

Local Tax Revenue Replacement

Presentation to the Joint Meeting of the Manufacturing Development Commission and the Small Business Commission

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Secretary of Finance**

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Local Business Tax Revenues

- Business, Professional, and Occupational License (“BPOL”) Tax
 - Imposed by all cities, 48 counties, and a majority of the towns in FY 2012 for revenues totaling approximately \$683 million
- Machinery & Tools Tax
 - Imposed by all cities, 94 counties, and a significant number of towns in FY 2012 for revenues totaling approximately \$205 million
- Merchants’ Capital Tax
 - Imposed by 0 cities, 40 counties, and a few towns in FY 2012 for revenues totaling approximately \$11 million
- These three local business taxes provided approximately \$899 million in revenue to localities in FY2012

Local Business Tax Revenue

FY2012

<u>Locality</u>	<u>Business, Professional, Occupational License Taxes</u>	<u>Machinery and Tool Tax</u>	<u>Merchants Capital Tax</u>	<u>Total</u>
Counties	\$ 367,334,386	\$112,825,155	\$ 11,172,065	\$ 491,331,606
Cities	287,805,843	87,230,675	-	375,036,518
Towns	<u>27,947,115</u>	<u>4,511,457</u>	<u>-</u>	<u>32,458,572</u>
Total	\$ 683,087,344	\$204,567,287	\$ 11,172,065	\$ 898,826,696

Revenue Replacement

- The replacement of those three local business taxes (\$899 million in local revenues) would be equivalent to:
 - An additional 0.85% local retail sales and use tax (approximately \$894.6 million in FY 2012),
 - A local income tax of 0.5% (an estimated \$844.5 million),
or
 - A broadening the existing sales tax base

Concerns

- Although additional revenues from various options could be used to offset the total revenue loss from the repeal of the 3 local business taxes, the revenues would be mismatched by locality
- If a retail sales and use tax replacement is sourced to the city or county of sale, some localities would be winners and others would be losers. Based on a 0.85% tax:
 - Alexandria would have a 34% revenue loss
 - Allegheny County would have a 89% revenue loss
 - Colonial Heights would have a 101% revenue gain
 - Prince Edward County would have a 479% revenue gain

Concerns Continued

- If a local income tax is sourced to the place of residence, some localities would be winners and others would be losers. Based on a 0.5% tax:
 - Most cities would have a revenue loss and most counties would have a revenue gain. For example:
 - Newport News would have a 68% revenue loss
 - Amelia County would have a 301% revenue gain

Concerns Continued

- A number of towns impose at least one of the three taxes
 - Retail Sales and Use Tax revenues are dedicated to cities and counties, not towns
 - Income Tax revenue data is currently provided by city and county, and not town
 - This could result in a significant revenue loss for towns

Replacement Alternative 1: Reimbursement

- Localities would be allowed to continue to impose the local business taxes
- The Commonwealth could impose additional revenues to reimburse either the taxpayers or localities based on the revenues due to each locality
 - Similar model used to provide car tax relief prior to 2006
 - The first year that relief was provided, the Commonwealth directly reimbursed taxpayers for a portion of the tax certified by the locality
 - Alternatively, the amount of tax relief could be shown on the taxpayer's bill and the Commonwealth reimburse the localities for the relief given

Replacement Alternative 2: Historical Data

- Local business taxes could be repealed
- The Commonwealth could impose additional revenue to reimburse localities based on the historical revenues
 - Localities would receive revenues from the Commonwealth based on the revenues they received in a prior year (percentage share)
 - This model is currently used to provide car tax relief and to distribute communications tax revenues
 - Although localities may be made whole, there would be a mismatch between revenue source/distribution because of the differing growth rates between localities
 - Also, there may need to be a formula for distributing revenues above the break-even point as growth occurs over time

Appendix Data

City Examples

Comparison of FY 2012 BPOL, M&T, and MC Collections by Locality to
FY 2012 0.85% Local Option Sales Tax Increase (Fully Phased-In) and FY 2010 0.5% Local Income Tax Increase (Fully Phased-In)

City	Current BPOL, M&T, and MC Revenue	Revenue Impact of 0.85% Local Option Sales Tax	0.85% Sales Tax Percent Differential	Revenue Impact of 0.5% Local Income Tax	0.5% Income Tax Percent Differential
Alexandria	\$31,915,624	(\$10,769,382)	(33.74%)	(\$4,000,115)	(12.53%)
Bristol	2,141,009	1,199,633	56.03%	(\$1,214,577)	(56.73%)
Charlottesville	6,500,517	1,947,063	29.95%	(\$548,182)	(8.43%)
Chesapeake	27,278,547	1,196,045	4.38%	(\$9,530,736)	(34.94%)
Danville	6,141,532	766,254	12.48%	(\$4,058,145)	(66.08%)
Newport News	33,557,942	(15,256,740)	(45.46%)	(\$22,844,249)	(68.07%)
Norfolk	34,169,063	(9,312,603)	(27.25%)	(\$22,065,535)	(64.58%)
Richmond	45,134,225	(19,486,400)	(43.17%)	(\$27,405,204)	(60.72%)
Roanoke	15,206,601	824,263	5.42%	(\$8,861,310)	(58.27%)
Virginia Beach	41,604,608	3,628,048	8.72%	(\$1,720,846)	(4.14%)

County Examples

Comparison of FY 2012 BPOL, M&T, and MC Collections by Locality to FY 2012 0.85% Local Option Sales Tax Increase (Fully Phased-In) and FY 2010 0.5% Local Income Tax Increase (Fully Phased-In)					
County	Current BPOL, M&T, and MC Revenue	Revenue Impact of 0.85% Local Option Sales Tax	0.85% Sales Tax Percent Differential	Revenue Impact of 0.5% Local Income Tax	0.5% Income Tax Percent Differential
Albemarle	\$10,455,288	(\$6,053)	(0.06%)	\$4,248,676	40.64%
Arlington	61,491,674	(28,729,586)	(46.72%)	(\$16,106,885)	(26.19%)
Chesterfield	22,058,125	12,293,075	55.73%	\$10,598,050	48.05%
Fairfax	152,832,491	(12,761,534)	(8.35%)	\$47,902,460	31.34%
Henrico	30,761,623	18,242,328	59.30%	\$1,533,144	4.98%
James City	11,609,429	(3,707,423)	(31.93%)	(\$3,539,570)	(30.49%)
Prince Edward	432,652	2,071,592	478.81%	\$565,562	130.72%
Prince George	2,462,177	(816,538)	(33.16%)	(\$110,377)	(4.48%)
Prince William	21,947,000	22,125,761	100.81%	\$24,098,210	109.80%
Roanoke	7,082,678	1,902,382	26.86%	\$2,132,091	30.10%