LOCAL TAXATION IN THE COMMONWEALTH:
A Presentation to the Joint Subcommittee on Local Government Fiscal Stress

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LOCAL GOVERNMENT REVENUE SOURCES

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Percentage of Total Local Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>5.96%</td>
</tr>
<tr>
<td>State</td>
<td>31.38%</td>
</tr>
<tr>
<td>Local</td>
<td>62.65%</td>
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</tbody>
</table>
LOCAL TAXING AUTHORITY

Cities & Towns
- Authority to impose taxes without limitation, so long as not prohibited by law
  - § 15.2-1104 of the Code of Virginia

Counties
- Enabling legislation required for counties to enact taxes

38 Cities 95 Counties 190 Towns
SOURCES OF LOCAL TAX REVENUE

**Property**
- Real Property
- Tangible Personal Property
- Machinery & Tools

**Motor Vehicle Licensing**

**Legal Documents**
- Recordation
- Wills

**Coal, Oil, Gas**

**Sales Tax**

**Business**
- BPOL
- Merchants’ Capital
- Bank Franchise

**Miscellaneous**
- Meals
- Lodging
- Tobacco
- Admissions
REAL PROPERTY TAX

- Reserved for local taxation only
- No restriction in the Code regarding tax rate – rates vary widely
  - Taxes must be uniform on same class of subjects
  - Assessments of property must be fair market value
- Constitutional exemptions from property taxation
  - Elderly & Disabled (local option): estimated $80,478,298 in foregone revenue across the state
  - Veterans & Surviving Spouses
  - First Responders Killed in the Line of Duty (local option)
  - Local government has sole authority to grant property tax exemptions (real & tangible) to nonprofit organizations

City Tax Revenue: 55.3%
County Tax Revenue: 65.6%
TANGIBLE PERSONAL PROPERTY TAX

• All tangible property reserved for local taxation
  • Exceptions: Intangible property, merchants’ capital, or short-term rental
• Rates vary widely
• “Car Tax” is major source of tangible personal property revenues
  • Personal Property Tax Relief Act of 1998 and resulting General Assembly action impacts revenues: between local tax rate and state reimbursement, localities receive approximately what they would have received before rebate became law

City Tax Revenue:
10.3%
County Tax Revenue:
13.2%
SALES & USE TAX

• Pursuant to the Code, localities may impose a 1% local sales & use tax – imposed by all localities
• Local rate has been 1% since the imposition of a general sales & use tax in 1966 (note: an additional 1% state sales & use tax is allocated to localities)
• Local sales & use tax subject to the same exemptions as the state tax

City Tax Revenue: 8.5%
County Tax Revenue: 6.7%
LICENSE TAXES (BPOL)

- Adopted by all cities, about ½ counties
  - Cities generally appear to be applying maximum tax rates; county rates vary
- Specific tax rates for different types of business
- Based on gross receipts of business – controversial
  (Code allows locality to use profits, not receipts, but not adopted)
MERCHANTS’ CAPITAL TAX

- Related to BPOL
- A tax on inventory of stock on hand & other taxable property offered for sale
- BPOL & Merchants’ Capital cannot both be imposed on retail merchants
  - 4 counties use merchants’ capital for retail merchants, BPOL for other businesses
  - No cities utilize merchants’ capital
  - 40 counties use merchants’
- Statutorily limited to the rates & ratios in effect on January 1, 1978

City Tax Revenue: NA
County Tax Revenue: negligible
MACHINERY AND TOOLS TAX

- Related to tangible personal property tax – essentially a separate class
- Valued by depreciated cost or percent of original capitalized cost
- Exemptions:
  - Equipment used by farm wineries
  - Idle machinery & tools (not used for at least one year prior and not reasonably expected to be returned to work during the tax year) – classified as intangible personal property

City Tax Revenue: 1.6%
County Tax Revenue: 1.1%
LEGAL DOCUMENTS TAXES

- Localities may impose recordation tax, probate tax equal to 1/3 of the state rate
  - $0.083/$100 value for recordation
  - $0.033/$100 value for wills
- Most localities impose these taxes
- Recordation taxes are a very volatile revenue source
- Localities also receive a portion of the state grantor’s tax (not authorized to impose local grantor’s tax)

City Tax Revenue: 0.5%
County Tax Revenue: 0.8%
MOTOR VEHICLE LICENSE TAX

- Essentially, a vehicle registration fee
- Local amount may not exceed the amount of annual taxes imposed on the vehicle by the Commonwealth
  - $40.75: Current state taxes on passenger
- Imposed by 33 cities, 86 counties
  - Median tax: $25

City Tax Revenue: 1.1%
County Tax Revenue: 1.1%
BANK FRANCHISE TAX

• “Bank Stock Tax”
• Local tax is 80% of state tax
  • $0.80/$100 of net capital
• All cities, most counties impose the tax

City Tax Revenue: 0.6%
County Tax Revenue: 0.5%
### MEALS TAX

- Cities may tax as part of general taxing authority – no limit on rate
- Counties may adopt a meals tax not exceeding 4% after approval by referendum
  - 48 counties have adopted a meals tax (about ½)
  - Since 2007, only 9 out of 36 meals tax referenda have passed
- Statute allows for Roanoke, Rockbridge, Frederick, Arlington, and Montgomery counties to adopt a 4% meals tax without a referendum
  - Requires a public hearing and a unanimous vote by Board

| City Tax Revenue: 7.3% |
| County Tax Revenue: 1.3% |
LODGING TAX

- Cities may tax as part of general taxing authority - no limit on rate
- Counties are generally authorized to impose a tax not to exceed 2%
  - A list of counties set out in Code may impose an additional 3%, but revenue must be used for tourism purposes
  - Roanoke, James City, and York Counties authorized for additional tourism-related revenue
- 37 cities impose tax, with median rate of 7%
- 76 counties impose tax, with median rate of 5%

City Tax Revenue: 2.1%
County Tax Revenue: 0.9%
CIGARETTES & TOBACCO TAX

- Cities may tax as part of general taxing authority – no limit on rate
- Only Fairfax and Arlington Counties are authorized to impose the tax
  - May tax up to the amount levied by the Commonwealth
  - $0.30 per pack
- Recent attempts to expand the taxing authority of counties for cigarettes and tobacco have failed

City Tax Revenue: 1.2%
County Tax Revenue: 0.1%
ADMISSIONS TAX

• Cities may tax as part of general taxing authority – no limit on rate
  • Imposed by 16 cities

• 13 counties are authorized by statute to impose a tax of up to 10% of the price of admission
  • Only levied by Dinwiddie, New Kent, & Roanoke

City Tax Revenue: 0.4%
County Tax Revenue: negligible
SEVERANCE TAXES

- Applies to minerals, coal, gas, & oil
- Most localities lack the resources to apply the tax - all localities with these natural resources are in Southwest Virginia
- Generally, the severance tax is equal to 1% of gross receipts (0.5% for oil)
- Cities and counties may impose an additional 1% tax for severing gas
  - Money must be paid into local Coal & Gas Road Improvement Fund in each locality
  - In Counties of Buchanan, Dickenson, Lee, Russell, Scott, and Tazewell, and Wise, and the City of Norton, ¼ of these revenues deposited in the Virginia Coalfield Economic Development Fund

Not a revenue source in most localities; up to $2 million in southwest localities
DATA SOURCES

• 2016 Virginia Local Tax Rates, Published by the Weldon Cooper Center for Public Service

• Comparative Report of Local Government Revenues and Expenditures For the Fiscal Year Ended June 30, 2016, Published by the Virginia Auditor of Public Accounts

• A Legislator’s Guide to Local Taxation, Published by the Virginia Division of Legislative Services