

September 21, 2005

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 FY2005

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 channels 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, 2004 through June 30, 2005. Local audits identified 19,574 business use vehicles erroneously receiving tax relief. The vehicle owners were billed for the relief previously granted and \$4,281,690.01 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.

TAX conducted sixty-five local audits during FY05. These audits identified 164 business use vehicles erroneously receiving tax relief. The amount of tax relief recovered totaled \$22,442.79. 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 sixty-five localities audited was less than one half of 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.

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Local audits conducted with the information provided by TAX reduced car tax reimbursements from the Commonwealth by \$4.3 million in FY05. Local audits conducted during the previous two fiscal years recovered \$7.1 million in state reimbursements. Since the Car Tax Compliance Program was implemented, local car tax audits reduced car tax reimbursements by \$11.4 million. While impossible to track, voluntary compliance generated by improved taxpayer education also contributed to reduced reimbursements.

In FY05, audits conducted by TAX and Commissioners of the Revenue identified 19,738 business use vehicles erroneously receiving tax relief. The amount of tax relief recovered totaled \$4,304,132.80. Attached are the results of PPTRA local audits by locality. Statewide, the average recovery per vehicle was \$218.74. The average recovery per vehicle in urban jurisdictions was \$206.79 and rural jurisdictions were \$245.52.

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, 2004 - June 30, 2005**

Locality Name	Ineligible Vehicles Identified	Tax Relief Amount		Locality Name	Ineligible Vehicles Identified	Tax Relief Amount
Accomack	13	\$ 1,415.04		Floyd	4	\$ 444.06
Albemarle	69	\$ 7,510.00		Fluvanna	40	\$ 6,110.80
Alexandria	602	\$ 118,860.08		Franklin (County)	27	\$ 2,491.21
Alleghany	-	\$ -		Franklin (City)	10	\$ 2,948.92
Amelia	4	\$ 485.32		Frederick	333	\$ 65,209.34
Amherst	7	\$ 605.53		Fredericksburg	31	\$ 7,632.06
Appomattox	20	\$ 4,350.00		Galax	1	\$ 25.84
Arlington	168	\$ 54,241.00		Giles	2	\$ 111.00
Augusta	156	\$ 16,726.00		Gloucester	185	\$ 21,649.45
Bath	-	\$ -		Goochland	10	\$ 3,198.90
Bedford (County)	253	\$ 31,343.00		Grayson	1	\$ 5.00
Bedford (City)	5	\$ 244.12		Greene	-	\$ -
Bland	-	\$ -		Greensville	16	\$ 3,655.06
Botetourt	59	\$ 7,474.00		Halifax	30	\$ 1,727.19
Bristol	468	\$ 30,535.00		Hampton	265	\$ 76,123.35
Brunswick	61	\$ 8,106.52		Hanover	31	\$ 7,763.00
Buchanan	14	\$ 1,532.54		Harrisonburg	28	\$ 7,275.00
Buckingham	-	\$ -		Henrico	2,292	\$ 293,525.30
Buena Vista	4	\$ 833.00		Henry	20	\$1,181.94
Campbell	8	\$ 1,032.02		Highland	-	\$ -
Caroline	68	\$ 11,758.27		Hopewell	20	\$ 2,888.31
Carroll	12	\$ 1,569.00		Isle of Wight	47	\$ 3,266.63
Charles City	-	\$ -		James City	145	\$ 82,935.00
Charlotte	38	\$ 3,138.92		King George	15	\$ 2,920.28
Charlottesville	58	\$ 17,430.38		King & Queen	4	\$ 1,143.16
Chesapeake	1,030	\$ 206,518.00		King William	1	\$ 34.50
Chesterfield	1,318	\$ 431,599.75		Lancaster	-	\$ -
Clarke	3	\$ 1,955.25		Lee	4	\$ 265.00
Colonial Heights	4	\$ 668.25		Lexington	4	\$ 746.40
Covington	4	\$ 424.73		Loudoun	1,894	\$ 702,060.80
Craig	10	\$ 909.54		Louisa	-	\$ -
Culpeper	139	\$ 36,107.00		Lunenburg	37	\$ 4,668.13
Cumberland	3	\$ 507.77		Lynchburg	20	\$ 5,282.45
Danville	30	\$ 6,600.78		Madison	-	\$ -
Dickenson	-	\$ -		Mathews	-	\$ -
Dinwiddie	61	\$ 14,082.00		Manassas	17	\$ 3,783.78
Emporia	2	\$ 927.00		Manassas Park	10	\$ 2,022.00
Essex	2	\$ 233.90		Martinsville	1	\$ 2.40
Fairfax (County)	4,370	\$ 878,592.96		Mecklenburg	2	\$ 395.07
Fairfax (City)	-	\$ -		Middlesex	1	\$ 126.00
Falls Church	5	\$ 2,803.01		Montgomery	7	\$ 919.68
Fauquier	347	\$ 120,709.00		Nelson	9	\$ 2,258.10

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Locality Name	Ineligible Vehicles Identified	Tax Relief Amount		Locality Name	Ineligible Vehicles Identified	Tax Relief Amount
New Kent	14	\$ 5,013.29		Rockbridge	3	\$ 575.67
Newport News	578	\$ 116,985.38		Rockingham	16	\$ 2,567.18
Norfolk	992	\$ 255,358.17		Russell	4	\$ 323.99
Northampton	8	\$ 2,844.17		Salem	63	\$ 32,275.27
Northumberland	12	\$ 1,327.28		Scott	1	\$ 27.72
Norton	-	\$ -		Shenandoah	8	\$ 2,078.87
Nottoway	5	\$ 617.81		Smyth	1	\$ 34.26
Orange	36	\$ 5,740.00		Southampton	1	\$ 251.00
Page	16	\$ 1,656.18		Spotsylvania	556	\$ 89,743.54
Patrick	3	\$ 172.82		Stafford	534	\$ 60,207.28
Petersburg	39	\$ 7,392.00		Staunton	14	\$ 2,243.12
Pittsylvania	21	\$ 3,545.03		Suffolk	324	\$ 69,890.48
Poquoson	15	\$ 2,523.84		Surry	21	\$ 4,155.00
Portsmouth	8	\$ 2,888.64		Sussex	-	\$ -
Powhatan	2	\$ 565.11		Tazewell	40	\$ 3,902.19
Prince Edward	-	\$ -		Virginia Beach	177	\$ 40,093.76
Prince George	27	\$ 5,515.10		Warren	17	\$ 2,534.83
Prince William	467	\$ 107,011.78		Washington	8	\$ 346.68
Pulaski	67	\$ 7,026.00		Waynesboro	1	26.69
Radford	-	\$ -		Westmoreland	14	\$ 849.34
Rappahannock	32	\$ 2,904.24		Williamsburg	3	\$ 195.24
Richmond (County)	-	\$ -		Winchester	52	\$ 6,037.30
Richmond (City)	16	\$ 707.07		Wise	22	\$ 1,908.00
Roanoke (County)	112	\$ 36,250.02		Wythe	5	\$ 512.80
Roanoke (City)	30	\$ 4,122.08		York	210	\$ 52,120.00

Total Ineligible Vehicles Identified: 19,574

Total Tax Relief Amount Recovered: \$4,281,690.01

Average Recovery per Vehicle:

Statewide: \$218.74
Urban Jurisdictions: \$206.79
Rural Jurisdictions: \$245.52

Note:

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