schools.

The bill would also remove the limit on the amount that a county may appropriate to an incorporated town that does not constitute a separate special school district and has not complied with the provisions of its charter relating to the elections of local officials for a period of at least four years immediately prior to the adoption of the sales tax ordinance.

Under current law, local sales and use taxes are capped at one percent and there is no provision for local sales and use tax specifically dedicated to capital improvements to schools. The appropriation for a town that does not constitute a separate school district and has not met the timing requirements for holding elections of local officials is limited to the amount the town would have received from local sales and use tax had elections been held.

If enacted during the 2019 Regular Session of the General Assembly, this bill would become effective July 1, 2019.

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

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

**8. Fiscal implications:**

Administrative Costs

The Department of Taxation (“the Department”) considers implementation of this bill as routine and does not require additional funding. However, due to uncertainty about the systems and processing changes that may be required for the 2018 and 2019 income tax filing seasons, it is possible that the Department may not have the ability to implement the changes set forth in this bill by the proposed effective date. During 2017, Congress enacted the Tax Cuts and Jobs Act, which made substantial changes to federal tax law. At this time, it is uncertain what Virginia tax policy changes will be adopted in reaction to the federal law. Accordingly, the Department will reevaluate its costs once action is taken and may request additional funding or an amendment to delay the effective date of this legislation.

Localities could have unknown administrative costs associated with this bill.

Revenue Impact

This bill would have no impact on state revenues.

To the extent that counties and cities authorize additional sales and use taxes, there would be an unknown positive impact to local revenues.

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

Department of Taxation  
All counties and cities

**10. Technical amendment necessary: No**

**11. Other comments:**

Background

Under current law, counties and cities may levy a general retail sales and use tax at the rate of one percent to provide revenue for the general fund of such city or county. The tax is added to the rate of the state sales and use tax and is administered and collected by the Tax Commissioner in the same manner and subject to the same penalties as the state tax. The revenue from the local portion of the sales tax is distributed by the Department to each locality monthly.

The board of supervisors of a county that imposes a local sales and use tax must appropriate funds to any incorporated town that is considered a separate school district within the county and has a town school board of three members appointed by the town

council. This appropriation is based on the ratio that the school age population of such town bears to the school age population of the entire county.

One-half of sales and use tax payments to counties are subject to further qualification related to any county that contains an incorporated town that does not constitute a separate special school district but has complied with its charter provisions providing for the election of its council and mayor for a period of at least four years immediately prior to the adoption of the sales tax ordinance. In such case, the county treasurer must pay into the town treasury the proper amount of local sales tax revenue, based on the ratio that the school age population of each affected town bears to the school age population of the entire county. The tax is to be used for general governmental purposes.

Further, the board of supervisors of a county may, in its discretion, appropriate funds to any incorporated town within its borders that does not constitute a separate school district and has not complied with the provisions of its charter relating to the elections of its council and mayor for a period of at least four years immediately prior to the adoption of the sales tax ordinance. The amount appropriated is limited to the amount that the town would have received from the tax imposed if such election had been held.

### Proposal

This bill authorizes counties and cities to impose, by ordinance, an additional local sales and use tax at a rate determined by the local governing body. The additional tax must first be approved by the voters at a referendum and initiated by a resolution of the local governing body. Revenue from the tax must be used solely for capital projects for the construction or improvement of schools.

If approved by the referendum and levied by the local governing body, the local sales and use tax would be administered and collected by the Tax Commissioner in the same manner and subject to the same penalties as the state sales and use tax.

The bill also removes the limitation on appropriations by a county to any incorporated town that does not constitute a separate school district within the county and has not complied with the provisions of its charter for the elections of its council and mayor for a period of at least four years immediately prior to the adoption of the sales tax ordinance.

If enacted during the 2019 Regular Session of the General Assembly, this bill would become effective July 1, 2019.

cc : Secretary of Finance

Date: 1/22/2019 SK  
DLAS File Name HB1634F161