



# COMMONWEALTH of VIRGINIA

## *Department of Taxation*

October 29, 2004

The Honorable John H. Chichester  
Chairman, Senate Finance Committee  
Post Office Box 904  
Fredericksburg, Virginia 22404

The Honorable Vincent F. Callahan, Jr.  
Chairman, House Appropriations Committee  
Post Office Box 1173  
McLean, Virginia 22101

RE: Annual Report of Personal Property Tax Relief Act  
Total Overpayments by the Commonwealth and  
Compliance Program Results for FY2004

Dear Chairmen Chichester and Callahan:

Item 286 F.1 of Chapter 4 (the Appropriations Act) of the 2004 Special Session I Acts of Assembly requires the Department of Taxation to continue the comprehensive Personal Property Tax Relief Act (PPTRA) Compliance Program begun January 1, 2003. Item 286 F.9 of the Appropriations Act requires the Department of Taxation to make an annual report to you by November 1 on the total overpayments by the Commonwealth that have been identified for the prior fiscal year. TAX developed and distributed compliance guidelines to all Commissioners of the Revenue and Treasurers in August 2002.

The Car Tax Compliance Program consists of three major components. The first component requires taxpayers to be notified in plain English of the limitations on receiving car tax relief through existing processes such as vehicle titling, registration renewal, decal purchases, personal property tax return filings and tax billings. The second component requires taxpayers to certify the use of the vehicle as either personal or business. The final component requires each Commissioner of the Revenue to develop and implement a compliance program designed to identify and to audit likely cases of car tax relief being granted to nonqualifying vehicle owners. TAX provides information from Virginia income tax returns to assist Commissioners in discovering car tax audit candidates.



### **Audits conducted by Commissioners of the Revenue**

Commissioners of the Revenue are required to report to the Tax Commissioner the results of their audits annually by July 15. The reports provide audit results from July 1, 2003 through June 30, 2004. Local audits identified 22,805 business use vehicles erroneously receiving tax relief. The vehicle owners were billed for the relief previously granted and \$5,360,259.58 in erroneous PPTRA reimbursements was credited to the Commonwealth by the State Comptroller and will be recovered from future PPTRA reimbursements to the localities involved in the overpayments.

### **Audits conducted by TAX**

Item 286 F.6 of the Appropriations Act requires the Department of Taxation to audit the personal property records of localities to ensure localities are complying with the Act. Annually, DMV reviews all localities' submissions for reimbursement to ensure that the Commonwealth has not reimbursed tax relief on a qualifying vehicle for more than 12 months in the same year or for overlapping tax periods. This process is completed in the spring of each year and DMV's records are provided to TAX for use in auditing the localities.

The first generation of local tax records subject to the Appropriations Act requirements became available for TAX to audit in the fourth quarter of FY04. TAX conducted ten local audits by the end of FY04. These audits identified 69 business use vehicles erroneously receiving tax relief. The amount of tax relief recovered totaled \$6,632.63. The PPTRA Compliance Program Guidelines issued by TAX in August 2002 defined a "substantially noncompliant" locality as one with an error rate greater than ten percent. The average error rate for the ten localities audited was one percent. No locality was determined to be substantially noncompliant.

### **Statewide Summary**

The Car Tax Compliance Program is working as intended by the General Assembly. Taxpayers have been educated about vehicle qualifications. Commissioners of the Revenue have been diligent in developing and implementing audit programs. Taxpayers made voluntary compliance efforts by certifying the correct use of their vehicles.

Commissioners of the Revenue performed proactive measures to disqualify non-eligible vehicles prior to personal property tax billings. These measures included qualification tests of vehicle weight and ownership, license plate type, and direct discussion with taxpayers during the certification process. Disqualifications prior to tax billings were not tracked.

The Honorable John H. Chichester  
The Honorable Vincent F. Callahan, Jr.  
October 29, 2004  
Page 3

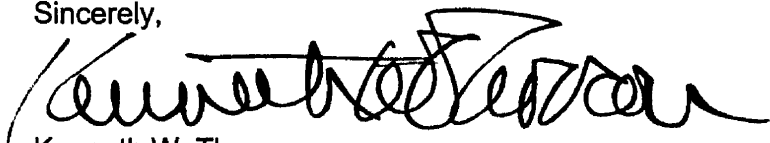
Local audits conducted with the information provided by TAX reduced car tax reimbursements from the Commonwealth by \$5.4 million in FY04. As reported this time last year, local audits conducted the previous year recovered \$1.7 million in state reimbursements made in FY03. For FY03 and FY04 combined, local car tax audits reduced car tax reimbursements by \$7.1 million. While impossible to track, voluntary compliance generated by improved taxpayer education also contributed to reduced reimbursements. In the 2002-04 biennium, the newly mandated Compliance Program, through both voluntary and involuntary compliance, was expected to reduce car tax reimbursements to localities by \$8.5 million.

Audits conducted by TAX and Commissioners of the Revenue identified 22,874 business use vehicles erroneously receiving tax relief. The amount of tax relief recovered totaled \$5,366,892. Attached are the results of PPTRA local audits by locality. Statewide, the average recovery per vehicle was \$235.05. The average recovery per vehicle in urban jurisdictions was \$246.63 and rural jurisdictions were \$211.83.

In FY05, TAX has scheduled 70 audits to measure local compliance with the Act. The results of these audits will be included in next year's report to you.

The Department of Taxation is justifiably proud of the efforts of its staff and those of local officials in implementing this program. All signs indicate that the new programs of public awareness and local audits are saving millions of dollars and are achieving the objectives intended by the General Assembly.

Sincerely,



Kenneth W. Thorson  
Tax Commissioner

Attachment

c: The Honorable John M. Bennett  
Secretary of Finance  
Mr. David Von Moll, State Comptroller  
Department of Accounts  
Mr. Ric Brown, Director  
Department of Planning and Budget  
Mr. D. B. Smit, Commissioner  
Department of Motor Vehicles  
Division of Legislative Automated Systems

**Results of PPTRA Audits by Locality  
July 1, 2003 - June 30, 2004**

Locality Name	Ineligible Vehicles Identified	Tax Relief Amount		Locality Name	Ineligible Vehicles Identified	Tax Relief Amount
Accomack	3	\$ 838.35		Floyd	3	\$ 235.76
Albemarle	41	\$ 2,984.46		Fluvanna	119	\$ 13,602.37
Alexandria	174	\$ 43,268.54		Franklin (County)	43	\$ 4,077.44
Alleghany	-	\$ -		Franklin (City)	1	\$ 31.50
Amelia	8	\$ 2,039.54		Frederick	115	\$ 38,206.71
Amherst	1	\$ 343.00		Fredericksburg	39	\$ 6,357.91
Appomattox	4	\$ 1,110.24		Galax	-	\$ -
Arlington	31	\$ 8,483.00		Giles	43	\$ 4,410.00
Augusta	450	\$ 41,979.00		Gloucester	144	\$ 15,857.41
Bath	1	\$ 28.00		Goochland	24	\$ 4,819.99
Bedford (County)	297	\$ 40,226.00		Grayson	5	\$ 228.72
Bedford (City)	2	\$ 61.74		Greene	-	\$ -
Bland	-	\$ -		Greensville	37	\$ 7,953.60
Botetourt	57	\$ 6,436.53		Halifax	38	\$ 3,310.26
Bristol	277	\$ 40,580.00		Hampton	63	\$ 14,701.56
Brunswick	12	\$ 565.45		Hanover	97	\$ 40,093.00
Buchanan	-	\$ -		Harrisonburg	32	\$ 14,303.00
Buckingham	48	\$ 11,015.00		Henrico	2,135	\$ 252,679.70
Buena Vista	-	\$ -		Henry	21	\$ 879.00
Campbell	9	\$ 1,021.61		Highland	-	\$ -
Caroline	84	\$ 21,484.14		Hopewell	-	\$ -
Carroll	17	\$ 1,321.00		Isle of Wight	54	\$ 2,248.77
Charles City	-	\$ -		James City	40	\$ 9,934.00
Charlotte	107	\$ 9,429.98		King George	17	\$ 2,994.00
Charlottesville	131	\$ 62,272.53		King & Queen	7	\$ 1,497.36
Chesapeake	1,362	\$ 353,893.00		King William	4	\$ 870.00
Chesterfield	1,517	\$ 638,020.80		Lancaster	-	\$ -
Clarke	11	\$ 6,463.66		Lee	-	\$ -
Colonial Heights	10	\$ 2,308.44		Lexington	10	\$ 2,048.51
Covington	-	\$ -		Loudoun	1,512	\$ 531,930.30
Craig	4	\$ 646.29		Louisa	4	\$ 263.00
Culpeper	325	\$ 78,827.26		Lunenburg	17	\$ 2,556.78
Cumberland	2	\$ 187.43		Lynchburg	248	\$ 47,232.20
Danville	6	\$ 830.84		Madison	16	\$ 2,184.81
Dickenson	-	\$ -		Mathews	9	\$ 1,607.63
Dinwiddie	2	\$ 785.00		Manassas	49	\$ 9,534.24
Emporia	1	\$ 700.00		Manassas Park	14	\$ 2,443.00
Essex	3	\$ 554.94		Martinsville	53	\$ 4,307.02
Fairfax (County)	6,792	\$ 1,665,187.66		Mecklenburg	7	\$ 310.18
Fairfax (City)	-	\$ -		Middlesex	3	\$ 401.00
Falls Church	32	\$ 6,957.83		Montgomery	7	\$ 1,582.62
Fauquier	595	\$ 154,873.04		Nelson	8	\$ 1,364.19

**Results of PPTRA Audits by Locality  
July 1, 2003 - June 30, 2004**

Locality Name	Ineligible Vehicles Identified	Tax Relief Amount		Locality Name	Ineligible Vehicles Identified	Tax Relief Amount
New Kent	19	\$ 12,809.69		Rockbridge	-	\$ -
Newport News	867	\$ 211,422.51		Rockingham	26	\$ 5,026.68
Norfolk	208	\$ 80,599.09		Russell	7	\$ 439.24
Northampton	20	\$ 3,134.00		Salem	21	\$ 9,999.00
Northumberland	10	\$ 947.27		Scott	1	\$ 241.83
Norton	-	\$ -		Shenandoah	25	\$ 6,442.72
Nottoway	7	\$ 1,617.01		Smyth	14	\$ 1,811.16
Orange	25	\$ 2,348.25		Southampton	59	\$ 6,798.16
Page	12	\$ 1,463.36		Spotsylvania	1,516	\$ 251,991.38
Patrick	3	\$ 320.83		Stafford	554	\$ 49,664.09
Petersburg	18	\$ 2,937.00		Staunton	16	\$ 1,906.83
Pittsylvania	21	\$ 3,111.63		Suffolk	160	\$ 37,306.28
Poquoson	40	\$ 10,534.58		Surry	-	\$ -
Portsmouth	-	\$ -		Sussex	42	\$ 4,142.00
Powhatan	6	\$ 1,596.42		Tazewell	23	\$ 1,493.71
Prince Edward	14	\$ 3,371.20		Virginia Beach	235	\$ 50,210.92
Prince George	21	\$ 2,246.42		Warren	169	\$ 25,950.46
Prince William	558	\$ 149,076.44		Washington	27	\$ 1,932.82
Pulaski	7	\$ 1,571.92		Waynesboro	44	\$ 5,923.00
Radford	-	\$ -		Westmoreland	4	\$ 700.88
Rappahannock	50	\$ 8,875.19		Williamsburg	2	\$ 270.73
Richmond (County)	-	\$ -		Winchester	30	\$ 5,409.09
Richmond (City)	3	\$ 2,036.49		Wise	33	\$ 2,660.00
Roanoke (County)	54	\$ 23,560.14		Wythe	4	\$ 231.32
Roanoke (City)	105	\$ 15,277.00		York	271	\$ 98,069.00

**Total Ineligible Vehicles Identified: 22,805**

**Total Tax Relief Amount: \$5,360,259.58**

**Average Recovery per Vehicle:**

**Statewide: \$235.05**

**Urban Jurisdictions: \$246.63**

**Rural Jurisdictions: \$211.83**

**Note:**

**(-) Identifies localities reporting zero vehicles identified during audits.**