DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement

1. **Patron** Mark D. Sickles

2. **Bill Number** HB 1159
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Individual Income Tax; Distribution of Revenues; Local School Construction.

5. **Summary/Purpose:**

This bill would require that one percent of the individual income tax revenue collected from residents, and part-year residents, of a locality be distributed to that locality for school construction or renovation purposes.

If enacted during the 2024 regular session of the General Assembly, this bill would become effective July 1, 2024.

6. **Budget amendment necessary:** Yes.
Item(s): Page 1, Revenue Estimates
257 and 258, Department of Taxation

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

7a. Expenditure Impact:

Fiscal Year	***Dollars***	***Positions***	***Fund***
2024-25	$92,885	0	GF
2025-26	$10,000	0	GF
2026-27	$10,000	0	GF
2027-28	$10,000	0	GF
2028-29	$10,000	0	GF
2029-30	$10,000	0	GF

7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2024-25	($182.6 million)	GF
	$182.6 million	Local
2025-26	($196.4 million)	GF
	$196.4 million	Local
2026-27	($206.1 million)	GF
	$206.1 million	Local
2027-28	($212.7 million)	GF
	$212.7 million	Local
2028-29	($218.1 million)	GF
	$218.1 million	Local

2029-30	($227.1 million)	GF
	$227.1 million	Local

8. Fiscal implications:

Administrative Costs

The Department of Taxation ("Department") would incur administrative costs of $92,885 in Fiscal Year 2024 and costs thereafter would be $10,000 per fiscal year. The initial cost would be incurred for purposes of reprogramming and updating the Department's systems to ensure accurate distributions are made to the localities based upon tax return data. The $10,000 additional cost per fiscal year would be incurred for purposes of monitoring and managing the above-mentioned system. Such costs rely on the assumption that the Department would distribute funds based on individual taxpayer information, including collected income tax revenues and residency data, to calculate the locality distribution amount. Additionally, it assumes that fiscal office wage staff support is needed to monitor the report, the distribution, and any accounting that would be required. This process may involve the use of aggregate historical locality data, derived from aggregate historical individual income tax revenue per locality.

Revenue Impact

This bill would have an estimated negative General Fund revenue impact and a corresponding positive revenue impact on the localities in amounts equal to $182.6 million in FY 2025, $196.4 million in FY 2026, $206.1 million in FY 2027, $212.7 million in FY 2028, $218.1 million in FY 2029, and $227.1 million in FY 2030. Because individual income tax returns are subject to a substantial number of deductions and credits and may be subject to amendment or litigation for many years after submission of a return, individual income tax revenues may exhibit substantial fluctuations annually. The actual amounts in any given fiscal year could exceed or fall below the estimate figure provided, as the Department is only able to generate estimates that are based on average historical individual income tax revenues. While out-of-state residents are required to specify the number of days they resided in Virginia in their Virginia tax return, full-year and part-year-residents only indicate their residency as of January 1 or if they are no longer Virginia residents the last locality of residence through the locality code on their tax return. As a result, this information does not capture any other residences in different localities in Virginia, if applicable, throughout the taxable year.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Tax Revenues

In Fiscal Year 2023 income tax revenue, both individual and corporate, constituted approximately 75.3% of the general fund ("GF") which is typically used for purposes such as education, health care, public safety, and social services. Sales tax revenue contributed 17%

to Virginia's GF in Fiscal Year 2023 and, in many cases, specific sales tax revenue has been earmarked for special funds or programs such as transportation and local education.

Sales Tax

Sales tax is a tax on consumption levied at the time of purchase. Both returns and payments are generally remitted to the state on a monthly basis. Statewide, the sales tax consists of a 4.3% state rate and the 1% local option tax for a total rate of 5.3%. While the largest share of the revenue generated from the 4.3% statewide rate is deposited in the General Fund, nearly one-fourth of this tax goes toward funding statewide transportation costs (0.9%) and another approximately one-third (1.375%) is used for local educational funding. Revenues from the 1% local option tax are retained by localities to be used without restriction. Additionally, certain regions of the state have a regional tax rate, typically levied for the purposes of using the revenues therefrom to fund transportation costs in the region in which the taxes were collected. Virginia also levies a complementary use tax, which applies to certain taxable goods and services that were not fully taxed at the time of purchase.

Individual Income Tax

Individual income tax is levied on the income generated by the taxpayer over the course of the entire taxable year and is generally remitted to the state on either a quarterly, monthly, or semi-weekly basis. Income tax returns are filed annually and are subject to a substantial number of deductions and credits and may be subject to amendment or litigation for many years after submission of a return.

Proposed Legislation

This bill would require one percent of the individual income tax revenue collected from residents, or part-year residents, of a locality to be distributed to that locality for school construction or renovation purposes. Such funds would be required to be repaid to the state if used for any other purpose.

This bill would define "resident income tax revenues" as the amount of individual income tax revenues collected from the residents, and part-year residents, of a locality. All resident income tax revenues collected would be paid into a special fund that would be created for each locality.

As soon as practicable after the close of each taxable year, the Comptroller would be required to draw a warrant of the State Treasurer in the proper amount for each locality and such amounts would be charged to each locality's special fund.

If any revenues distributed to localities are used for any purpose other than the construction or renovation of schools, such localities would be required to repay such revenues to the Department and such revenues would revert to the General Fund.

A locality receiving the income tax revenues would be required to maintain its level of expenditure for public school purposes at the amount it appropriated for such purposes for its most recent fiscal year ending prior to July 1, 2024. However, a locality would be permitted to reduce its level of expenditure to account for a loss of revenue resulting from a reduction in machinery and tools taxes or license taxes.

If enacted during the 2024 regular session of the General Assembly, this bill would become effective July 1, 2024.

cc : Secretary of Finance

Date: 2/3/2024 AO
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