

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 14, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF COUNCIL

FROM: JAMES K. HARTMAN, CITY MANAGER 

SUBJECT: BUDGET MEMO 29: PERSONAL PROPERTY TAX OPTIONS

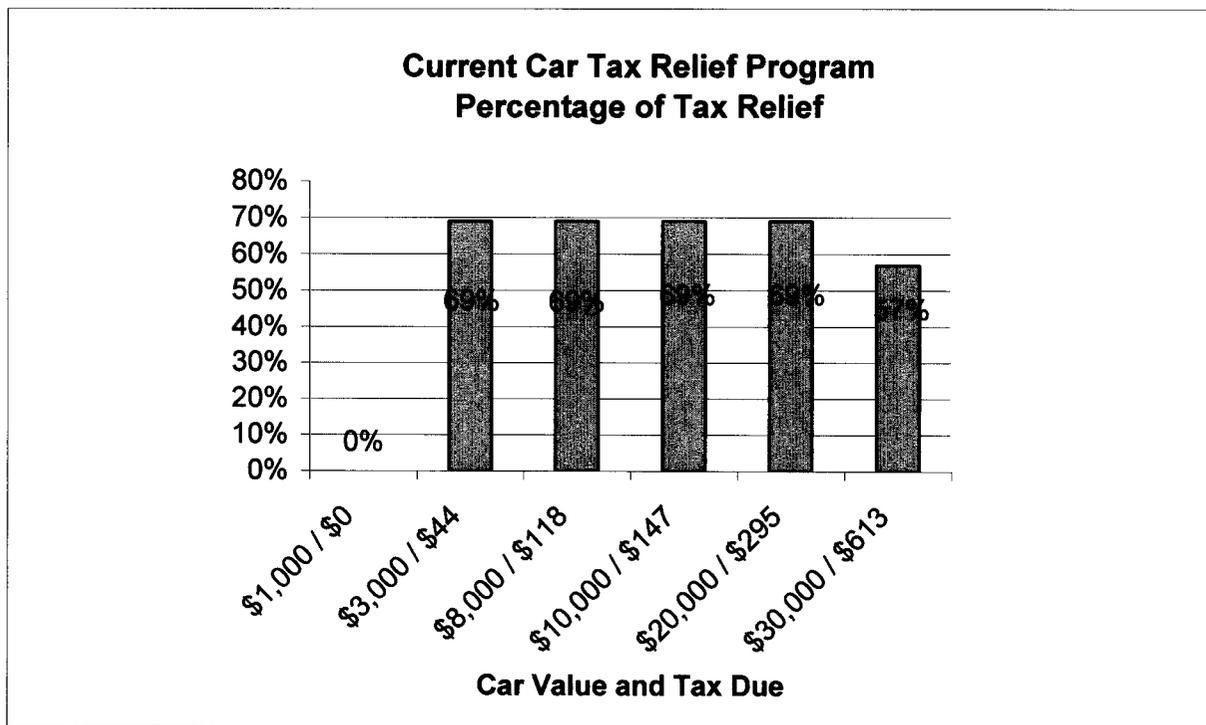
This budget memo responds to Councilman Wilson's request for information on other revenue options for personal property.

**PERSONAL PROPERTY TAX OPTIONS**

Under the Personal Property Tax Relief Act, the State provides taxpayers with qualifying vehicles with relief on their personal property tax, which covers a percentage of the tax due on the first \$20,000 in value. As of 2006, the State capped the dollar amount of reimbursement to each jurisdiction. As a result, the City receives \$23.6 million per year, which currently covers 69 percent of the personal property tax on the first \$20,000 in value for qualifying vehicles. All vehicles valued under \$1,000 are exempt from personal property tax. In 2008 (FY 2009), it is projected that car taxes paid by taxpayers under the current policy will total \$19 million.

Under the 2006 State law amendments, there are numerous ways to structure the personal property tax and tax relief other than the City's current structure, which was described earlier in this paragraph. Local jurisdictions now have the authority (for the first \$20,000 in vehicle value) to allocate the fixed \$23.6 million car tax relief funds it receives annually, so that car tax relief can be increased on lower valued cars and decreased on high valued cars. However, if those increases and decreases in the car tax relief percentages occur, the end result must be the full use of the \$23.6 million in car tax relief provided by the State. For illustrative purposes, staff has created two proposals for restructuring the tax, one with an increased tax rate, and one without.

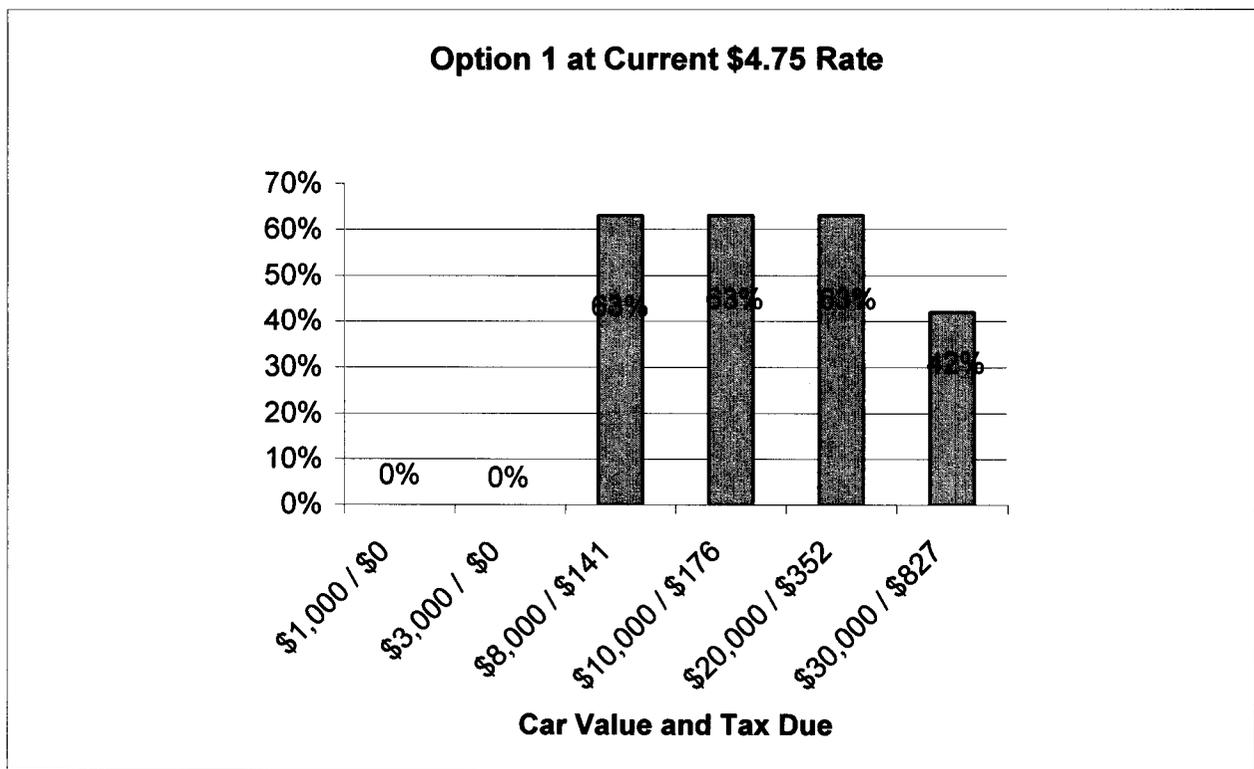
As background, the City's active vehicle tax files have the following valuation characteristics.



The tax policy question that the change in State law addresses is whether to change the car tax relief policy to make it more progressive. Currently, for owners of cars with values above \$1,000, a standard 69 percent relief amount is applied up to the \$20,000 cap. While this is the same percentage, the fact that it applies to a scale of car values ranging from \$1,001, and the higher the car value means that the amount of the tax bill a car owner pays rises with the car value. This is particularly true for cars with value over \$20,000. Given that car owners' incomes and car values generally correlate, this means that the greater the ability to pay, the greater the car tax that is likely to be due. The correlation is not always true, as some low income persons have higher valued cars, and some higher income persons have lower valued cars. State law now allows the tax relief structure to be made even more progressive, as the two illustrative options that follow indicate.

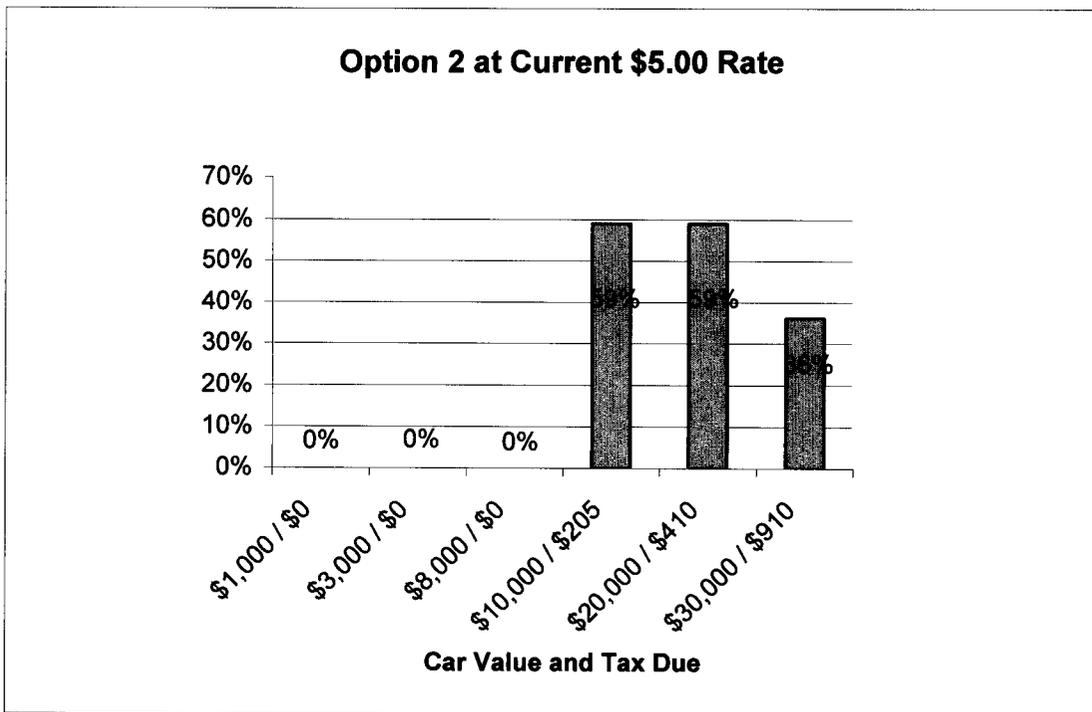
**Illustrative Option 1:**

This option assumes no change in the current personal property tax rate of \$4.75 per \$100 of value. The City could decide to exempt all cars assessed at under \$3,000 from the personal property tax, then reallocate tax relief from higher valued cars to pay for the \$1.5 million cost of tax relief provided to these lower valued vehicles. The average tax bill on remaining vehicles could rise to \$163, an increase of \$16 or 11 percent over the current average tax bill. As the chart below indicates, the amount of the car tax relief for a car valued at \$20,000 would drop from 69 percent to 63 percent and result in a car tax increase of \$57 or 19 percent for that vehicle. For a \$30,000 car, tax relief would drop from 57 percent to 42 percent, resulting in a car tax increase of \$214 or 35 percent for that vehicle. This change in allocation policy would result in tax bills decreasing on 17,750 cars and increasing on 73,085 cars.



**Illustrative Option 2:**

This option assumes an increase in the tax rate from \$4.75 per \$100 of assessed value to \$5.00 per \$100 of assessed value. If implemented, this would give Alexandria the highest effective car tax rate in Northern Virginia. The City could choose to exempt all cars under \$8,000 from the personal property tax. The additional \$2 million in revenue generated by the rate increase would be applied, in this option, towards exempting all vehicles valued under \$8,000. The average tax bill could rise to \$178, an increase of \$31 or 21 percent over the current average tax bill. As the chart below indicates, the amount of the car tax relief for a car valued at \$20,000 would drop from 69 percent to 59 percent and result in a car tax increase of \$116 or 39 percent for that vehicle. For a \$30,000 car, tax relief would drop from 57 percent to 36 percent, resulting in a car tax increase of \$297 or 48 percent for that vehicle. This change in allocation policy would result in tax bills decreasing on 44,052 cars and increasing on 46,783 cars.



Based on a Cooper-Weldon Center survey of the 2006 tax methods of 134 counties, cities and towns, five counties (including Arlington County) had varied the tax relief percentages to benefit lower valued vehicles, and decreased the tax relief to higher valued vehicles.

Staff:

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