

DEPARTMENT OF TAXATION

2025 Fiscal Impact Statement

1. **Patron** Tara A. Durant

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax: Car tax credit.

2. **Bill Number** SB 1443

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would establish a refundable income tax credit for Taxable Years 2025 through 2027 for a taxpayer whose federal adjusted gross income does not exceed \$50,000 if filing as an individual or \$100,000 if married and filing jointly in an amount equal to the lesser of:

- The amount actually paid for tangible personal property tax to Virginia localities on qualifying vehicles, defined in the bill, or
- \$150 for an individual or \$300 for married individuals filing jointly.

The bill provides that such credit shall not be allowed for such taxes paid to any locality that has, during the tax year for which such credit is claimed, imposed a tangible personal property tax rate upon qualifying vehicles at a rate that exceeds the rate imposed upon such vehicles by such locality during the 2024 tax year.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2028.

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

7. **No Fiscal Impact:** (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.

Revenue Impact

This bill would result in a General Fund revenue loss of \$362.04 million in FY 2026, \$367.66 million in FY 2027, and \$372.47 million in FY 2028. However, because the

Introduced Executive Budget pre-funds this tax credit by appropriating \$1.1 billion to a special fund for the purpose of funding such credits, no budget amendment is needed.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Personal Property Tax Relief Act ("PPTRA") of 1998

The PPTRA originally 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 revenue growth is 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 increased to the next highest level of tax relief. The level of tax relief never exceeded 70%.

Senate Bill 5005 (Chapter 1, 2004 Special Session I) 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 share of the total state reimbursement for tax year 2004.

Tangible Personal Property Tax Relief on Qualifying Automobiles

Under the current provisions of personal property tax relief, each locality is permitted to establish its tangible personal property tax rate for its general class of tangible personal property, which rate shall also be applied to that portion of the value of each qualifying vehicle that is in excess of \$20,000. After fixing or establishing its tangible personal property tax rate for its general class of tangible personal property, the local governing body of the county, city, or town is required to fix or establish one or more reduced tax rates (lower than the rate applied to the general class of tangible personal property) that would be applied solely to that portion of the value of each qualifying vehicle that is not in excess of \$20,000. Additionally, no other tangible personal property tax rate shall be applied to that portion of the value of each qualifying vehicle that is not in excess of \$20,000.

Over the 20 years that the \$950 million car tax relief has remained unchanged, the population, number of vehicles, and the average value of those vehicles has grown, which has significantly eroded the relief provided by this program.

Proposal

This bill would establish a refundable income tax credit for Taxable Years 2025 through 2027 for a taxpayer whose federal adjusted gross income does not exceed \$50,000 if filing as an individual or \$100,000 if married and filing jointly. The amount of the credit would be equal to the lesser of:

- The amount actually paid for tangible personal property tax to Virginia localities on passenger cars, motorcycles, autocycles, and pickup or panel trucks, or
- \$150 for an individual or \$300 for married individuals filing jointly.

An individual who claims both an itemized deduction and this credit for car tax must add back the amount of taxes paid for which a credit was claimed.

The bill provides that such credit shall not be allowed for such taxes paid to any locality that has, during the tax year for which such credit is claimed, imposed a tangible personal property tax rate upon qualifying vehicles at a rate that exceeds the rate imposed upon such vehicles by such locality during the 2024 tax year.

Finally, the bill provides that if any provision of the bill is held to be invalid or unconstitutional by the decision of a court of competent jurisdiction, such provision shall not be deemed severable.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2028.

cc : Secretary of Finance

Date: 01/26/2025 JPJ
SB1443F161