PERSONAL PROPERTY TAX RELIEF ACT

SPECIAL REVIEW

SEPTEMBER 2004

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

EXECUTIVE SUMMARY

We have completed our study of the Personal Property Tax Relief Act (the Act) as amended by Chapter 1 of the Act of Assembly 2004 General Assembly Special Session I and submit our report, "Personal Property Tax Relief Act Special Review."

The legislation introduces significant changes to the 1998 Act, which will reduce the Commonwealth's involvement in local government business processes; however this change will require a shift of roles and responsibilities. There are several issues that will impact localities. These changes include a shift of reimbursement payments from a calendar year to a fiscal year. The reimbursement amounts will reflect the locality's pro rata share of the total amount paid. The localities will need to set tax rates to comply with the new provisions of the statute and their fiscal needs.

To ensure a smooth implementation and transition of responsibility to localities, the Departments of Motor Vehicles and Taxation, and the Secretary of Finance should work closely with the Virginia Association of Counties and the Virginia Municipal League to identify and disseminate essential information including the need to comply with imposed deadlines within the statute. This includes establishing filing deadlines for tax year 2005 reimbursement requests and revising personal property tax billing procedures for current and delinquent tax notices. In addition, Taxation should continue providing localities with Schedule FED and other business schedules, which will assist localities in auditing personal property tax relief. Beginning with tax year 2006, localities will again assume full responsibility for compliance and enforcement of the personal property tax relief. Local assessing officials should continue to audit personal property tax relief to ensure taxpayers receive relief for qualified vehicles only.

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September 16, 2004

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Governor of Virginia
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Richmond VA

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
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General Assembly Building
Richmond, VA

We have completed our study of the Personal Property Tax Relief Act (the Act) as amended by Chapter 1 of the Act of Assembly 2004 General Assembly Special Session I and submit our report, "Personal Property Tax Relief Act Special Review."

Objectives

We had three objectives for our review of the Personal Property Tax Relief Act:

1. to gain an understanding of the current processes involved in administering the Act and determine the roles and responsibilities of state agencies, local governments, and other stakeholders;

2. to review Chapter 1 of the Act of Assembly 2004 General Assembly Special Session I and determine how the legislation impacts current processes; and

3. to determine if the Commonwealth's systems and the localities have sufficient information and controls to allow compliance with the statute.

Scope

In conducting this review, we researched processes, as well as the roles and responsibilities of state agencies, local governments and others involved in administering the Act. We obtained this information through interviews with state and local officials, and reviews of policies and procedures. We identified the critical systems for transaction processing and containing useful data. We also documented current processes and reviewed plans to implement new procedures to comply with the Act's amendments.

Summary

The legislation introduces significant changes to the 1998 Act, which will reduce the Commonwealth's involvement in local government business processes; however, these changes will require a shift of roles and responsibilities. There are several issues that will impact localities. These changes include a shift of reimbursement payments from calendar year to a fiscal year. The reimbursement amounts will reflect the locality's pro rata share of the total amount paid. The localities will need to set tax rates to comply with the new provisions of the statues and their fiscal needs.

To ensure a smooth implementation and transition of responsibility to localities, Motor Vehicles, Taxation, and the Secretary of Finance should work closely with the Virginia Association of Counties and the Virginia Municipal League to identify and disseminate essential information including he need to comply with imposed deadlines within the statute. This includes establishing filing deadlines for tax year 2005 reimbursement requests and revising personal property tax billing procedures for current and delinquent tax notices. In addition, Taxation should continue providing localities with Schedule FED and other business schedules which will assist localities in auditing personal property tax relief. Beginning with tax year 2006, localities will again assume full responsibility for compliance and enforcement of the personal property tax relief. Local assessing officials should continue to audit personal property tax relief to ensure taxpayers receive relief for qualified vehicles only.

We discussed this report with agency directors from the Departments of Accounts, Taxation, and Motor Vehicles.

AUDITOR OF PUBLIC ACCOUNTS

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PERSONAL PROPERTY TAX RELIEF ACT REVIEW OVERVIEW
September 2004

In 1998, the General Assembly enacted the Personal Property Tax Relief Act (the Act) to provide taxpayer relief of personal property taxes paid on the first $20,000 of value for qualifying vehicles. The Act defines a *qualifying vehicle* as a privately owned or leased car, motorcycle, and certain types of panel and pick-up trucks used for non-business purposes. The Act would have phased out the personal property tax on qualified vehicles over a five-year period beginning in tax year 1998. Table 1 illustrates the original phase-in schedule.

Table 1

Original Personal Property Tax Relief Act Phase-In Schedule

Year	Reimbursement Rate (%)
1998	12.5
1999	27.5
2000	47.5
2001	70.0
2002	100.0

During the 1998 tax year, taxpayers paid 100 percent of their tax bill and subsequently received a tax reimbursement check from the Commonwealth of Virginia for 12.5 percent of tax paid on a qualified vehicle. Beginning in the 1999 tax year, owners of qualified vehicles received a reduced tax bill from their locality. The Act requires that the tax bill indicate the tax amount before and after applying the relief. The taxpayer has the responsibility to pay the reduced amount. The “relief” to the taxpayer is the amount of the discounted tax. Localities receive relief reimbursement payments from the Commonwealth for the amount of the reduced tax collections by submitting a reimbursement request to the Department of Accounts (Accounts).

As noted in Table 1, the Act would have phased out the personal property tax on qualified vehicles over a five-year period; however, the General Assembly included provisions that would halt the phase-in. These conditions are:

- actual general fund revenues for a fiscal year are less than projected general fund revenues by 0.5 percent or more;

- the general fund revenue forecast provided by the Governor indicates that general fund revenues for any fiscal year will be less than five percent greater than general fund revenues for the preceding fiscal year; or

- the general fund revenue forecast provided by the Governor indicates that total general fund revenues available for appropriation for either of the fiscal years covered by the general appropriation act in effect at that time will be less than the general fund appropriations for the fiscal year(s).

Budget actions during the 2001 General Assembly session and declining state revenues in fiscal year 2002 resulted in a freeze of the reimbursement rate at 70 percent. Economic forecasts of state revenues for fiscal years 2003, 2004, and 2005 led the Governor to recommend, and the General Assembly to concur with, the continuation of the 70 percent reimbursement rate freeze.

Since the inception of the Act, the Commonwealth has paid over $3.6 billion to localities. For the past three fiscal years, the reimbursement rate was 70 percent, but as illustrated in Table 2 below, the total payments have steadily increased. For fiscal year 2004, the Commonwealth paid over $880 million in personal property tax reimbursements to localities. The Commonwealth's long range forecast of personal property tax relief anticipates this trend to continue.

Table 2

Personal Property Tax Reimbursement Rates and Payments

Year	Reimbursement Rate (%)	Total Payments*
1999	12.5	$181.3
2000	27.5	322.0
2001	47.5	603.7
2002	70.0	825.9
2003	70.0	856.6
2004	70.0	880.2

* *in millions*
Source: Commonwealth Accounting and Reporting System

During the 2004 Special Session I of the General Assembly, the legislature authorized major changes to the Act (see Appendix A). The changes set a total statewide reimbursement cap at $950 million for tax years 2006 and thereafter. Each county's, city's, or town's share of the $950 million for each subsequent tax year will reflect the locality's pro rata amount of the locality's actual payments for tax year 2005 compared to the total payments to all counties, cities, and towns for tax year 2005. These changes become effective January 1, 2006. In performing our review, we have identified several issues related to the recent legislative changes. A discussion of these issues is included in the "New Legislation" section of this report.

Current Process

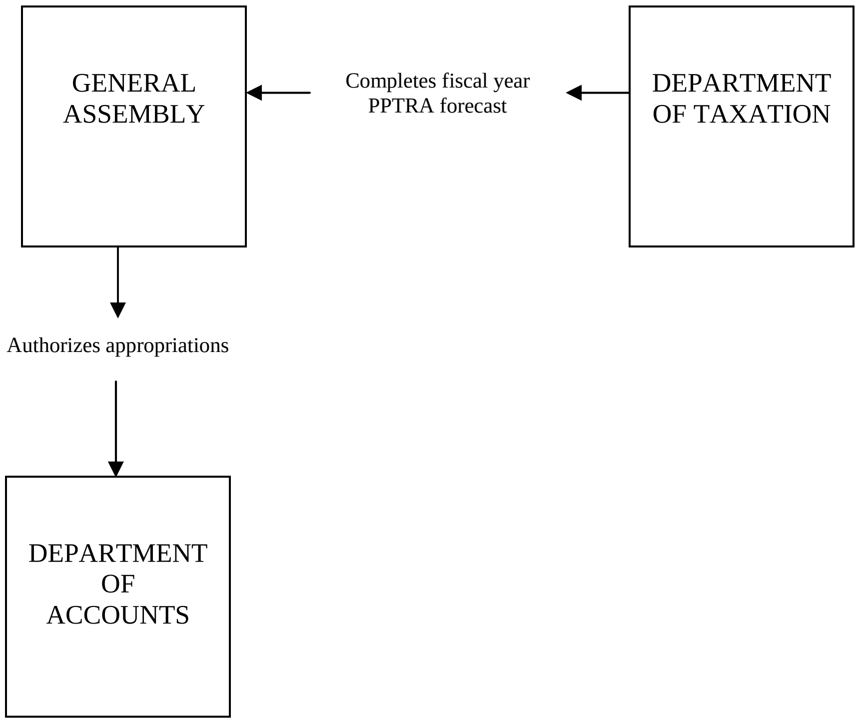
In order to implement the provisions of the original Act, four basic functions evolved. These functions: budgeting, reimbursement, reconciliation, and auditing and compliance currently take place at the state level. The Departments of Motor Vehicles, Taxation, and Accounts are the agencies responsible for providing these functions. We include a detailed flowchart of the current process in appendix B.

Budget Development

Two elements determine the budget for the Commonwealth's personal property tax relief reimbursement payments to localities. The first is the revenue forecast provided to the General Assembly each December by the Governor. The revenue forecast is important because it drives implementation of the Act, which, as noted previously, affects the timing of the graduated increase in the percentage relief.

The second element is the expenditure forecast of the personal property tax relief reimbursement payments to localities. This forecast helps the Governor and General Assembly determine the appropriations needed to cover the reimbursement payments. Until 2002, Motor Vehicles predicted the growth of the personal property tax reimbursements and developed the expenditure forecast. In 2002, this responsibility transferred to Taxation due to issues surrounding the accuracy of Motor Vehicles forecasts.

Chart 1



Detailed in Appendix B, Personal Property Tax Relief Reimbursement Process

To develop the estimates, Taxation relies on a model, which primarily uses the relationship between average assessed vehicle values and active vehicle registrations. The model projects expenditure information to the locality level, including the amount of anticipated reimbursement requests. Table 3 presents a comparison of the original appropriations to the actual reimbursement paid to localities in a fiscal year.

Table 3

Appropriations and Actual Expenditures for PPTRA Reimbursements to Localities

Year	Original Appropriation*	Actual Reimbursements*	Variance
1999	$222.4	$181.30	22.67%
2000	310.6	322.0	-3.54%
2001	572.4	603.7	-5.18%
2002	855.4	825.9	3.57%
2003	819.2	856.6	-4.37%
2004	847.9	880.2	-3.80%

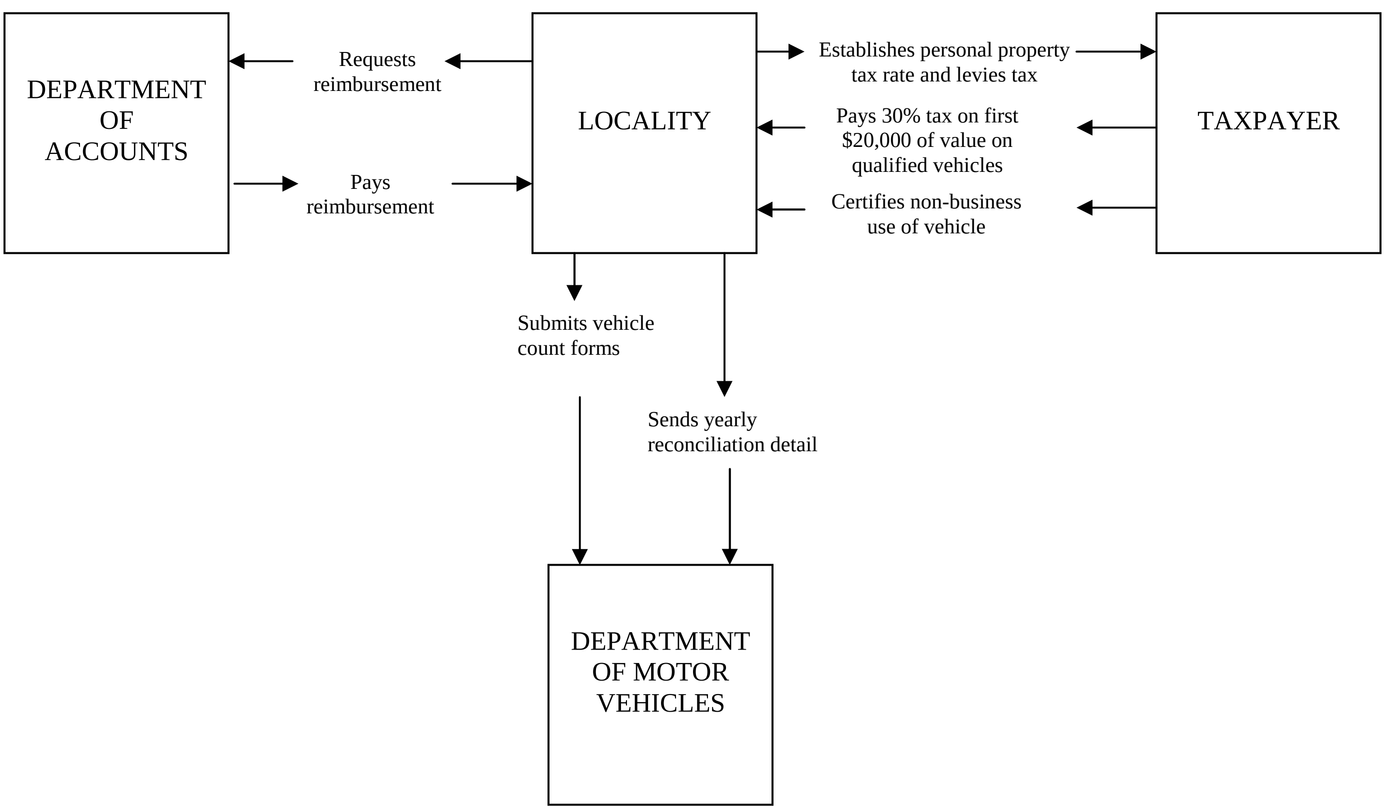
** In millions*
Sources: Virginia Acts of the Assembly, Commonwealth Accounting and Reporting System

Reimbursement

Each locality establishes a personal property tax rate. A locality's tax rate for its general class of tangible personal property tax is, in part, the basis for reimbursement payments received from the Commonwealth. In 1998, the General Assembly included language that allows a locality to increase the tax rates on vehicles, but froze the tax rate for which the locality could receive reimbursements at the 1998 levels. For vehicles qualifying for personal property tax relief, the locality collects from citizens 30 percent of personal property tax on the first $20,000 of the assessed vehicle value and 100 percent of personal property tax on the assessed vehicle value above $20,000. Localities do not collect any tax for vehicles with values of $1,000 or less, which the Commonwealth reimburses at 100 percent.

Four actions must occur to complete the reimbursement process. First, the locality must send qualified vehicle owners a tax bill that has the total tax amount less the current 70 percent relief. Second, the taxpayer must pay the net tax amount before the locality can submit the amount for reimbursement. Third, the locality submits a request for reimbursement to Accounts. The Act does not specify the timing of reimbursement requests. With the exception of tax year 1998, the current practice allows localities to submit requests for prior year reimbursements when taxpayer pays the delinquent taxes. Localities submit reimbursement requests, daily, weekly, or even once per year. Fourth, Accounts processes these reimbursement requests and provides payment to the locality.

Chart 2



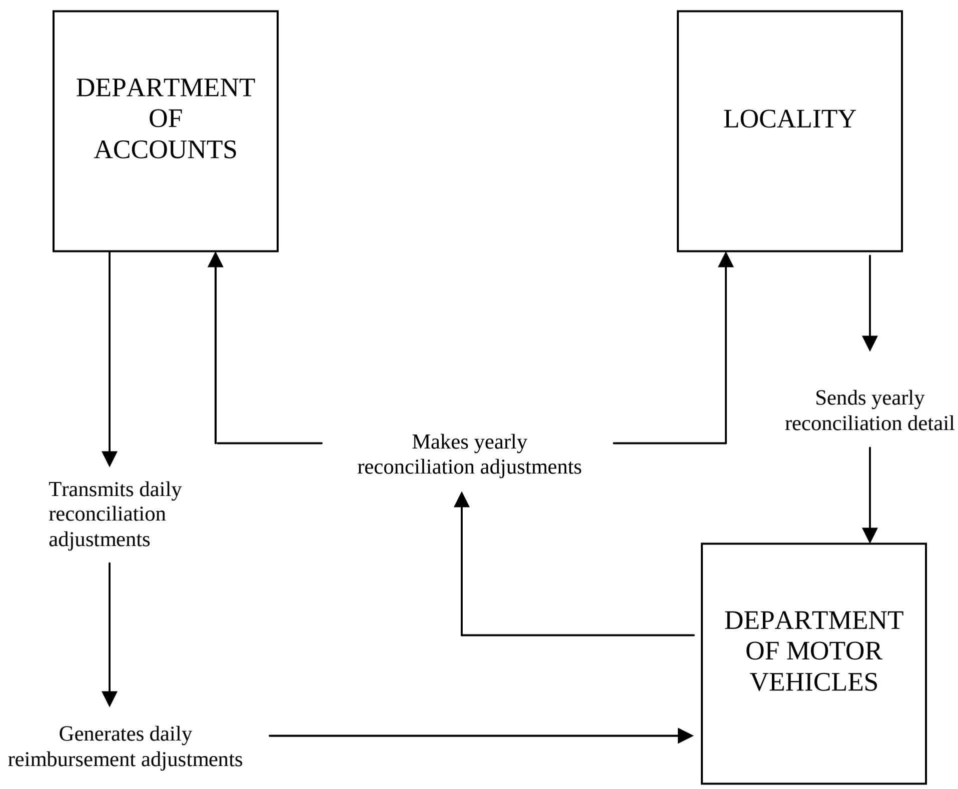
Detailed in Appendix B, <u>Personal Property Tax Relief Reimbursement Process</u>

As shown in Chart 2, the locality submits their requests for reimbursement to Accounts and must submit a vehicle count form to Motor Vehicles. Daily, Motor Vehicles extracts the reimbursement request information from Accounts. It is their responsibility to monitor reimbursement payments. If it is evident the projection was off, Motor Vehicles may request repayment or allow the reimbursement as a detailed reconciliation will occur after the close of the tax year. The verification process conducted by Motor Vehicles can also identify potential underpayments. As a matter of practice, Taxation and Motor Vehicles will contact localities if they have not submitted timely reimbursement requests to ensure the current projections and future forecasts are based on reliable information.

The second verification check occurs after the close of the tax year. Beginning in January and continuing for the next 12 months, Motor Vehicles conducts a detailed reconciliation between the reimbursement requests granted in the previous year with individual vehicle data from the localities. Localities send a list of qualified vehicle identification numbers, owner information, tax rate information, as well as the required owner's certification of qualification. The purpose of this check is to find duplicate reimbursements for vehicles. For example, the 2002 reconciliation originally found 33,927 duplicate reimbursements issued with an estimated liability of $2.5 million. Once identified, Motor Vehicles sends a letter to the Treasurer of the locality to request under or over payments.

On November 1 of each year, as required by law, Taxation releases to each locality an estimate of anticipated reimbursements for that tax year. To save time and resources, towns have the option to use this estimate as a basis of reimbursement payments rather than participate in the reconciliation process described above.

Chart 3



Detailed in Appendix B, Personal Property Tax Relief Reimbursement Process

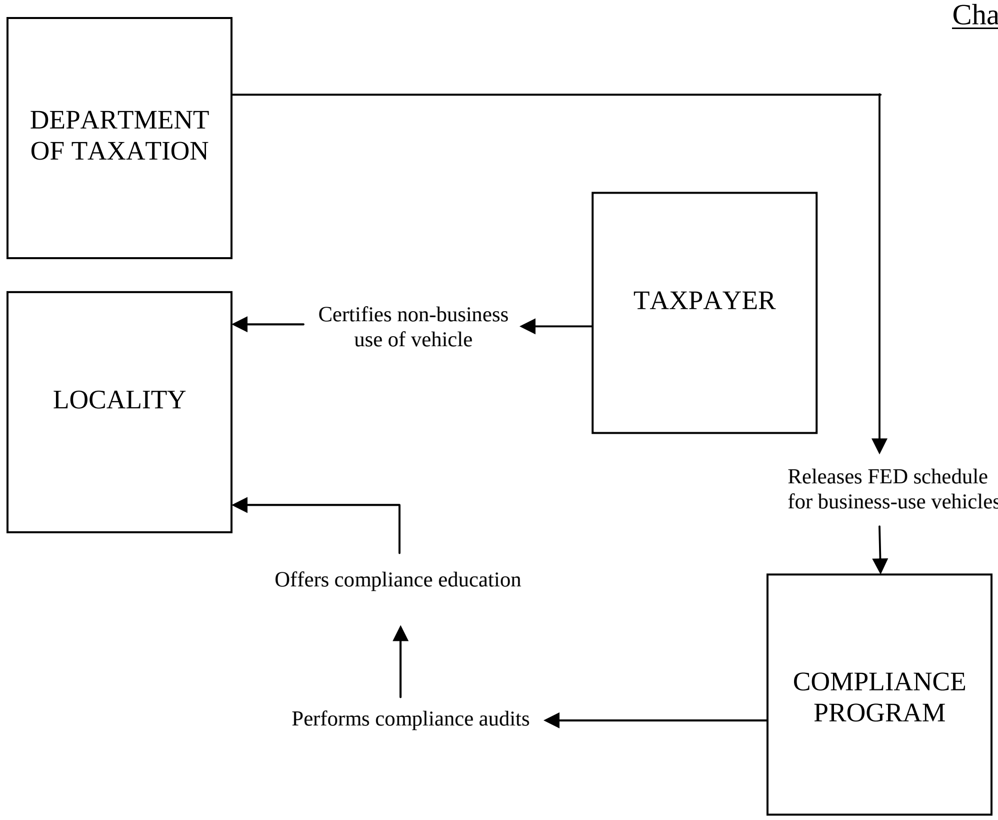
Auditing and Compliance

As a result of Senate Joint Resolution 127 of the 2000 General Assembly, the Auditor of Public Accounts issued its first review of the Personal Property Relief Act (PPTRA) program in December 2000. One recommendation issued in this report was that Taxation provide the Commissioners of Revenue more information about vehicles in their localities to identify those claiming a tax deduction for business use. This recommendation led to the creation of the PPTRA Compliance Program. The 2002 Acts of the General Assembly, Chapter 814 implemented this recommendation and charged the responsibility of the Compliance Program to Taxation. The objectives of this program were to enhance taxpayer knowledge and compliance with the Act and to establish cost-effective verification and audit procedures.

The Compliance Program identified various ways to contact taxpayers and inform them of the Act's eligibility requirements. It designed a certification process to ensure that taxpayers claimed only eligible vehicles. Beginning in January 2003, all new and renewal registrations include a certification statement for the vehicle owner to attest that the vehicle is eligible for tax relief. Motor Vehicles makes this certification information available to Commissioners of the Revenue and other local assessing officials to assist in the local certification process.

The Compliance Program requires each locality to develop, implement, and document a compliance assurance measures program. Taxation provides a list of compliance measures to assist the localities in developing their certification programs. The programs seek to identify likely cases of relief mistakenly granted for non-qualifying vehicles. Localities must report the results of their efforts annually to Taxation. Taxation expects to audit all 134 localities at least once between 2004 and 2006.

Chart 4



Detailed in Appendix B, <u>Personal Property Tax Relief Reimbursement Process</u>

New Legislation

While the definition of a qualifying vehicle remains the same, the 2004 General Assembly authorized major changes to the Act effective January 1, 2006. The revised legislation reduces the state's involvement in local government business processes. The changes include:

- setting a total statewide reimbursement amount of $950 million;
- requiring localities to calculate a reduced personal property tax rate;
- requiring the Auditor of Public Accounts to certify actual 2005 tax year reimbursement payments to localities;
- establishing new personal property tax billing requirements for localities; and
- returning the auditing and compliance functions to the local government level.

We will discuss these changes and their effect on the personal property tax reimbursement process in more detail below.

Reimbursement Limit

From fiscal year 1999 through 2004, personal property tax relief reimbursement payments to localities increased from $181 million to $880.2 million (see Table 2). Prior to modifying the Act, projections by Taxation estimated that reimbursements would increase to $997 million by fiscal year 2006. The legislative changes established a $950 million reimbursement cap that limits the amount the state will pay to localities beginning in fiscal year 2007.

The Department of Planning and Budget estimates that this legislation will defer costs to the General Fund of the Commonwealth of approximately $277 million in fiscal year 2006. As Table 4 indicates, the original forecast for fiscal year 2006 anticipates reimbursement payments totaling $996.9 million. The change in legislation has reduced this forecast to $719.9 million.

Table 4

Personal Property Tax Reimbursements – Forecasted and Actual

Year	Forecast	Actual
1999	$ 159.9	$181.3
2000	321.7	322.0
2001	598.7	603.7
2002	809.4	825.9
2003	874.0	856.6
2004	901.2	880.2
2005	947.9	-
2006	996.9	-
2007	1,046.8	-

Sources: Department of Taxation, Office of Revenue Forecasting
The Commonwealth Accounting and Reporting System

Distribution of the $950 million will be a locality's pro rata share of its reimbursement request to the total reimbursements for the 2005 tax year paid in fiscal year 2007. The state will distribute the pro rata share starting July 1, 2006, though the method of distribution has yet to be determined. This change in the process shifts reimbursement payments from a tax year to a fiscal year basis, thus generating savings of $277 million for payments not made during the last six months of fiscal year 2006. Approximately 28 percent of localities have a billing cycle with payments due after January 1, 2006 and many of these payments typically occur in the months of May and June. The Secretary of Finance, Virginia Association of Counties, and Virginia Municipal League will determine the actual timing of the payments beginning in fiscal year 2007.

Locality Rates and Reimbursements

Historically, general personal property taxes provide localities a mechanism for collecting revenue on a number of classes of personal property including personal vehicles, mobile homes, and certain farm animals. To tax this property, localities establish a general personal property tax rate and assess the value of the property as of the first day of the tax or calendar year. Most localities use these revenues for general government purposes.

The original Act required localities to establish a general personal property tax rate; however for qualifying vehicles, localities now collect this revenue from two sources. Citizens pay a percentage of the personal property tax due, while the state provides relief to taxpayers by reimbursing the locality for the remainder. Based on current relief percentages for qualifying vehicles, citizens provide 30 percent and the state provides 70 percent of personal property tax revenue.

The legislative changes require localities to establish a general personal property tax rate and calculate reduced personal property tax rate for qualifying vehicles not in excess of $20,000 based on the localities' pro rata share of the $950 million. Using the General rate, the locality estimates the total personal property tax revenues the General rate would generate for the entire personal property levy. Localities prepare this revenue estimate for qualifying vehicles in excess of $20,000 and then using the revenue estimate for qualifying vehicles under $20,000 calculates the reduced personal property tax rate. The localities calculate the reduced personal property tax rate by taking the estimated revenues generated by the General rate for qualifying vehicles under $20,000 and subtract the anticipated amount of the state reimbursement. The net amount of the estimated personal property revenue divided by the value of qualifying vehicles under $20,000 equals the reduced personal property tax rate.

Levy Calculation

Assessed Value				Calculated Revenue
Qualifying vehicle in excess of $20,000	x	General personal property tax rate	=	Estimated revenue
Qualifying vehicle under $20,000	x	General personal property tax rate	=	Estimated revenue
				Total estimated personal property tax revenue levy

Calculation of Reduced Personal Property Rate

Estimated revenue of value of qualifying vehicle under $20,000	-	Anticipated amount of the state reimbursement	=	Net local estimated revenues from taxpayers
Net local estimated revenues from taxpayers	÷	Value of qualifying vehicle under $20,000	=	Reduced rate

The legislation sets a fixed reimbursement cap and these pro rata amounts represent reimbursements to localities for tax transactions. The reimbursement amounts will reflect the payments made to localities for the 2005 tax year and will not change for future periods. A locality will receive the same amount of reimbursement for personal property tax relief no matter what tax rate the locality applies to qualified vehicles, unless the General Assembly changes the reimbursement cap.

Auditor of Public Accounts Certification

The legislation requires the Auditor to certify actual tax year 2005 reimbursement payments to localities by March 1, 2006. The legislative language does not specify a deadline for localities to submit tax year 2005 reimbursement requests. However, most of the payments for a tax year have occurred by December 31.

Under the current practice, Accounts and Motor Vehicles accept reimbursement requests for the five previous tax years. Delayed requests may be the result of a delinquent taxpayer settling his responsibilities or of a locality failing to promptly request reimbursement for bills already submitted by the vehicle owner. Only 132 of 277 (48 percent) eligible localities submitted some amount of reimbursement request before December 31, 2003. Based on estimates for 2003, approximately $192 million remained outstanding on January 1, 2004. Historically, the Commonwealth has not stressed the timely submission of reimbursement requests.

The lack of a specified deadline in the legislative language, in addition to the current Commonwealth reimbursement practice, may result in localities submitting their 2005 reimbursement requests too late to be certified. To further complicate these issues, many Commonwealth localities have tax due dates late in the calendar year. In fact, 76 percent of Virginia’s counties have final car tax collection dates on December 5 or later. Late submissions of reimbursement requests could negatively affect the locality’s relief allocation for 2006 and subsequent tax years. It is, therefore, essential that Motor Vehicles, Taxation, and the Secretary of Finance work with the Virginia Association of Counties and the Virginia Municipal League to inform localities of these potential deadlines.

The legislation did not establish a payment schedule for tax year 2006 reimbursements. The July 1 start date could potentially create a cash flow problem for localities that historically collect a substantial portion of their tangible personal property taxes in the first half of the tax year. The legislation provides that the Commonwealth reimburse any county, city, or town with a due date that falls in the first six months of 2006 for any interest expense incurred for short-term financing required during the transition.

Compliance and Auditing

The compliance program established at Taxation has funding through the 2005-2006 biennium. However, the changes to the Act discussed above will eventually eliminate the compliance and auditing program at the state level. Localities will need to again assume this responsibility and will need to continue receiving this information. The localities should work with Taxation to continue the flow of this compliance information.

Summary

The legislation introduces significant changes to the 1998 Act, which will reduce the Commonwealth's involvement in local government business processes; however this change will require a shift of roles and responsibilities. There are several issues that will impact localities. These changes include a shift of reimbursement payments from a calendar year to a fiscal year. The reimbursement amounts will reflect the locality's pro rata share of the total amount paid. The localities will need to set tax rates to comply with the new provisions of the statute and their fiscal needs.

To ensure a smooth implementation and transition of responsibility to localities, the Departments of Motor Vehicles and Taxation, and the Secretary of Finance should work closely with the Virginia Association of Counties and the Virginia Municipal League to identify and disseminate essential information including the need to comply with imposed deadlines within the statute. This includes establishing filing deadlines for tax year 2005 reimbursement requests and revising personal property tax billing procedures for current and delinquent tax notices. In addition, Taxation should continue providing localities with Schedule FED and other business schedules, which will assist localities in auditing personal property tax relief. Beginning with tax year 2006, localities will again assume full responsibility for compliance and enforcement of the personal property tax relief. Local assessing officials should continue to audit personal property tax relief to ensure taxpayers receive relief for qualified vehicles only.

Appendix A

Personal Property Tax Relief

as amended by Chapter 1 of the Act of Assembly
2004 General Assembly Special Session I

§ 58.1-3524 (Effective until January 1, 2006)
Reimbursement of tangible personal property taxes; deduction on tangible personal property tax bills.

A. For tax year 1998, the Commonwealth shall directly reimburse taxpayers, for tangible personal property tax levies paid on any qualifying vehicle, a percentage of the reimbursable amount determined pursuant to subdivision B 1, as provided in § 58.1-3525. For tax year 1999 and tax years thereafter, the Commonwealth shall pay to treasurers a percentage of the reimbursable amount determined pursuant to subdivisions B 2 through B 5 on any qualifying vehicle, as provided in § 58.1-3526.

B. Subject to the conditions of subsections C and D, the amount of the reimbursement to taxpayers for tax year 1998 and the amount of the payments to treasurers for tax years after 1998 shall be 100 percent for qualifying vehicles with a value of one thousand dollars or less and for each qualifying vehicle with a value of more than one thousand dollars shall be as follows:

Percentage Level

1. For any tax year beginning in 5 percent of the reimbursable calendar year 1998 amount for each qualifying vehicle

2. For any tax year beginning in 27.5 percent of the reimbursable calendar year 1999 amount for each qualifying vehicle

3. For any tax year beginning in 47.5 percent of the reimbursable calendar year 2000 amount for each qualifying vehicle

4. For any tax year beginning in 70 percent of the reimbursable calendar year 2001 amount for each qualifying vehicle

5. For any tax year beginning in 100 percent of the reimbursable calendar year 2002 and tax amount for each qualifying vehicle years thereafter

C. Notwithstanding the schedule set forth in subsection B, the percentage level for each qualifying vehicle to be paid by the Commonwealth for a tax year shall not be increased at the beginning of any calendar year above the percentage level paid by the Commonwealth in the preceding tax year if:

1. Actual general fund revenues for a fiscal year, including transfers, are less than the projected general fund revenues, as reported in the general appropriation act in effect at that time, by one-half of one percent or more of the amount of actual general fund revenues for such fiscal year;

2. The general fund revenue forecast provided by the Governor in December pursuant to §2.2-1503 indicates that general fund revenues, excluding transfers, for any fiscal year will be less than five percent greater than general fund revenues for the immediately preceding fiscal year; or

3. The general fund revenue forecast provided by the Governor in December pursuant to §2.2-1503 indicates that total general fund revenues available for appropriation, including transfers, for either of the fiscal years covered by the general appropriation act in effect at that time will be less than the general fund appropriations for such fiscal year or years.

D. If the percentage level remains the same for consecutive tax years, the percentage level to be used in the following tax year shall remain the same unless none of the conditions described in subsection C have occurred, in which event the amount to be paid by the Commonwealth for the immediately following tax year shall be equal to the next highest percentage amount listed in subsection B.

E. An amount equal to the percentage of the reimbursable amount as determined under subdivisions.

B 2 through B 5 shall appear as a deduction on the tangible personal property tax bill for qualifying vehicles, as provided by subsection E of § 58.1-3912.

1. In the event the General Assembly changes the percentage of the reimbursable amount as described under subsection B for the current tax year and a locality has already printed its tangible personal property tax bills for qualifying vehicles for the year that the percentage is changed, the following procedures shall apply:

   a. If the percentage of the reimbursable amount is decreased for the current tax year and the taxpayer has paid the assessment, the locality may (i) levy an additional amount for the amount of the difference between the percentage of the reimbursable amount for the tax year reflected on the original assessment and the percentage of the reimbursable amount for the tax year as modified by the General Assembly in the current year or (ii) carry forward the additional levy and include it on the subsequent tax bill, provided such levy is not subject to penalty and interest.

   b. If the percentage of the reimbursable amount is increased for the current tax year and the taxpayer has paid the assessment, the locality shall issue a refund to the taxpayer for the amount of the difference between the percentage of the reimbursable amount for the tax year reflected on the original assessment and the percentage of the reimbursable amount for the tax year as modified by the General Assembly in the current tax year. Such refunds shall be issued by the treasurer no later than thirty days after receipt of the payment from the Commonwealth pursuant to § 58.1-3526.

2. In the event the General Assembly changes the percentage of the reimbursable amount as described under subsection B before a locality has printed its tangible personal property tax bills for qualifying vehicles, the following procedures shall apply:

   a. If the percentage of the reimbursable amount is decreased for the current tax year, the locality may adjust each taxpayer's tangible personal property tax bill to reflect the changes made by the General Assembly to the percentage of the reimbursable amount.

   b. If the percentage of the reimbursable amount is increased for the current tax year, the locality shall adjust each taxpayer's tangible personal property tax bill to reflect the changes made by the General Assembly to the percentage of the reimbursable amount. (1998, Sp. Sess. I, c. 2)

§ 58.1-3524. (Effective January 1, 2006)
Tangible personal property tax relief; local tax rates on vehicles qualifying for tangible personal property tax relief

A. For tax year 2006 and all tax years thereafter, counties, cities, and towns shall be reimbursed by the Commonwealth for providing the required tangible personal property tax relief as set forth herein.

B. For tax year 2006 and all tax years thereafter, the Commonwealth shall pay a total of $950 million for each such tax year in reimbursements to localities for providing the required tangible personal property tax relief on qualifying vehicles in subsection C. No other amount shall be paid to counties, cities, and towns for providing tangible personal property tax relief on qualifying vehicles. Each county's, city's, or town's share of the $950 million for each such tax year shall be determined pro rata based upon the actual payments to such county, city, or town pursuant to this chapter for tax year 2005 as compared to the actual payments to all counties, cities, and towns pursuant to this chapter for tax year 2005, as certified in writing by the Auditor of Public Accounts no later than March 1, 2006, to the Governor and to the chairmen of the Senate Committee on Finance and the House Committee on Appropriations. The amount reimbursed to a particular county, city, or town for tax year 2006 for providing tangible personal property tax relief shall be the same amount reimbursed to such county, city, or town for each subsequent tax year.

The reimbursement to each county, city, or town for tax year 2006 shall be paid by the Commonwealth over the 12-month period beginning with the month of July 2006 and ending with the month of June 2007, as provided in the general appropriation act. For all tax years subsequent to tax year 2006, reimbursements shall be paid over the same 12-month period. All reimbursement payments shall be made by check issued by the State Treasurer to the respective treasurer of the county, city, or town on warrant of the Comptroller.

C. For tax year 2006 and all tax years thereafter, each county, city, or town that will receive a reimbursement from the Commonwealth pursuant to subsection B shall provide tangible personal property tax relief on qualifying vehicles by reducing its local tax rate on qualifying vehicles as follows:

1. The local governing body of each county, city, or town shall fix or 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;

2. 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 shall fix or establish one or more reduced tax rates (lower than the rate applied to the general class of tangible personal property) that shall be applied solely to that portion of the value of each qualifying vehicle that is not in excess of $20,000. 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. Such reduced tax rate or rates shall be set at an effective tax rate or rates such that (i) the revenue to be received from such reduced tax rate or rates on that portion of the value of qualifying vehicles not in excess of $20,000 plus (ii) the revenue to be received on that portion of the value of qualifying vehicles in excess of $20,000 plus (iii) the Commonwealth's reimbursement is approximately equal to the total revenue that would have been received by the county, city, or town from its tangible personal property tax had the tax rate for its general class of tangible personal property been applied to 100 percent of the value of all qualifying vehicles.

D. On or before the date the certified personal property tax book is required by § 58.1-3118 to be provided to the treasurer, the commissioner of the revenue shall identify each qualifying vehicle and its value to the treasurer of the locality.

E. The provisions of this section are mandatory for any county, city, or town that will receive a reimbursement pursuant to subsection B. (1998, Sp. Sess. I, c. 2; 2004, Sp. Sess. I, c. 1)

Appendix B

Personal Property Tax Relief Reimbursement Process