

# DEPARTMENT OF TAXATION

## 2019 Fiscal Impact Statement

1. **Patron** Lee J. Carter

3. **Committee** House Finance

4. **Title** Watercraft Sales and Use Tax; Decrease in Rate and Removal of Cap

2. **Bill Number** HB 2663

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would remove the existing \$2,000 cap and decrease the rate of the Watercraft Sales and Use Tax from 2 percent to 1.95 percent of the sales price or the gross receipts from the lease, charter, or other use of any watercraft by a registered dealer.

Under current law, the Watercraft Sales and Use Tax is imposed at the rate of 2 percent of the sales price of each watercraft sold in the Commonwealth and each watercraft required to be titled in the Commonwealth. The Watercraft Sales and Use Tax is imposed at the rate of 2 percent of the gross receipts from the lease, charter, or other use of any watercraft by a registered dealer. Currently, the maximum tax that can be levied is \$2,000. All of the Watercraft Sales and Use Tax revenues are currently deposited in the General Fund and allocated to the Game Protection Fund administered by the Department of Game and Inland Fisheries ("DGIF").

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

6. **Budget amendment necessary:** Yes.

Item(s): Page 1, Revenue Estimates

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

#### 7b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2019-20	\$126,000	GF
2020-21	\$138,000	GF
2021-22	\$138,000	GF
2022-23	\$138,000	GF
2023-24	\$138,000	GF
2024-25	\$138,000	GF

## **8. Fiscal implications:**

### Administrative Costs

It is unknown whether this bill would cause DGIF to incur administrative costs.

Due to uncertainty about the systems and processing changes that may be required for the 2018 and 2019 income tax filing seasons, the Department of Taxation is unable to assign administrative costs to this bill at this time. 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.

If substantial changes are enacted or required in response to state/federal law, 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. 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.

### Revenue Impact

The bill would increase General Fund revenues by an estimated \$126,000 in Fiscal Year 2020, and \$138,000 in Fiscal Years 2021 through 2025. Revenues from this tax are deposited into the General Fund but then allocated entirely to the Game Protection Fund.

While the bill would lower the tax rate from the current two percent to 1.95 percent, the bill is estimated to increase revenue because since the bill would remove the \$2,000 cap on the tax paid, the bill would provide for taxation of the value of watercraft above \$100,000, value which is not currently being taxed due to the \$2,000 cap.

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

Department of Taxation  
Department of Game and Inland Fisheries

## **10. Technical amendment necessary: No.**

## **11. Other comments:**

### Watercraft Sales and Use Tax

In 1981, the General Assembly enacted legislation to exempt certain watercraft from the state and local Retail Sales and Use Tax, then at a rate of 4 percent, and subject such watercraft to a titling tax at a rate of 2 percent. The Watercraft Sales and Use Tax continues to be imposed at the rate of 2 percent of the sales price of each watercraft sold in the Commonwealth and each watercraft required to be titled in the Commonwealth. In 1987, the General Assembly provided a maximum tax of \$1,000, which was set to expire July 1, 1992. The maximum tax was increased to \$2,000 and the expiration date was repealed in 1990. The Watercraft Sales and Use Tax is imposed at the rate of 2 percent of the gross receipts from the lease, charter, or other use of any watercraft by a registered

dealer. There is no maximum tax if the Watercraft Sales and Use Tax is imposed on the gross receipts of a dealer. The Watercraft Sales and Use Tax is imposed only once on each transaction.

The Watercraft Sales and Use Tax may be collected by both the Department of Taxation and DGIF. Watercraft Sales and Use Tax revenues are deposited in the General Fund and allocated to the Game Protection Fund administered by DGIF. The funds are used by DGIF to satisfy expenses associated with boating-related activities and expenses and to improve recreational opportunities for boaters.

### Proposal

This bill would remove the existing \$2,000 cap and decrease the rate of the Watercraft Sales and Use Tax from 2 percent to 1.95 percent of the sales price or the gross receipts from the lease, charter, or other use of any watercraft by a registered dealer.

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 VB  
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