

**DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement**

- 1. **Patron** Scott A. Surovell
- 3. **Committee** Senate Finance and Appropriations
- 4. **Title** Sales and use tax on taxable services and digital personal property; taxes levied in certain transportation districts; funding for transportation

- 2. **Bill Number** SB 730
- House of Origin:**
 - X **Introduced**
 - Substitute**
 - Engrossed**
- Second House:**
 - In Committee**
 - Substitute**
 - Enrolled**

5. Summary/Purpose:

This bill would decrease the statewide retail sales and use tax from 4.3 percent to four percent and expand the tax base to include certain services and digital personal property.

The bill would also impose (i) an additional retail sales and use tax in any county or city that is a member of the Northern Virginia Transportation Commission (“NVTC”) at the rate of 0.385 percent; any county or city that is embraced by the Northern Virginia Transportation Authority but that is not a member of the NVTC at the rate of 0.615 percent; and any county or city that is a member of the Potomac and Rappahannock Transportation Commission (“PRTC”) at the rate of 0.2 percent; (ii) a retail delivery fee in the amount of 20 cents upon each retail delivery made in any county or city located within the Northern Virginia Transportation Commission; and (iii) a regional highway use fee on all vehicles in the Commonwealth that are subject to the existing highway use fee.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026.

6. Budget amendment necessary: Yes.

- Page 1, Revenue Estimates
- Item 261 and 263, Department of Taxation
- Item 421, Virginia Commercial Space Flight Authority
- Item 422, Department of Aviation
- Item 426 and 430, Department of Motor Vehicles
- Item 431, Virginia Passenger Rail Authority
- Item 433 and 434, Department of Rail and Public Transportation
- Item 438, 439, and 446, Virginia Department of Transportation
- Item 450, Virginia Port Authority

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

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2026-27	\$117,455	0	GF
2027-28	\$412,200	4	GF
2028-29	\$409,044	4	GF
2029-30	\$416,841	4	GF
2030-31	\$424,794	4	GF
2031-32	\$432,906	4	GF

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2026-27	\$1,017.0M	GF
	\$1,530.7M	NGF*
2027-28	\$1,156.3M	GF
	\$1,729.0M	NGF*
2028-29	\$1,203.3M	GF
	\$1,794.6M	NGF*
2029-30	\$1,251.6M	GF
	\$1,864.1M	NGF*
2030-31	\$1,300.3M	GF
	\$1,939.1M	NGF*
2031-32	\$1,353.1M	GF
	\$2,016.2M	NGF*

*Non-General Funds (“NGF”) revenues consist of the Commonwealth Transportation Fund (“CTF”), Local, and “Other,” as defined on Line 8.

8. Fiscal implications:

Department of Taxation

Administrative Costs

The Department requests a delayed effective date of January 1, 2027, due to the system changes required by this legislation and resource commitments associated with the Integrated Revenue Management System (IRMS) replacement project. Changes needed to implement this bill would impact work in progress for the first rollout of the new system scheduled for September 2026. For more information on the new system implementation releases, see the [2025 Status Report on the Replacement of the Integrated Revenue Management System \(IRMS\)](#).

The Department would incur estimated expenditures as shown above. Such costs would primarily consist of costs associated with four FTEs to ensure compliance with the taxation of services and digital personal property, the related distribution

requirements, and the retail delivery fee. Changes would also be required to the Department's forms and systems.

The provision of this bill decreasing the statewide retail sales and use tax from 4.3 percent to four percent would be considered routine, and the Department does not require additional funding.

Revenue Impact

The bill would result in positive General Fund revenue impacts of \$1.017 billion in Fiscal Year 2027, \$1.156 billion in Fiscal Year 2028, and \$1.203 billion in Fiscal Year 2029. The bill would also increase Commonwealth Transportation Fund Revenues by \$432.5 million in Fiscal Year 2027, \$489.3 million in Fiscal Year 2028, and \$507.4 million in Fiscal Year 2029. The bill also results in additional regional transportation funding as described below.

The overall estimated impact of this bill is shown below in millions of dollars:

Fiscal Year	2027	2028	2029	2030	2031	2032
Total Revenue	\$2,547.7	\$2,885.2	\$2,997.9	\$3,115.7	\$3,239.3	\$3,369.3
General Fund	\$1,017.0	\$1,156.3	\$1,203.3	\$1,251.6	\$1,300.3	\$1,353.1
<i>GF-Unrestricted</i>	\$361.0	\$414.1	\$433.7	\$453.3	\$472.2	\$494.4
<i>GF-Restricted</i>	\$656.0	\$742.2	\$769.6	\$798.3	\$828.1	\$858.7
CTF	\$432.5	\$489.3	\$507.4	\$526.4	\$546.0	\$566.2
Local	\$480.6	\$543.7	\$563.8	\$584.8	\$606.7	\$629.1
Other*	\$617.5	\$695.9	\$723.3	\$752.9	\$786.4	\$820.9

*Other revenues consist of additional revenues resulting from base expansion in existing regional districts; the impact of base expansion on new regional transportation districts defined in the bill; additional revenues from new regional sales and use taxes in certain transportation districts defined in the bill; revenues from the proposed change in the Highway Use Fee; and the proposed Retail Delivery Fee. These impacts are summarized below, in millions of dollars:

Fiscal Year	2027	2028	2029	2030	2031	2032
Total Other	\$617.5	\$695.9	\$723.3	\$752.9	\$786.4	\$820.9
SUT Base Expansion, existing regional districts	\$242.2	\$274.0	\$284.2	\$294.7	\$305.7	\$317.0
SUT Base Expansion, new regional districts	\$76.7	\$86.7	\$89.9	\$93.3	\$96.8	\$100.3
Additional Regional Sales and Use Taxes	\$246.3	\$275.6	\$283.6	\$292.3	\$302.2	\$310.7
Highway Use Fee	\$29.9	\$34.5	\$39.8	\$45.8	\$53.9	\$64.2
Retail Delivery Fee	\$22.4	\$25.1	\$25.9	\$26.8	\$27.8	\$28.6
<i>Totals may not sum due to rounding.</i>						

Reduction of Statewide Sales and Use Tax Rate

The estimated General Fund revenue impact of reducing the statewide sales and use tax rate from 4.3 to 4.0 percent is shown below, in millions of dollars:

Fiscal Year	General Fund
2027	(\$463.3)
2028	(\$518.3)
2029	(\$533.3)
2030	(\$549.7)
2031	(\$568.3)
2032	(\$584.4)

Sales and Use Tax Base Expansion

The estimated impact of broadening the sales tax base to include digital products, digital services, and other taxable services is shown below:

Fiscal Year	Total Revenue	General Fund	GF- Unrestricted	GF- Restricted	Transp.	Local Option	Other
2027	\$2,712.3	\$1,480.3	\$824.2	\$656.0	\$432.5	\$480.6	\$318.9
2028	\$3,068.4	\$1,674.6	\$932.5	\$742.2	\$489.3	\$543.7	\$360.7
2029	\$3,182.0	\$1,736.6	\$967.0	\$769.6	\$507.4	\$563.8	\$374.1
2030	\$3,300.6	\$1,801.3	\$1,003.0	\$798.3	\$526.4	\$584.8	\$388.0
2031	\$3,423.7	\$1,868.5	\$1,040.4	\$828.1	\$546.0	\$606.7	\$402.5
2032	\$3,550.1	\$1,937.5	\$1,078.8	\$858.7	\$566.2	\$629.1	\$417.4

Additional Regional Sales and Use Taxes

The estimated impact of the new local sales and use tax rates provided for in the bill are shown below by millions of dollars for each of the transportation districts and commissions. These include:

- An additional sales and use tax of 0.385% in any county or city that is a member of the Northern Virginia Transportation Commission (NVTC).
- An additional sales and use tax of 0.615% in any county or city that is embraced by the Northern Virginia Transportation Authority (NVTA) but that is not a member of the NVTC.
- An additional sales and use tax of 0.2% in any county or city that is a member of the Potomac and Rappahannock Transportation Commission (PRTC).

See Line 11 for more information on these districts and commissions.

Additional local sales and use tax (including SUT base expansion)

Fiscal Year	2027	2028	2029	2030	2031	2032
NVTC	\$155.9	\$174.4	\$179.5	\$185.0	\$191.2	\$196.7
NVTA	\$59.4	\$66.4	\$68.4	\$70.5	\$72.8	\$74.9
PRTC	\$31.0	\$34.7	\$35.7	\$36.8	\$38.1	\$39.2
TOTAL	\$246.3	\$275.6	\$283.6	\$292.3	\$302.2	\$310.7

Regional Highway Use Fee

The Department used data supplied by the Department of Motor Vehicles (“DMV”) to estimate the impact of the bill’s proposed Regional Highway Use Fee, which is shown below in millions of dollars:

Fiscal Year	Forecast for the Highway User Fee	Regional Highway User Fee @ 29.34%	DMV Collection Cost*	Net Revenue for distribution
2027	\$103.40	\$30.34	\$0.47	\$29.87
2028	\$119.30	\$35.00	\$0.54	\$34.47
2029	\$137.60	\$40.37	\$0.62	\$39.75
2030	\$158.50	\$46.50	\$0.71	\$45.79
2031	\$186.70	\$54.78	\$0.84	\$53.94
2032	\$222.20	\$65.19	\$1.00	\$64.19

Retail Delivery Fee

The estimated impact of the bill’s proposed Retail Delivery Fee in the amount of \$0.20 upon each retail delivery made in any county or city located within the NVTC, is shown below in millions of dollars:

Fiscal Year	Revenue
2027	\$22.4
2028	\$25.1
2029	\$25.9
2030	\$26.8

2031	\$27.8
2032	\$28.6

Department of Planning and Budget

Statewide Transportation Revenues and Allocations

Most transportation revenue sources in the Commonwealth are deposited to the Commonwealth Transportation Fund (“CTF”) and then allocated by formula to the various transportation agencies and programs in the Commonwealth. The CTF is first allocated to two subfunds:

- Highway Maintenance and Operating Fund (“HMOF”), and
- Transportation Trust Fund (“TTF”).

The TTF is further allocated to various transportation programs and agencies across the Commonwealth.

HMOF expenditures are primarily incurred by the Virginia Department of Transportation (“VDOT”).

The bill proposes changes to the allocation of the CTF, the allocation formulas for the TTF, the allocation formula for the VDOT construction program, and the allocation formula for the Commonwealth Mass Transit Fund (“CMTF”) at the Department of Rail and Public Transportation (“DRPT”) received from the TTF. The tables below summarize the proposed changes to these funds.

Commonwealth Transportation Fund allocation	Existing	Proposed
Highway Maintenance and Operating Fund	51.00%	47.00%
Transportation Trust Fund	49.00%	53.00%

Transportation Trust Fund allocations	Existing	Proposed
Construction Programs (VDOT)	53.00%	51.20%
Mass Transit Fund (DRPT)	23.00%	26.00%
Rail Fund (DRPT and VPRA)	7.50%	8.00%
Port Fund	2.50%	2.50%
Aviation Fund	1.50%	1.50%
Space Flight Fund	1.00%	0.80%
Priority Transportation Fund	10.50%	9.00%
Department of Motor Vehicles Fund	1.00%	1.00%

VDOT Construction Program Allocations	Existing	Proposed
State of good repair	30.0%	27.5%

High-priority projects program	20.0%	18.0%
Highway construction district grant programs	20.0%	18.0%
Interstate Operations and Enhancement Program	20.0%	26.5%
Virginia Highway Safety Improvement Program	10.0%	No change

Commonwealth Mass Transit Fund distribution changes		
Program	Existing	Proposed
Operating costs of transit providers (non-WMATA)	24.5%	23.0%
Capital purposes for transit providers (non-WMATA)	17.0%	12.5%
WMATA for capital purposes and operating assistance (to NVTC)	46.5%	55.5%
Special programs	2.5%	2.0%
Transit Ridership Incentive Program	6.0%	3.0%
Commuter Rail System	3.5%	4.0%

The changes proposed in the bill would impact the allocation of existing transportation revenues as well as the additional revenues resulting from the provisions of this bill.

The table at the end of this section summarizes the distribution changes proposed and the net impact of such changes, accounting for baseline transportation funding and the additional transportation revenue from the expansion of the sales and use tax described above. Additional revenue generated for transportation programs would be allocated to those initiatives and qualifying projects according to established guidelines and requirements.

Reductions are estimated in the TTF allocation to the Commonwealth Space Fund which supports the Virginia Commercial Space Flight Authority (VCSFA) and the CMTF allocations for capital purposes for non-WMATA transit providers and the Transit Ridership Incentive Program. In general, any loss of revenue to transportation funding may impact previously planned and programmed transportation projects. This impact statement will be revised with additional details from the impacted entities as they become available.

Regional Transportation Initiatives

Northern Virginia Transportation District Regional Fund

The bill establishes the Northern Virginia Transportation District Regional Fund (NVTDRF) supported by regional revenues described above and summarized in the table below.

Northern Virginia Transportation District Regional Fund Revenues				
Fiscal Year	0.385% Regional Sales and Use Tax, NVTC	\$0.20 Regional Retail Delivery Fee	Regional Highway Use Fee, NVTD	Total New Revenue
2027	\$204,400,000	\$22,400,000	\$6,917,943	\$233,717,943
2028	\$229,300,000	\$25,100,000	\$7,981,728	\$262,381,728
2029	\$236,400,000	\$25,900,000	\$9,206,083	\$271,506,083
2030	\$244,000,000	\$26,800,000	\$10,604,391	\$281,404,391
2031	\$252,400,000	\$27,800,000	\$12,491,103	\$292,691,103
2032	\$260,200,000	\$28,600,000	\$14,866,219	\$303,666,219

The fund would be used to support public transportation initiatives in the Northern Virginia Transportation District (NVTD). The fund would be distributed as follows:

- Two percent of the annual Fund revenues shall be distributed to the Northern Virginia Transportation Commission (“NVTC”) for technical assistance, planning, and design to advance transit projects that benefit the NVTD.
- Starting in FY2028, \$136 million would be deposited to the Washington Metropolitan Area Transit Authority (WMATA) Capital Fund. This amount would then increase by three percent each year.
- Starting in FY2028, \$9.1 million would be deposited to the Commuter Rail Operating and Capital Fund. This amount would then increase by three percent each year.
- Any remaining funds would be held in trust accounts for each locality located within the NVTD district for public transportation purposes and allocated proportionally to revenue generated by each locality.

Northern Virginia Transportation District Regional Fund Distribution					
Fiscal Year	2% for NVTC	WMATA Capital Fund	Commuter Rail Operating and Capital Fund	Excess Local Trust	Total
2027	\$4,384,359			\$229,333,585	\$233,717,943
2028	\$4,921,635	\$136,000,000	\$9,100,000	\$112,360,093	\$262,381,728
2029	\$5,094,122	\$140,080,000	\$9,373,000	\$116,958,962	\$271,506,083
2030	\$5,284,088	\$144,282,400	\$9,654,190	\$122,183,713	\$281,404,391
2031	\$5,499,822	\$148,610,872	\$9,943,816	\$128,636,593	\$292,691,103
2032	\$5,705,324	\$153,069,198	\$10,242,130	\$134,649,566	\$303,666,219

Potomac and Rappahannock Transportation Commission Regional Fund

The bill establishes the Potomac and Rappahannock Transportation Commission Regional Fund supported by regional revenues described above and summarized in the table below.

Potomac and Rappahannock Transportation Commission Regional Fund Revenues			
Fiscal Year	0.2% Regional Sales and Use Tax, PRTC	Regional Highway Use Fee, PRTC	Total
2027	\$40,700,000	\$3,055,974	\$43,755,974
2028	\$45,700,000	\$3,525,897	\$49,225,897
2029	\$47,100,000	\$4,066,751	\$51,166,751
2030	\$48,600,000	\$4,684,448	\$53,284,448
2031	\$50,300,000	\$5,517,896	\$55,817,896
2032	\$51,800,000	\$6,567,094	\$58,367,094

The fund would be used to support public transportation initiatives in the localities embraced by the Potomac and Rappahannock Transportation Commission. The fund would be distributed as follows:

- Starting in FY2028, \$18.2 million would be deposited to the Commuter Rail Operating and Capital Fund. This amount would then increase by three percent each year.
- Any remaining funds would be held in trust accounts to be used for public transportation purposes in accordance with the Potomac and Rappahannock Transportation Commission's strategic plan for transit or adopted budget and allocated proportionally to revenue generated by each locality.

Potomac and Rappahannock Transportation Commission Regional Fund Distributions			
Fiscal Year	Commuter Rail Operating and Capital Fund	PRTC Strategic Plan	Total
2027	\$0	\$43,755,974	\$43,755,974
2028	\$18,200,000	\$31,025,897	\$49,225,897
2029	\$18,746,000	\$32,420,751	\$51,166,751
2030	\$19,308,380	\$33,976,068	\$53,284,448
2031	\$19,887,631	\$35,930,265	\$55,817,896
2032	\$20,484,260	\$37,882,834	\$58,367,094

Regional Highway Use Fee

The bill proposes an additional highway use fee (HUF), equal to 29.34 percent of the currently assessed highway use fee, on vehicles currently subject to the highway use fee. The distribution of these revenues would be based on the locality in which the vehicle is principally garaged. As noted above, revenues from localities that are part of the NVTC and PRTC would be distributed to the associated funds established by this bill. For other localities, revenues would be distributed in the same manner as the regional wholesale gas tax which includes distributions to the I-81 Corridor Improvement Fund, Central Virginia Transportation Fund, Hampton Roads Transportation Fund, and allocations to the Construction District Grant Program benefiting the district in which the revenue was generated.

The table below summarizes estimated revenue and anticipated distribution of the proposed fee. Not all vehicles are subject to the HUF; it generally applies to alternative fuel vehicles (AFV), electric motor vehicles (EV), and fuel-efficient vehicles. The estimate of the total revenue collected from the new HUF is based on collections of the existing highway use fee. However, registration of AFVs, EVs, or fuel-efficient vehicles by locality is not readily available. As a result, the distributions listed below are based on the total registered vehicles by locality provided by the

Department of Motor Vehicles and proportionally allocated to the various funds. Actual collections and distributions may differ if the composition of vehicle types differs across localities.

Regional Highway Use Fee Revenue and Distributions						
	FY27	FY28	FY29	FY30	FY31	FY32
Northern Virginia Transportation District (“NVTDRF”) Regional Fund	\$6,917,943	\$7,981,728	\$9,206,083	\$10,604,391	\$12,491,103	\$14,866,219
PRTC Regional Fund	\$3,055,974	\$3,525,897	\$4,066,751	\$4,684,448	\$5,517,896	\$6,567,094
I-81 Corridor Improvement Fund	\$3,385,654	\$3,906,272	\$4,505,474	\$5,189,809	\$6,113,169	\$7,275,555
Central Virginia Transportation Fund	\$4,188,581	\$4,832,667	\$5,573,973	\$6,420,601	\$7,562,941	\$9,000,993
Hampton Roads Transportation Fund	\$5,506,394	\$6,353,122	\$7,327,658	\$8,440,652	\$9,942,396	\$11,832,889
Construction District Grant Program	\$6,817,331	\$7,865,644	\$9,072,193	\$10,450,164	\$12,309,436	\$14,650,009
Total Regional HUF	\$29,871,878	\$34,465,330	\$39,752,132	\$45,790,065	\$53,936,941	\$64,192,760

Washington Metropolitan Area Transit Authority Capital Fund allocation caps

Washington Metropolitan Area Transit Authority Capital Fund supports the capital needs of the authority and is supported by a combination of regional and statewide transportation revenues. In addition to the proposed allocation from the NVTDRF, the bill provides that in starting in FY2027, total allocations to the Fund would not exceed the amounts described in the table below and conditions these amounts on corresponding commitments by the District of Columbia and the State of Maryland.

Washington Metropolitan Area Transit Authority Capital Fund allocation caps	
Fiscal Year	Funding Cap
2027	\$154,500,000
2028	\$290,500,000
2029	\$299,215,000
2030	\$308,191,450
2031	\$317,437,194
2032	\$326,960,309

CMTF Conditions

Currently, allocations from the CMTF for a commuter rail system jointly operated by NVTC and PRTC are optional and based on service delivery factors including effectiveness and efficiency as established by the CTB. The bill makes the allocation mandatory and removes the provisions to base the amounts on service delivery factors.

The bill would also remove the requirements that the amounts allocated to the NVTC for distribution to WMATA for capital purposes and operating assistance not exceed 50 percent of the total operating and capital assistance required to be provided by NVTC or other Virginia entities in the approved WMATA budget.

Currently, the CTB is required to withhold 35 percent of the CMTF allocation for WMATA for capital purposes and operating assistance in any year where the total Virginia operating assistance in the approved WMATA budget increases by more than three percent, subject to some exemptions from the calculation. The bill would replace that requirement. The bill requires WMATA to develop an annual unit cost calculation for rail and bus service. Starting in 2028, WMATA would be required to publish the annual unit cost calculation results, including year-over-year operating expenses and vehicle revenue hours by mode for rail and bus and percentage growth increase from the prior year. The bill provides that failure to establish such calculation and policy in 2028 would result in the CTB withholding 35 percent of the CMTF allocation each year until such policy is implemented. Also starting in 2029, the CTB would be required to withhold 35 percent of such funds in any year where the approved WMATA budget's unit cost of rail or bus service grows more than three percent from the previous year. Factoring in revenue changes proposed by this legislation, 35 percent of such allocation would be \$153.5 million in FY27 and \$156.8M in FY28.

Statewide Net Fund/Program - changes from distribution adjustments and revenue changes in SB730								
	Existing Allocation	HB900 Allocation	FY27	FY28	FY29	FY30	FY31	FY32
Net Impact to CTF			\$432,500,000	\$489,300,000	\$507,400,000	\$526,400,000	\$546,000,000	\$566,200,000
Highway Maintenance and Operating Fu	51.00%	47.00%	(\$8,875,957)	\$15,162,077	\$18,660,466	\$21,609,310	\$24,491,712	\$28,311,781
Transportation Trust Fund	49.00%	53.00%	\$441,375,957	\$474,137,923	\$488,739,534	\$504,790,690	\$521,508,288	\$537,888,219
<i>Construction Programs (VDOT)</i>	53.00%	51.20%	\$179,205,205	\$195,393,249	\$201,764,875	\$208,664,222	\$215,827,956	\$222,963,379
<i>Mass Transit Fund (DRPT)</i>	23.00%	26.00%	\$192,723,225	\$202,218,139	\$207,855,222	\$214,226,598	\$220,899,301	\$227,243,252
<i>Rail Fund (DRPT and VPRA)</i>	7.50%	8.00%	\$48,304,323	\$51,088,080	\$52,562,987	\$54,213,425	\$55,938,521	\$57,596,443
<i>Port Fund</i>	2.50%	2.50%	\$11,034,399	\$11,853,448	\$12,218,488	\$12,619,767	\$13,037,707	\$13,447,205
<i>Aviation Fund</i>	1.50%	1.50%	\$6,620,640	\$7,112,068	\$7,331,093	\$7,571,861	\$7,822,624	\$8,068,323
<i>Space Flight Fund</i>	1.00%	0.80%	(\$1,666,691)	(\$1,469,715)	(\$1,475,613)	(\$1,493,743)	(\$1,515,077)	(\$1,523,049)
<i>Priority Transportation Fund</i>	10.50%	9.00%	\$741,098	\$3,201,274	\$3,595,086	\$3,940,653	\$4,282,173	\$4,713,782
<i>Department of Motor Vehicles Fund</i>	1.00%	1.00%	\$4,413,760	\$4,741,379	\$4,887,395	\$5,047,907	\$5,215,083	\$5,378,882

*VDOT policy is to fully fund the Maintenance program. Reductions to HMOF allocations will be spread to VDOT construction programs

<i>Construction programs total</i>								
State of good repair	30.0%	27.5%	\$14,846,679	\$18,866,970	\$19,806,207	\$20,732,711	\$21,675,365	\$22,716,657
High-priority projects program	20.0%	18.0%	\$4,709,135	\$7,277,846	\$7,774,371	\$8,239,600	\$8,707,174	\$9,254,790
Highway construction district grant programs	20.0%	18.0%	\$4,709,135	\$7,277,846	\$7,774,371	\$8,239,600	\$8,707,174	\$9,254,790
Interstate Operations and Enhancement Program	20.0%	26.5%	\$137,019,735	\$142,431,262	\$146,233,439	\$150,585,889	\$155,155,447	\$159,440,804
Virginia Highway Safety Improvement Program	10.0%	No change	\$17,920,521	\$19,539,325	\$20,176,488	\$20,866,422	\$21,582,796	\$22,296,338
<i>Commonwealth Mass Transit Fund</i>								
Operating costs of transit providers (non-WMATA)	24.5%	23.0%	\$48,467,812	\$50,539,310	\$51,624,163	\$52,836,800	\$54,104,017	\$55,323,332
Capital purposes for transit providers (non-WMATA)	17.0%	12.5%	\$6,287,314	\$7,137,181	\$7,206,787	\$7,244,873	\$7,276,447	\$7,350,058
WMATA for capital purposes and operating assistance (to NVTC)	46.5%	55.5%	\$185,635,069	\$191,578,740	\$195,977,380	\$201,030,165	\$206,338,543	\$211,298,203
Special programs	2.5%	2.0%	\$2,203,288	\$2,355,742	\$2,397,925	\$2,441,093	\$2,485,379	\$2,532,326
Transit Ridership Incentive Program	6.0%	3.0%	(\$8,940,363)	(\$8,880,180)	(\$9,134,420)	(\$9,448,836)	(\$9,783,664)	(\$10,072,935)
Commuter Rail System	3.5%	4.0%	\$12,570,106	\$12,987,346	\$13,283,388	\$13,622,503	\$13,978,579	\$14,312,269
<i>Rail Fund</i>								
DRPT Share	7.0%	No change	\$3,381,303	\$3,576,166	\$3,679,409	\$3,794,940	\$3,915,696	\$4,031,751
VPRA Share	93.0%	No change	\$44,923,020	\$47,511,914	\$48,883,578	\$50,418,485	\$52,022,825	\$53,564,692

9. Specific agency or political subdivisions affected:

Localities within the NVTA – Counties of Arlington, Fairfax, Loudoun, and Prince William and the Cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park

Localities within the PRTC – Counties of Stafford, Prince William, Spotsylvania, and the Cities of Manassas, Manassas Park, and Fredericksburg

Department of Taxation

Department of Motor Vehicles
Virginia Commercial Space Flight Authority
Department of Aviation
Department of Motor Vehicles
Department of Rail and Public Transportation
Virginia Department of Transportation
Virginia Port Authority
Virginia Passenger Rail Authority

10. Technical amendment necessary: No.

11. Other comments:

Retail Delivery Fees

Only two states currently levy retail delivery fees: Minnesota and Colorado. Both states levy the fee on a per transaction basis.

Transportation Districts and Commissions

The Northern Virginia Transportation District (NVTD) is governed by the Northern Virginia Transportation Commission (NVTC). It is comprised of the counties of Arlington, Fairfax, and Loudoun; the cities of Alexandria, Falls Church, and Fairfax. The NVTC is primarily involved in transit initiatives, including the Washington Metropolitan Area Transit Authority (WMATA) and jointly operates the Virginia Rail Express (VRE).

The Northern Virginia Transportation Authority (NVTA) is comprised of the localities included in the NVTD plus Prince William County and the cities of Manassas and Manassas Park. Supported by regional revenues, the NVTA supports multimodal transportation projects.

Potomac and Rappahannock Transportation Commission (PRTC) includes the counties of Prince William, Stafford, and Spotsylvania and the cities of Manassas, Manassas Park, and Fredericksburg. It supports transit activities in the member localities and jointly operates the VRE.

Proposal

Retail Sales and Use Tax Rate Changes

The bill would decrease statewide sales and use tax from 4.3 to 4 percent.

The bill would also levy an additional sales tax (i) in NVTC localities at the rate of 0.385 percent, with the bill providing that revenue from the tax be deposited into the NVTDRF, (ii) in localities that are within the Northern Virginia Transportation Authority but not part of the NVTC (Prince William County and the Cities of Manassas and Manassas Park) at the rate of 0.615 percent with the revenue to be used by locality in which it was collected for public transportation purposes, and (iii) in PRTC localities at the rate of 0.2 percent with revenue therefrom allocated to the PRTCRCF.

Sales Tax Base Expansion

The bill would levy the retail sales and use tax on digital personal property and digital services.

Digital Personal Property

The bill would define "digital personal property" as property delivered electronically to an end user, including software, digital audio and audiovisual products, reading materials, and other data or applications, that the end user owns or has the ability to continually access, whether by downloading, streaming, or otherwise accessing the content, without having to pay an additional subscription or usage fee to the seller after paying the initial purchase price.

This bill would expand the definition of "tangible personal property" to include digital personal property.

The bill would define "digital subscription service" as a service, including audio and visual streaming services, that for a fee allows the end user to access and use software, reading materials, or other digital data or applications for a defined period of time, and which products the end user does not own or have permanent access to outside of such period of time.

The bill would define "end user" as any purchaser of a taxable service acquired or transferred electronically or tangible personal property for such purchaser's personal consumption or use, and not for the acquisition or transfer for resale or for use as a component part of or for the integration into a product transferred electronically. "End user" would not include a person who receives by contract a product transferred electronically, including digital personal property or a digital subscription service, for further commercial broadcast, rebroadcast, transmission, retransmission, licensing, relicensing, distribution, redistribution, or exhibition of the product, in whole or in part, to another person.

Services

The bill would define “digital services” as:

- Software applications;
- Computer-related;
- Website hosting and design;
- Data storage; and
- Digital subscription

The services that the bill would subject to sales tax include:

- Admissions;
- Charges for recreation, fitness, sports facilities, including membership fees/dues;
- Nonmedical personal services or counseling including:
 - Hair care
 - Skin care
 - Nail care
 - Cosmetology
 - Beauty
 - Tanning
 - Exercise
 - Nutrition
 - Weight control
 - Sensory stimulation
 - Relaxation services
 - Piercing, tattooing, exfoliation, implants, or other cosmetic body modifications;
- Dry cleaning and laundry services;
- Companion animal care, including grooming, boarding, walking, training, and feeding;
- Residential home repair and maintenance when the work doesn’t require a permit and is paid for directly by the homeowner or resident;
- Residential landscaping when paid for directly by the homeowner;
- Residential cleaning services when paid for directly by a resident or the homeowner;
- Vehicle and engine repair, maintenance, cleaning, painting, and remodeling;
- Repairs or alterations to tangible personal property or the functioning thereof;
- Delivery or shipping services, including wrapping and packing;
- Storage of tangible personal property, including climate-controlled storage and self-storage;
- Travel, event, and aesthetic planning services that are separately billed from the sale of product, including travel agents, event planning, catering, and interior design services; and
- Digital subscription services, including a digital code used to obtain a digital subscription service.

Changes to the List of Exempt Services

The bill would revise the list of services that are exempt from sales tax to include only:

- Professional services, including education or training, legal, financial, accounting and tax preparation, real estate, engineering, architectural, or insurance services;
- Services performed by a person who does not receive more than \$2,500 per year in gross receipts for performance of such services;
- Services that provide internet access service;
- Separately stated transportation charges;
- Gift-wrapping services performed by a non-profit;
- Sale or charges for the provision of transient accommodations for greater than 90 continuous days; and
- Residential cleaning, home repair or maintenance, or landscaping services that are purchased by a homeowners' association or similar entity or by a landlord for the benefit of his tenant.

"Taxable service" would include any transaction for digital services where the purchaser or consumer of the service is a business but does not include any service otherwise exempt.

Other Provisions

The bill would define "streaming" as a method of transmitting or receiving video and audio data over a computer network as a steady, continuous flow, allowing playback to proceed while subsequent data is being received.

The bill would define "transferred electronically" as obtained by the purchaser by means other than tangible storage media.

The bill would also provide that for bundled transactions, if the charge of a bundled transaction is attributable to taxable services or taxable property and services that are not taxable or property that is not taxable, the portion of the charge attributable to the nontaxable services or property shall be subject to tax unless the dealer is able to reasonably identify the nontaxable portion from its books and records kept in the regular course of business. Also, if the charge of a bundled transaction is attributable to taxable services or taxable property that are subject to different sales tax rates, the total price may be treated as attributable to the products subject to tax at the highest tax rate unless the dealer is able to reasonably identify the portion of such transaction that is subject to the lower tax rate from its books and records kept in the regular course of business.

The bill would define a "bundled transaction" as a transaction that includes taxable services or tangible personal property that is taxable and consists of distinct and identifiable properties, services, or both, sold for one nonitemized charge for which the tax treatment or tax rates of the distinct properties and services are different.

Communication Sales and Use Tax

The bill would also broaden the definition of “communications services” for purposes of the Communications Sales and Use Tax (“CSUT”) to include any other service utilizing any communications infrastructure, including international calling services, extended call area services, and internet application-based services. The bill would specifically include “digital subscription services” within the definition of “communications services” and provide that, with the exception of such “digital subscription services,” services are considered “communications services” regardless of whether the customer is billed for such service on the basis of a subscription charge, a periodic charge, or a charge for actual usage, including such a fee for the use of an internet-based application, excluding the original cost of purchasing the application.

Also for CSUT purposes, the bill would define “digital subscription service” as a service, including audio and visual streaming services, that for a fee allows the user to access and use software, reading materials, or other digital data or applications for a defined period of time, and which products the user does not own or have permanent access to outside of such period of time.

Digital personal property or digital services, including streaming services, would be exempt from the CSUT.

Regional Highway Use Fee

The bill would also impose a Regional Highway Use Fee, to be administered by DMV, of 29.34% of the highway use fee, assessed statewide on alternative fuel and electric motor or fuel-efficient vehicles. The bill would provide that revenue from vehicles garaged within the NVTC and PRTC would be deposited to the NVTDRF and PTRCRF, respectively, and revenues from other transportation districts being allocated similarly to benefit the district in which such fee was generated. The remaining revenue would be deposited to the Commonwealth Transportation Fund.

Retail Delivery Fee

The bill would also levy a twenty cent Retail Delivery Fee within Northern Virginia Transportation Commission localities and would allocate the revenues to the NVTDRF. This fee would not apply to food purchased for human consumption or essential personal hygiene products. The bill would also disallow the dealer discount for this fee and the Retail Delivery Fee rate would be indexed annually for inflation.

The bill’s second enactment would amend language in 2013 *Acts of Assembly* Chapter 766 to allow the tax decrease from 4.3 to 4 percent to avoid triggering the repeal of the tax provisions of that Act that allocated sales tax revenues for the benefit of transportation.

Similar Legislation

House Bill 900 is identical to this bill.

House Bill 1000 would create the Rappahannock Area Transportation Authority (“RATA”) and would impose within all RATA localities (i) an additional regional 0.5 percent sales and use tax, (ii) an additional transportation improvement grantor's fee at a rate of \$0.06 per \$100 of the consideration for the conveyance, and (iii) a local transportation transient occupancy tax at a rate of one percent. The bill would allocate all revenues from the new taxes and fees to the Rappahannock Area Transportation Fund (“RATF”), created by the bill. The bill would also increase the annual distribution of recordation tax revenues to cities and counties from \$20 million to \$55 million and dedicate \$15 million of such annual distribution to the RATF.

House Bill 1179 and **Senate Bill 638** would create new funds for the Northern Virginia Transportation District and the localities embraced by the Potomac and Rappahannock Transportation Commission for regional transit purposes. The bill would impose a regional sales and use tax for certain localities, a tax on transportation network companies, a tax on retail deliveries, and a tax on regional commercial parking. The bill would also impose a regional highway use fee on all vehicles in the Commonwealth that are subject to the existing highway use fee.

cc : Secretary of Finance

Date: 02/03/2026 VB
SB730F161