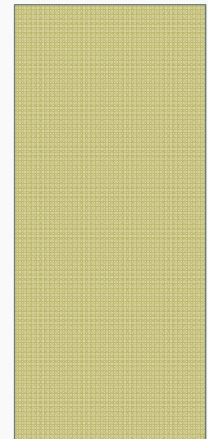


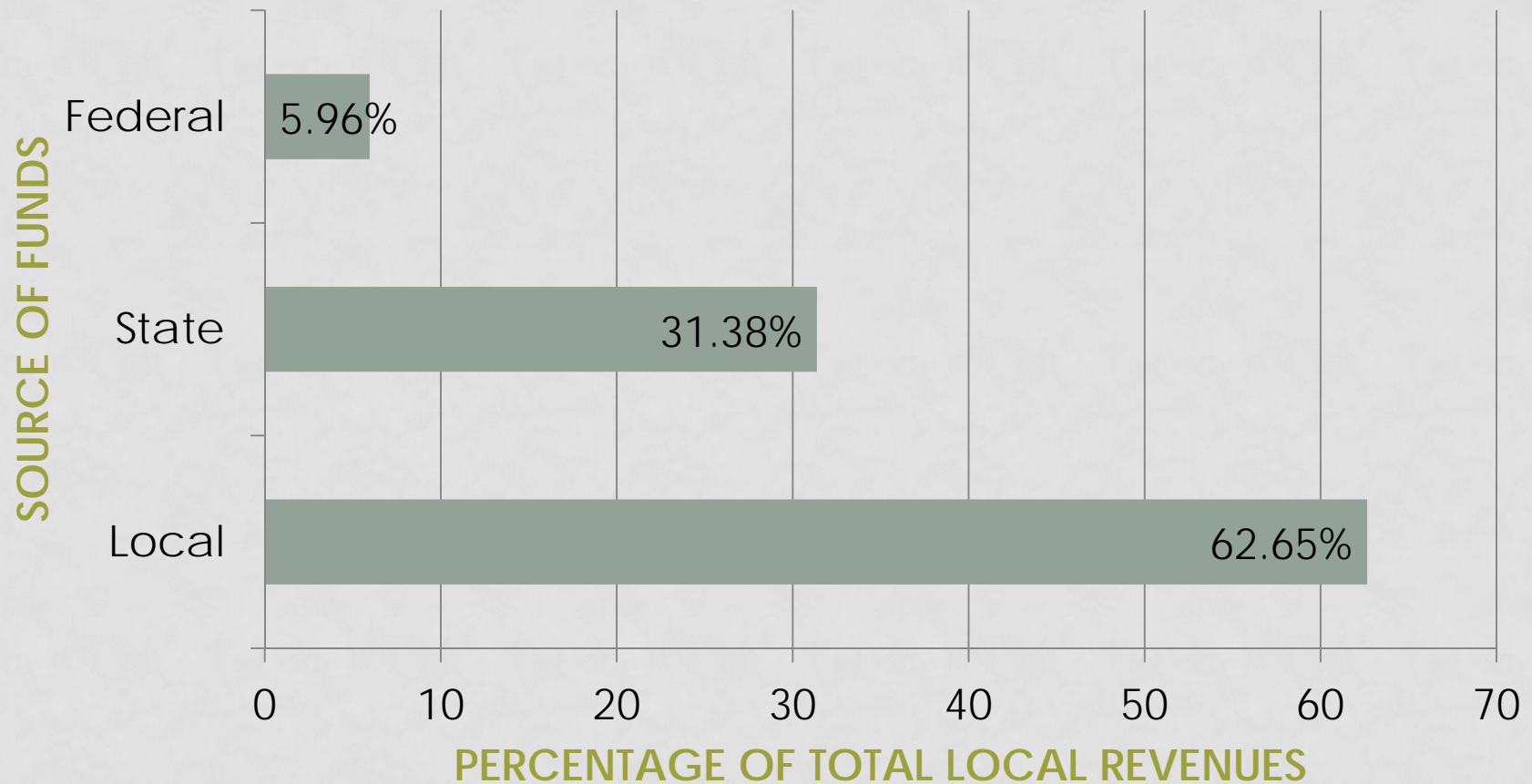
# LOCAL TAXATION IN THE COMMONWEALTH:

A Presentation to the Joint Subcommittee on Local Government Fiscal Stress

Lisa Wallmeyer, Virginia Division of Legislative Services



# LOCAL GOVERNMENT REVENUE SOURCES



# 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

Coal, Oil, Gas

## Legal Documents

- Recordation
- Wills

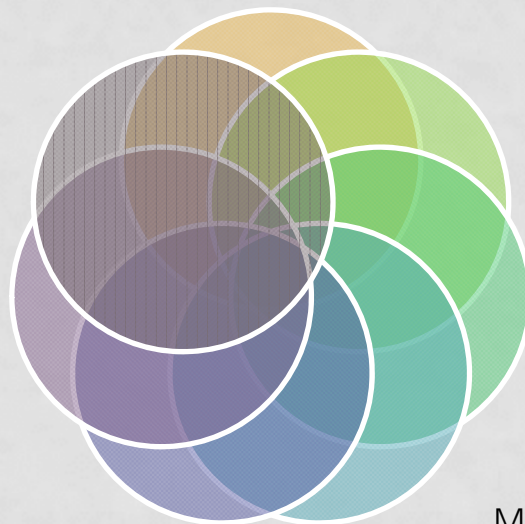
Sales Tax

## 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)

City Tax Revenue:

6.1%

County Tax Revenue:

3.6%



# MERCHANTS' CAPITAL TAX

City Tax Revenue: NA  
County Tax Revenue:  
negligible

- 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

# 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

City Tax Revenue:

7.3%

County Tax Revenue:

1.3%

- 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

# 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

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

- 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



# 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