Prince William County

Analysis of County Tax and Revenue Alternatives

October 22, 2018

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Contents

Executive Summary 3
Introduction and Project Background 13
Prince William County Background 17
County Real Estate Tax 26
County Personal Property Tax 45
Business Tangible Property Tax 58
County Business, Professional and Occupational License Tax 72
Local Sales and Use Tax 89
Motor Vehicle License Fee 99
Inventory of Tax Sources Available to Virginia Counties 110
Alternatives to the Current Tax Structure 132
Summary and Observations 167
Appendices 177

Executive Summary

Introduction

The Prince William Board of County Supervisors (BOCS) adopted a strategic goal of developing a 'robust economy' in the County – one that achieves more quality jobs and economic opportunities. In alignment with this goal, residents look to the County to enhance the quality of life in the community, and these enhancements often require significant investment from the local government. The County has deemed it important to focus on expanding the commercial tax base to increase revenues to meet the investment and service needs of the community.

The desire to build upon the County's existing commercial tax base led County staff to embark on a comprehensive tax and revenue alternatives study. The study was to consider key issues and concerns associated with taxes and other revenue sources, including structure, administration and impact on the finances of Prince William County and County taxpayers. To analyze these issues, the County engaged PFM Group Consulting LLC (PFM) to study County tax and revenue sources and identify tax and revenue alternatives.

High Level Findings

To conduct its analyses, the project team conducted detailed interviews with elected officials, County leadership, subject matter experts and business community stakeholders. The project team also benchmarked peer local governments to compare overall tax and revenue structures and tax burden, as well as issues specific to selected taxes, including their administration and impact on local business. In addition, the project team compiled an inventory of all taxes the Commonwealth allows counties to impose. This comprehensive analysis produced high level findings, including (but not limited to) the following:

Findings Related to the Real Estate Tax

- **The real estate tax is the most significant source of revenue for Prince William County and peer localities.** This revenue source generated nearly 70 percent of local tax revenue in 2017, or $632.4 million, and increased by a compound annual growth rate (CAGR) of 6.8 percent between 2000 and 2017. The County's reliance on real property tax revenue is higher than peer localities, which range from 48.5 percent in Virginia Beach to 62.7 percent in Alexandria.

- **Prince William County's real estate tax base is primarily residential.** In 2017, residential properties (including apartments) represented 83.2 percent of the tax base. Relative to peer municipalities, the County's composition is more heavily reliant upon residential property; the average residential share among peer localities (excluding Prince William County) is 71.5 percent.

- **Prince William County's real estate tax rate declined in the years leading up to the Great Recession, but the rate was increased in the years that followed.** Relative to peer localities, the County's current real estate tax rate is among the higher rates, trailing only Alexandria ($1.130) and Fairfax County ($1.150).

Findings Related to the Personal Property Tax

- **Personal property taxes, including those assessed on individuals and business tangible property (BTP), are the second largest revenue source for Prince William County.** This revenue source totals $172.7 million, equal to 18.4 percent of total local tax revenues. Approximately 79 percent of personal property tax revenue in the County is derived from vehicles, trailers and mobiles homes.

- **Prince William County has not increased its general personal property tax rate of $3.70 (per $100 of assessed value) in many years, but it has modified the personal property tax rate on mobile homes in nearly every year since 2008.** In 2008, the rate was $0.787 per $100 of assessed value; it increased to $1.236 by 2011 and has generally trended downward since; mirroring the County's adopted real estate tax rate each year.

- **Prince William County's adjusted effective rate of $3.22 (per $100 of assessed value) ranks in the middle of peer governments.** In addition to the statutory property tax rate, the adjusted effective rate takes into consideration assessment ratio and percent of retail value. Despite having the highest statutory rate at $6.46, Stafford County's assessment ratio of 40 percent results in the lowest adjusted effective rate among peer localities at $2.58. At $4.35, Alexandria has the highest adjusted effective rate.

Findings Related to the Business Tangible Property Tax

- **The BTP tax on computer equipment and peripherals is a meaningful source of local tax collections for the County.** This tax accounts for 8.7 percent of total personal property tax collections and 28.6 percent of total business tangible property taxes.

- **Increasing the BTP tax rate on computer equipment and peripherals to $3.70 would disproportionately impact a handful of taxpayers.** The top two tiers of businesses, which collectively account for less than one percent of total businesses paying BTP tax on computer equipment and peripherals, would pay an estimated 96 percent of the increase resulting from the higher rate. Conversely, the more than 3,600 businesses in the lowest tier account for more than 83 percent of total business but would be responsible for less than one percent of the increase from the higher rate.

- **While it is not the only factor they consider, increasing the BTP tax rate on computer equipment and peripherals may impact business location and expansion decisions.** Tax rates may directly impact business decisions, particularly businesses with many computers, such as data centers. In discussions with stakeholders, it was suggested that there is a very real possibility that a tax increase would remove the County from consideration on new data center projects. At the same time, businesses will factor in a variety of business expenses in making location decisions – the cost of land and buildings, real estate taxes and labor costs, for example. In some of the peer local governments, there are higher and/or special taxes on businesses that are not applicable in Prince William County.

  There is evidence, however, that data center location decisions have been impacted by tax and related incentives decisions. For example, a study commissioned by the Washington State Legislature conducted by the Washington Department of Commerce found that after the State eliminated favorable tax treatment for the industry, it ended project plans in that state. Even when some incentives were restored, a resulting lack of clarity on the State's approach to the industry led to data centers choosing to locate in other states, including neighboring Oregon.

Findings Related to the Business, Professional and Occupational License (BPOL) Tax

- **Though a relatively small revenue source, the BPOL tax enhances revenue diversification.** In general, it is considered a best practice to maintain a variety of tax revenue sources. An over-reliance on one revenue source can magnify the negative impacts of that revenue source, and it can also heighten the risk of revenue volatility. Budgeted at $25.8 million in FY2018 (2.3 percent of total general fund revenue), the BPOL tax lowers the County's reliance on its primary revenue source, the real property tax.

- **In Prince William County, retailers consistently account for the largest share of BPOL taxes paid.** The share of taxes from the retail classification has ranged from 39 to 46 percent over the past decade. In 2017, retailers accounted for 32 percent of all businesses subject to the tax and were responsible for generating approximately 44 percent of total BPOL tax revenues, which equates to $11.0 million of the $25.2 million in BPOL tax revenue.

- **The County's BPOL tax rates by business classification are generally below the statutory maximums.** The only exception is for wholesale merchants, which are taxed at a rate of $0.05 per $100 of gross purchases.

Findings Related to the Local Sales and Use Tax

- **Virginia provides for a single local option sales tax rate, which limits the ability of local governments to diversify their revenue base.** At the same time, this uniform rate makes it easier for taxpayer businesses to comply with the sales tax. It is also considered a 'best practice' related to the national Streamlined Sales Tax initiative, which seeks to create greater uniformity among the states related to sales tax definitions and rates.

- **Among states with a sales tax, Virginia taxes among the fewest services.** This is important, because, over time, consumption has shifted from being primarily goods (where the sales tax nearly always applies) to services (which are often not taxed unless specifically enumerated in sales tax statutes). As this trend to greater consumption of services continues, the actual sales tax base will continue to erode unless the State seeks to broaden its base (as many states have done).

- **As with other revenue sources, the use of selective sales tax audits is important to ensure compliance.** Local governments have generally found that audit compliance programs (coupled with education efforts and, in some cases, targeted amnesty programs, pay for themselves. One alternative to hiring in-house auditors is to use firms that specialize in this service, although there are legitimate concerns about how these programs work in practice.

Findings Related to the Motor Vehicle License Fee

- **The state permits localities to use motor vehicle licenses as a mechanism for collecting various local taxes, fees and fines.** Prince William County withheld the issuance of a motor vehicle license for non-payment of taxes prior to 2009, the last year the County issued a license (decal). The County has not withheld the issuance of a motor vehicle license for parking tickets, as it utilizes different systems for parking violations and taxes, and those with tax liabilities are not identified in the parking violation system. The County would have to resume issuing a license in order to enforce these provisions.

- **Prince William County's motor vehicle license rates are low relative to most peer municipalities.** Prince William County's rate for automobiles has long been $24; only Henrico ($20) and Stafford ($23) Counties impose lower rates. Similarly, Prince William County's rate for trucks ($24) ranks ninth of ten, higher only than Stafford County ($23); Prince William County has the lowest motorcycle rate ($12), less than half of Loudoun County ($25).

- **Some municipalities have opted to tie the local motor vehicle license fee directly to the state rate.** In 1992, Arlington County adopted an ordinance requiring that the County impose the same fee charged by the Commonwealth (but stipulated that it could not exceed $33).

Revenue Alternatives

Based on its high level findings, the project team analyzed alternative approaches to the existing County revenue structure. The study analyzes these alternatives from the perspective of their internal strengths and weaknesses as well as external opportunities and threats. The analysis also provides some perspective on estimated revenue that might be collected as well as noting inherent barriers to their adoption, such as the need for the State to authorize a new tax for local government use. The challenge the County faces is both fiscal and political – to find a politically acceptable way that advances the policy goal of expanding the commercial tax base to increase revenues in order to meet the investment and service needs of the community.

Fundamentally, there are three tax revenue-raising methods governments use to fund their operations. They can (1) tax income, (2) tax consumption or (3) tax wealth. In Virginia, income is taxed through personal and business income taxes, consumption through sales and excise taxes, and wealth is taxed based on the value of property. Every tax will have some negative impact on consumer and business decisions and the local economy. The counterpoint was expressed by U.S. Supreme Court Justice Oliver Wendell Holmes, Jr. when he wrote that "taxes are what we pay for civilized society."

Table 1 summarizes the primary alternatives to the current revenue structure in Prince William County.

Table 1: Alternatives to Current Prince William County Revenue Structure

Alternatives to the Current Real Estate Tax Structure	Estimated Annual Impact
Increase the real estate tax rate from $1.125 to $1.178 per $100 of assessed value[1]	$31.0 million
Impose the commercial and industrial (C&I) tax on commercial and industrial property at the maximum rate of $0.125 per $100 of assessed value[2]	$10.0-$11.0 million
Alternatives to the Current Personal Property Tax Structure	**Estimated Annual Impact**
Increase the County personal property tax rate from $3.70 to $3.89 per $100 of assessed value[3]	$9.5-$11.1 million
Eliminate the provision of a reduction of up to 40 percent of assessed value for high-mileage vehicles	TBD

[1] Increasing the rate to $1.178 would generate the same amount of revenue as increasing the BTP tax rate on computer equipment and peripherals from $1.25 to $3.70 per $100 of assessed value.
[2] Revenue generated via the C&I tax on commercial and industrial property must be used for specific transportation-related purposes. It is possible that instituting this tax could supplant general funds currently allocated for transportation.
[3] Increasing the nominal personal property tax rate to $3.89 would result in an effective tax rate of $3.38, commensurate with the peer locality average effective tax rate.

Alternatives to the Current BTP Tax On Computer Equipment and Peripherals Structure	Estimated Annual Impact
Increase the tax rate on computer equipment and peripherals to $3.70 per $100 of assessed value incrementally over a period of three years	$10.4-$64.2 million
Increase the tax rate on computer equipment and peripherals commensurate with the effective personal property tax rate on vehicles when accounting for PPTRA ($1.94 per $100 of assessed value in 2018)	TBD
Subject only data centers to the higher rate on computer equipment and peripherals[4]	N/A
Create a sub-classification under the BPOL Business Services Classification for data centers or "cloud computer hosting"[5]	TBD
Alternatives to the Current BPOL Tax Structure	**Estimated Annual Impact**
Increase the current BPOL tax rates to the maximums allowable in statute	$9.0 million
Require County businesses under the gross receipts threshold to pay a flat license fee of up to $50 annually	$0.4-$1.3 million
Require all businesses to file applications for BPOL licenses regardless of total gross receipts	Less than $1.0 million
Waive BPOL taxes for the first one to two years of operation for new businesses moving into the County	TBD
Increase the gross receipts threshold from $0.5 million to $1.0 million while increasing the BPOL tax rate(s) for one or more business classifications	*
Impose a graduated tax rate scale[6]	*
Impose a graduated tax rate scale but apply the top rate to all receipts when the top gross receipts level is reached	*
Eliminate the BPOL tax for retailers and impose a merchants' capital tax	TBD

[4] Current Virginia Code does not permit this option. A legislative change would be required.
[5] This would be an alternative to increasing the BTP tax rate on computer equipment and peripherals. Under this structure, the County could increase the $0.21 rate per $100 in gross receipts specifically for data centers.
[6] Under this approach, marginal rates would apply to all businesses. All gross receipts at or below a certain level would be taxed at a given percentage, gross receipts above that level would be taxed at a higher percentage, and so on.

Other Tax and Revenue Alternatives	Estimated Annual Impact
Impose a meals tax at a rate of 4.0 percent commensurate with peer localities	$28.2-$31.2 million
Implement an admissions/amusement tax at a rate of 10.0 percent	$2.0-$2.1 million
Increase transient occupancy tax collections from Airbnb and VRBO by establishing a registry of short term rental properties[7]	Less than $1.0 million
Implement short term rental software to aid in ensuring compliance with a short term rental ordinance	Less than $1.0 million
Increase motor vehicle license fees to $30, commensurate with the peer locality median	$2.2-$6.4 million
Additional Potential Revenue Measures Requiring Action by the Virginia General Assembly	**Estimated Annual Impact**
Institute a tax on sugared beverages	$12.6-$15.7 million
Institute a cigarette tax	$3.6 million
Imposes taxes on vape and e-cigarettes	Less than $1.0 million
Impose a ride-sharing tax on Uber and Lyft	Less than $1.0 million
Compel collection of sales and use tax by out-of-state sellers	$1.3-$3.0 million

** Alternative structured to be revenue neutral.*

County Options

Based on the high level findings and analysis of revenue alternatives, the project team believes that the following modifications to the County's existing revenue structure would provide opportunities to further develop a 'robust economy.' There is no perfect tax, and any of these alternatives may face push-back from the impacted taxpayers. While this analysis of revenue alternatives demonstrates that there are no easy policy choices, these are important options for the County to consider.

General Tax Administration Approaches

Each of the following general tax administration approaches can be implemented simultaneously.

1. **Maintain the use of all revenue sources allowed by the Commonwealth.** Given Virginia's role as a Dillon's Rule state (which requires state approval for, among other things, taxing powers), the County is best served by maintaining whatever tax revenue capacity is granted to it by the Commonwealth. The project team would not recommend abolishing any existing County tax. *Key benefits include governance autonomy and revenue diversification.*

2. **Revenue diversification is a worthy goal.** A very large percentage of the County's revenue comes from real and personal property taxes. Seeking ways to broaden the County's revenue mix can help to balance out the concerns of over-use of the property tax. *Key benefits include revenue diversification and reduced revenue source risk.*

[7] In 2017, a new Virginia law allows localities to adopt an ordinance to establish a local registry of short-term rental properties.

3. **A flat license fee for all businesses has value regardless of its revenue impact.** There is value to maintaining information flow with all existing County businesses. While the revenue associated with this measure is not significant, it also familiarizes businesses with payment responsibilities to the County, specifically for other pertinent taxes. Eventually, some of these businesses will grow and become subject to greater tax requirements, and this regular interaction with the County is useful in that case. *Key benefits include increased data collection and enhanced taxpayer compliance.*

County Real Estate Tax Approaches

1. **Consider imposing the C&I tax on commercial and industrial property.** While not likely to generate a significant amount of revenue, imposing this additional real property tax on commercial and industrial property would help the County in its goal of expanding the commercial tax base. While the funds generated by this measure would need to be used for specific transportation-related purposes, it is possible that instituting this additional tax could supplant general funds currently allocated for transportation-related purposes. *Key benefits include revenue diversification.*

County Personal Property Tax Approaches

1. **Consider eliminating or modifying the provision of a reduction in assessed value for vehicles with high mileage.** The minimum mileage requirement for a 2018 model year vehicle is 10,001 miles. According to the U.S. Department of Transportation's Federal Highway Administration, the average driver logs 13,476 miles annually.[8] Based on this statistic, the thresholds currently used by the County are generous, as an "average" driver would be eligible for this relief. Further, if this is deemed as a sort of 'user fee' related to use of local roads, it seems illogical to reduce the tax for the heaviest users of public roads. The County should consider increasing the threshold, or eliminating the provision completely. *Key benefits include a slight increase in revenue and a possible decrease in administrative burden for the County.*[9]

BTP Tax Approaches

Each of the following BTP tax approaches can be implemented simultaneously.

1. **An abrupt change in the BTP tax related to computer equipment and peripherals will likely have a significant impact on the industry that will be a net-negative to the County.** Should the County wish to bring its BTP tax rate in line with its other rates on personal property, it should seek to do so in a phased approach over multiple years. *Key benefits include an ease in administrative burden for the County and businesses.*

2. **Should the County wish to enact this increased tax approach, it should also plan to do regular studies on tax impact.** These assessments should be conducted both on existing and start-up data centers within the County and in relationship to its standing with its peer local governments in Virginia. *Key benefits include increased data collection.*

3. **The County should also consider its own cost-benefit analysis of the data center industry.** There is at least some divergence in views on what the industry contributes (in terms of economic impact) to

[8] U.S. Department of Transportation Federal Highway Administration – Average Annual Miles per Driver by Age Group (last updated on March 29, 2018). Accessed electronically at https://www.fhwa.dot.gov/ohim/onh00/bar8.htm
[9] According to an analysis by the County Finance Department, the impact of the high mileage deduction is just over $0.1 million per year.

the County versus the industry resource requirements. An in-depth analysis might provide better data for tax policy decision-making. *Key benefits include increased data collection.*

4. **The County should consider conducting a depreciation study specific to each type of property to analyze its existing depreciation schedule that is inclusive of all computer equipment and peripherals.** The County business community has expressed concern that the current schedule may not be depreciating property fast enough to keep up with the market. A study of the various peer government depreciation schedules and possible changes to Prince William County's schedule would provide additional information for decision-making purposes. *Key benefits include increased data collection.*

County BPOL Tax Alternatives

Among the following BPOL tax alternatives, #1 could be implemented with #2, #3 or #4. To avoid making multiple sweeping changes without first understanding the impact of each exclusively, the County would likely first implement just one of these (#2, #3 or #4).

1. **While a case can be made for increasing the threshold requirements for paying the tax, the data around resulting changes in business activity is inconclusive.** While there may be longer-term issues associated with the threshold increase that are not yet apparent in the data, the project team suggests the County should monitor how these changes are impacting its revenue stream and business activity before considering additional changes to the threshold levels. A key consideration in estimating tax revenue is to establish a baseline, and it is difficult to do so when the tax base is continually changing. *Key benefits include increased data collection.*

2. **The overall rates of the BPOL compared to the benchmark local governments suggest that should the County decide to increase the threshold over time, it should also consider raising the rates on some of the classifications.** As previously noted, maintaining a reasonable BPOL tax base is important to the overall revenue diversification, given the heavy reliance on property taxes. *Key benefits include revenue diversification and revenue generation.*

3. **A graduated rate structure for high-revenue businesses is worth considering and can be either a method to raise revenue or a source for other tax structure changes (either reducing property tax rates or raising the BPOL threshold in the future).** Most of the major payers of BPOL taxes are retail locations that are not likely to leave the County based on this tax issue – i.e., they are located in the County because their customer base is nearby. *Key benefits include tying the BPOL tax to ability to pay.*

4. **The County might consider waiving BPOL taxes for the first one to two years of operation for new businesses moving into the County.** This may help simplify the filing process by eliminating the estimate of gross receipts. This would be a business-friendly change, as it would enable new businesses to earn revenue before the County begins collecting the tax. It might also enable the County to collect more information on new business development and would encourage the filing of BTP taxes. *Key benefits include business friendliness.*

Local Sales and Use Tax Approaches

1. **To ensure that the sales tax is a broad-based tax on consumption, the County should seek to broaden the Commonwealth sales tax base to include more services by encouraging legislative action by the General Assembly.** Among all the states with a sales tax, Virginia taxes the fewest services (according to a 2017 survey by the Federation of Tax Administrators). Expanding this base will help ensure that the sales tax is a broad-based consumption tax. There is also evidence that it will also make the tax less regressive, as higher-income households tend to purchase more services.

2. **To ensure that sales tax collection rates remain high, the County should encourage legislative action by the General Assembly to require out-of-state sellers (via the Internet, catalogue or phone sales) to collect and remit sales tax to the Commonwealth on sales to Virginia residents.** Earlier this year, the U.S. Supreme Court reversed past precedent and will now allow states to require collection of sales tax by out-of-state retailers on purchases made by Virginia residents. To date, approximately half the states with sales taxes have put in place the statutory changes necessary to collect this tax, and Virginia should do the same.

Motor Vehicle License Fee Approaches

1. **Consider tying the County's motor vehicle license fees to state rates by ordinance.** This alternative would remove the need to set the rates, as they would be tied directly to the state's rates. This would ensure maximum revenue is achieved from the source without a heavy administrative burden and would have the added benefit of increased revenue source diversification. *Key benefits include increased revenue generation.*

Approaches Related to Other Taxes and Revenues

1. **Require short term rental permits – even free of charge – in order to increase the quality and available of short term rental activity in the County.** If the County eventually decides to adopt an ordinance related to short term rental regulation, it will be well prepared to ensure taxpayer compliance. *Key benefits include increased data collection.*

2. **Consider placing a meals tax in front of voters.** As already noted, the County has a revenue structure that is more reliant on the real property tax than any of its peer local governments. This suggests that alternatives should be explored to reduce that reliance. Among the alternatives, the meals tax has the advantage of being in place in some comparable local governments, and an argument can be made that a fair amount of its revenue will be exported to non-county taxpayers. It also taxes something that is not considered a necessity, and a type of purchase that is consumed more by higher income households than those with lower income. While meals tax referenda have been voted down more often than not, there has also been a reasonably large number of approvals.

Conclusion

This study provides several possible alternative revenue sources that can assist the County in its strategic goal of developing a 'robust economy.' While the study provides approaches, they are not meant to paint policymakers into a corner should those approaches prove unfeasible for political and/or policy reasons. Many of the alternatives discussed may require concerted efforts from leadership at both the Virginia state and local government levels that has to be sustained over time. Significantly 'moving the dial' on taxes will take more than a single event or alternative that provides a neat and tidy solution.

Introduction and Project Background

Introduction

The Prince William Board of County Supervisors (BOCS) adopts a strategic plan every four years, reflecting the community's vision, desired outcomes and strategies aimed to achieving those outcomes. The 2017-2020 Strategic Plan was adopted by the BOCS on January 24, 2017; the adopted strategic goal areas include developing a 'robust economy' – a diverse local economy that achieves more quality jobs and economic opportunities. Prince William County residents look to the County to enhance the quality of life in the community, and these enhancements require significant investment from the local government. Because there is little appetite to increase revenues through residential tax increases, and because the Commonwealth prohibits a bifurcated real estate tax rate, the County has deemed it imperative to focus on expanding the commercial tax base to increase revenues to meet the investment needs of the community.

This desire to build upon the County's existing commercial tax base led County staff to embark on a comprehensive tax and non-tax revenue study. The study was to consider key issues and concerns associated with taxes and other revenue sources, including their construction, administration and impact on the finances of Prince William County and County taxpayers. To analyze these issues, the County engaged PFM Group Consulting LLC (PFM) to study County tax and revenue sources and identify tax and revenue alternatives.

To assist the County in determining the optimal tax and revenue structure and assist with budget preparation and deliberations, PFM undertook the following tasks:

1. Provide a detailed history, SWOT (strengths, weaknesses, opportunities and threats) analysis and benchmarking comparison of major County tax types;

2. Benchmark and analyze the motor vehicle license fee; and

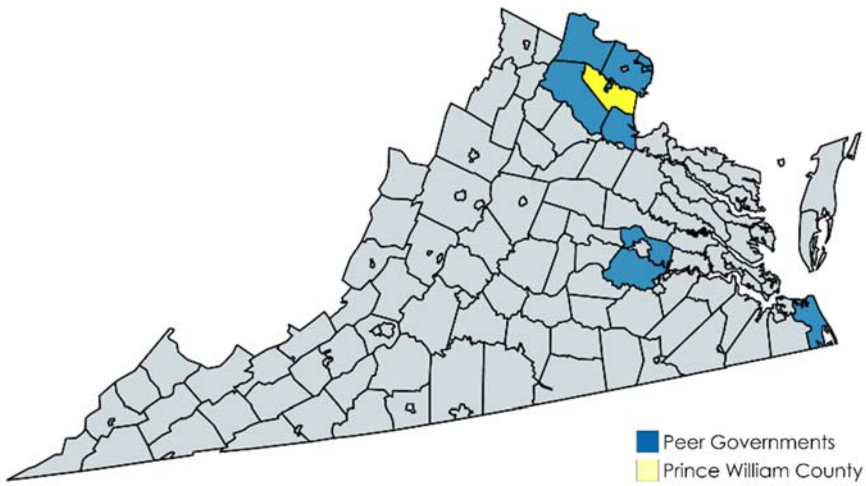
3. Identify all revenue sources where the Commonwealth provides the County with the ability to impose taxes or fees, benchmark their use, conduct a SWOT analysis of each and quantify possible revenue opportunities.

To conduct the analyses, the project team submitted a detailed information request to the County and analyzed the resulting data and information. Additionally, the team conducted detailed interviews with County leadership, elected officials, subject matter experts and business community stakeholders.

To aid in determining how the County's current tax and revenue structure compares with peer jurisdictions, the project team conducted a benchmarking analysis that focused on overall tax and revenue structure, tax burden and issues specific to selected taxes, including administration and impact on local business. For this analysis, peer governments were chosen based on the basis of having similar economic, demographic and other characteristics to Prince William County. The selected local governments, depicted in Figure 1, are:

- City of Alexandria
- Arlington County
- Chesterfield County
- Fairfax County
- Fauquier County
- Henrico County
- Loudoun County
- Stafford County
- City of Virginia Beach

Figure 1: Map of Virginia Peer Governments



The project team also used a SWOT analysis for each of the revenue sources (both current and potential) to examine the positive and negative impacts and implications from revenue alternatives. Because there is no 'perfect tax,' the project team sought to identify those tax sources that would best align with the County's Principles of Sound Financial Management:[10]

- **Vertical equity.** Revenue sources should provide appropriate treatment of taxpayers at different economic levels.
- **Horizontal equity.** Revenue sources should treat taxpayers with the similar income, wealth or lines of business equally.
- **Neutrality.** Revenue sources should not unduly influence economic decisions by consumers or businesses except for targeted economic development or redevelopment programs approved by the BOCS.
- **Administrative and compliance costs.** Revenue administration and enforcement should not absorb an undue percentage of revenue collected.

The project team also sought revenue sources that are economically efficient, stable and sufficient.

To provide additional insight and subject matter expertise, PFM engaged two external reviewers, Ric Brown and Mark Haskins. Mr. Brown is the former Commonwealth of Virginia Finance Secretary, who served in that capacity for multiple Governors (both Democrat and Republican). Mr. Haskins is the former Policy Development Director for the Virginia Department of Taxation, a position he held for 11 years.

[10] Prince William County – Principles of Sound Financial Management (April 2018). Accessed electronically at http://www.pwcgov.org/government/dept/finance/Documents/PSFM%20Update%202018.pdf

In conducting these analyses, the PFM team acted as a neutral third party adviser to the County. This project deliverable provides findings and alternatives for the County to consider, including quantitative and qualitative analysis of key County tax and revenue sources.

Prince William County Background

Prince William County Background

With approximately 450,000 residents, Prince William County covers nearly 350 square miles in Northern Virginia, roughly 25 miles southwest of Washington, D.C. In Virginia, cities and counties are not overlapping governments, and within the County's boundaries are the independent cities of Manassas and Manassas Park and the incorporated towns of Dumfries, Haymarket, Occoquan and Quantico. The cities and towns elect their own mayors and councils but rely on the County for selected services. These may include police, fire and rescue, court services, education, development administration, libraries, parks and recreation, health and social services, public improvements, as well as planning and general administration. Since 1972, the County has operated under the County Executive form of government; the County is governed by an eight-member Board of County Supervisors. The Board appoints a County Executive to act as the County's chief administrative officer.

Key Economic and Demographic Characteristics[11]	Prince William County
Economic Indicators	
Median Household Income	$98,546
Mean Household Income	$114,994
Individual Poverty Level	7.0%
% of Population w/ BA or Higher	39.5%
Unemployment Rate	5.4%
Geographic and Demographic Indicators	
Population	443,630
Population Change Since 2010	16.9%
Median Resident Age	34.4
Land Area (square miles)	336
Population Density (residents per square mile)	1,319
Housing and Mortgage Characteristics	
Median Home Value	$345,900
Total Housing Units	144,314
Median Real Estate Taxes Paid	$3,584
Median Owner Costs as % of MHI	20.9%

Demographic and Economic Profile

Prince William County continues to experience significant population growth. Between 2010 and 2016, the U.S. population grew by 4.8 percent, while Virginia saw growth of 6.0 percent. During the same time period, the County's population increased by 16.9 percent. Among the nine peer governments selected for comparison, only Loudoun County had stronger growth (24.3 percent).[12]

The County's residents are generally affluent and well educated. Median household income is nearly $100,000 (the 18th highest among all counties and equivalents in the U.S.), and nearly four in 10 residents aged 25 and older have attained at least a bachelor's degree. The County's poverty level is 7.0 percent (compared to 15.1 percent nationally and 11.4 percent statewide). Relative to the benchmark peer governments, the County ranks in the middle in these categories (fourth highest median household income, sixth in educational attainment and fifth lowest poverty rate).[13]

The County has a significant incidence of out-commuting. While a total of 47,000 people live and work in the County, 70,000 non-residents commute into the County (16,000 from Fairfax County). By contrast, 150,000 residents commute out of the County for work (63,000 to Fairfax County, 15,000 to Washington, D.C. and 11,000 to Loudoun County). This results in a net out-migration of 80,000 commuters.[14]

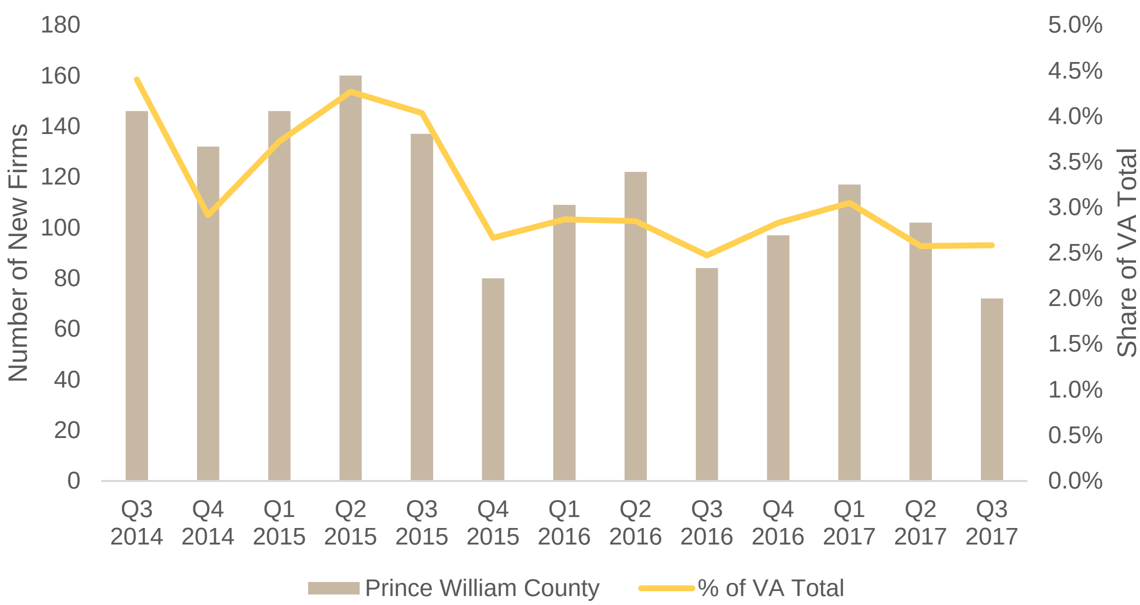
The County's largest employment sectors, by number of jobs, are retail (18.3 percent), education services (15.7 percent), construction (11.2 percent), accommodation and food services (10.5 percent), health care and social

[11] U.S. Census Bureau American Community Survey 5-Year Estimates, 2012-2016
[12] Ibid.
[13] Ibid.
[14] U.S. Census Bureau OnTheMap Application and LEHD Origin-Destination Employment Statistics, 2014 via Virginia Employment Commission – Prince William County Community Profile

assistance (9.9 percent), and professional, scientific and technical services (7.5 percent).[15] Of the 22,000 new hires in the second quarter of 2016, nearly 9,500 (43 percent) were in the retail trade or accommodation and food services industries. Major public and private employers located within the County include the Prince William County School Board, County government, the U.S. Department of Defense, Walmart, Morale Welfare and Recreation and Sentara Healthcare.[16]

As Figure 2 shows, in recent years there have been fewer startups in the County and a smaller share of the total startups within the Commonwealth. New startups in the County peaked in the second quarter of 2015 at 160 but totaled just 72 by the third quarter of 2017. Most recently, the County's share of the Commonwealth's startups was 2.6 percent, down from 4.4 percent three years prior.

Figure 2: Prince William County New Startup Firms, Q3 2014-Q3 2017[17]



Source: Virginia Employment Commission, Economic Information & Analytics QCEW Q3 2017

The County's targeted industries include life sciences and biotechnology, information technology, federal agencies and corporations, and specialized logistics and supply chain. These industries have provided significant capital investment and job opportunities in the County. In 2016, 70 percent of the jobs created by the County's economic development projects were within these targeted industries.[18]

County employment across all industries is projected to increase by 12.6 percent (1.2 percent annually) between 2014 and 2024. Key growth sectors include professional, scientific and technical services, projected to increase by 51,000 jobs (21 percent); health care and social assistance (26,000 jobs or 27.2 percent); accommodation and food services (15,000 jobs or 15.1 percent); and education services (14,000 jobs or 14.6 percent). Conversely, manufacturing employment is expected to decline by 1,500 jobs over the same period (7.9 percent), and utilities and information industry employment are both expected to decline by nearly 300

[15] U.S. Census Bureau OnTheMap Application, 2015
[16] Prince William County FY2017 Comprehensive Annual Financial Report
[17] Startup firm defined as one under private ownership with average employment less than 250; establishment must have had no predecessor UI account number; for multi-unit establishments, parent company must also have met criteria
[18] Prince William County FY2017 Comprehensive Annual Financial Report

jobs (11.9 percent and 0.7 percent, respectively).[19] Tables detailing key economic and demographic indicators across peer governments are provided in Appendix A.

Prince William County Budget Overview

The County's FY2018 general fund budget is $1,118.1 million. Local tax revenues make up a majority of the funding sources contained in the County's general fund ($938 million or 83.9 percent), as displayed in Table 2.

Table 2: FY2018 Budget by Local Tax Revenue Source

Revenue Source	FY2018 Adopted Budget	% of Total Local Tax Sources	% of Total General Fund Revenue
Real Estate Taxes - Current Year	$630,111,000	67.2%	56.4%
Real Estate Tax Exonerations	($16,382,900)	-1.7%	-1.5%
Real Estate Tax Deferrals	($500,000)	-0.1%	0.0%
Land Redemption	$315,000	0.0%	0.0%
Public Service Real Estate - Current Year	$20,255,359	2.2%	1.8%
Real Estate Penalties - Current Year	$1,449,000	0.2%	0.1%
Total All Real Estate Taxes	**$635,247,459**	**67.7%**	**56.8%**
Personal Property Taxes - Current Year	$171,500,000	18.3%	15.3%
Personal Property Taxes - Prior Year	$50,000	0.0%	0.0%
Personal Property Tax Deferrals	($500,000)	-0.1%	0.0%
Personal Property Penalties - Current Year	$1,940,000	0.2%	0.2%
Total All Personal Property Taxes	**$172,990,000**	**18.4%**	**15.5%**
Interest on All Taxes	$1,492,000	0.2%	0.1%
Total Interest on All Taxes	**$1,492,000**	**0.2%**	**0.1%**
Total General Property Taxes	**$809,729,459**	**86.3%**	**72.4%**
Local Sales Tax	$64,260,000	6.8%	5.7%
Daily Equipment Rental Tax	$194,000	0.0%	0.0%
Consumers Utility Tax	$14,520,000	1.5%	1.3%
Bank Franchise Tax	$1,500,000	0.2%	0.1%
BPOL Tax	$25,795,000	2.7%	2.3%
Public Utility Gross Receipts Tax	$1,518,000	0.2%	0.1%
Motor Vehicle License	$8,580,000	0.9%	0.8%
Recordation Tax	$8,480,000	0.9%	0.8%
Deed of Conveyance Tax	$2,360,000	0.3%	0.2%
Transient Occupancy Tax	$1,400,000	0.1%	0.1%
Total Other Local Taxes	**$128,607,000**	**13.7%**	**11.5%**
Total Local Tax Sources	**$938,336,459**	**100.0%**	**83.9%**
Total General Fund Revenue	**$1,118,113,367**		

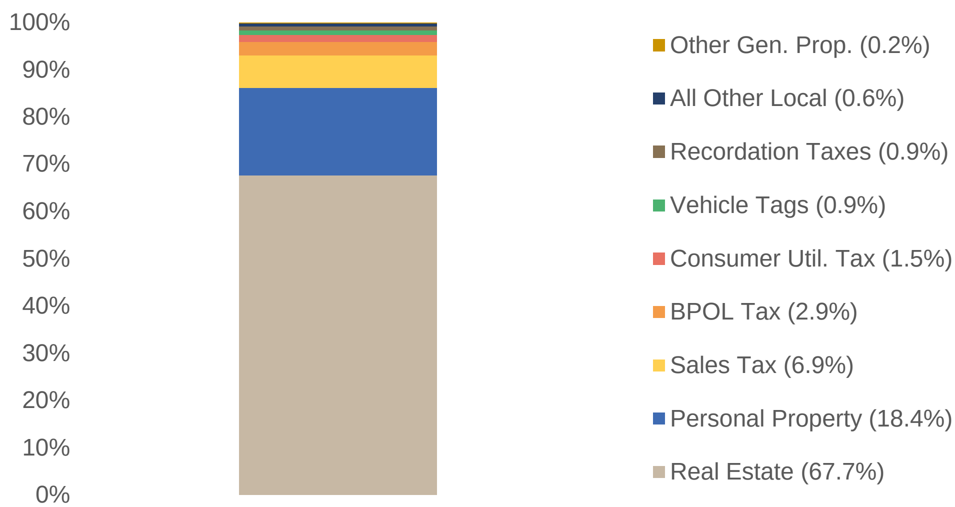
Source: Prince William County FY2018 Budget

[19] Virginia Employment Commission, Economic Information and Analytics, Long Term Industry and Occupational Projections, 2014-2024. The Commission uses the North American Industry Classification System (NAICS) codes, with 2007 revisions, to classify industries. The information industry is inclusive of the following general industries: Information (Industry Code 51); Newspaper, Periodical, Book and Directory Publishers (Industry Code 5111) and Software Publishers (Industry Code 5112).

As shown in Figure 3, at $635.2 million in FY2018 (67.7 percent), the largest source of local tax dollars comes from the real estate tax assessed on all real property in the County. Relative to peer governments, Prince William County has a slightly higher reliance on real estate taxes; the median reliance on the source is 66.7 percent, while the average is 66.3 percent.

The next largest source of revenue is personal property tax collected on individual and business personal property at $172.7 million (18.4 percent); personal property tax revenues are projected to reach $220.1 million by FY2023. Combined with sales tax levied on the retail sale or rent of most tangible property, estimated at $64.3 million (6.9 percent), these three sources comprise 93 percent of total local tax dollars received by the County.

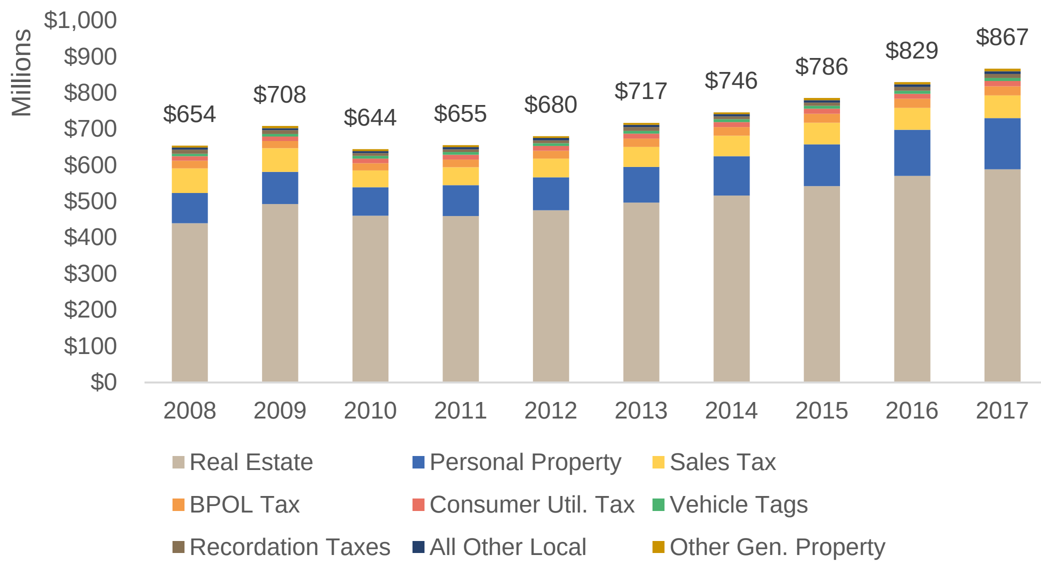
Figure 3: FY2018 Local Tax Sources



Source: Prince William County FY2018 Budget

Between FY2008 and FY2017, total local tax revenue increased by $212.7 million (growth of 32.5 percent, a compound annual growth rate [CAGR] of 3.2 percent), as shown in Figure 4. The most significant increases were seen in the real estate and personal property taxes, which increased by $149.0 million and $57.9 million, respectively. Most of this increase is the result of economic and population growth.

Figure 4: Local Tax Revenues by Source, FY2008-FY2017 (millions)

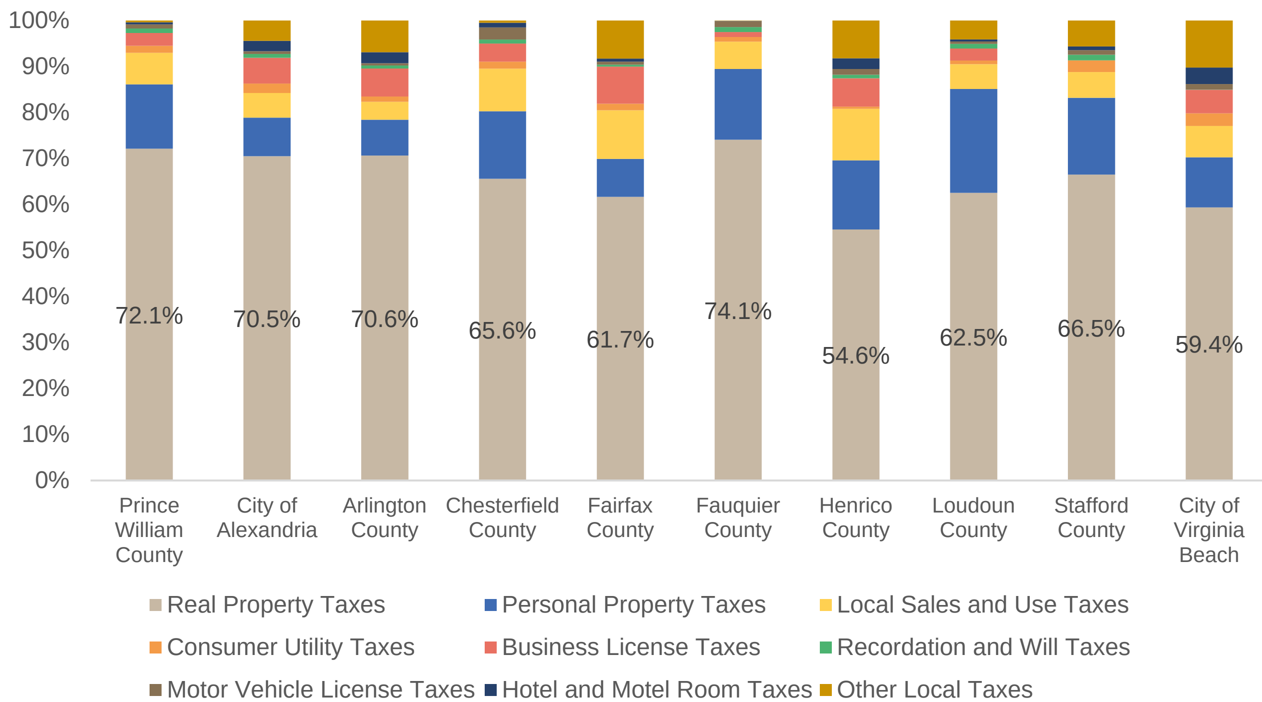


Source: Prince William County CAFRs 2009-2017

Relative to peer governments, Prince William County's revenue mix is more heavily reliant upon the real estate tax as a share of total local taxes. Each year, the Virginia Auditor of Public Accounts releases detailed local tax and revenue data. Using this data, Figure 5 illustrates each peer locality's local tax revenue diversification. Prince William County's reliance on real property taxes, which includes those from public service corporations, is 72.1 percent – lower only than Fauquier County at 74.1 percent. At 54.6 percent, Henrico County has the lowest reliance on real property taxes.

It is notable that less than one percent of Prince William County's local tax revenues are generated by other tax sources, which include bank stock taxes, franchise license taxes, tobacco taxes, meals taxes, admissions taxes, severance taxes and other miscellaneous taxes. Many peer localities generate a much greater share of revenue from these other taxes: Virginia Beach (10.3 percent), Fairfax County (8.3 percent), Henrico County (8.2 percent) and Arlington County (6.9 percent). In fact, only Fauquier County has a lower share than Prince William County at 0.1 percent of total local tax revenue, while Chesterfield's share of other taxes is comparable to Prince William County at 0.5 percent.

Figure 5: Local Tax Diversification, Peer Localities (2017)[20]



Source: Virginia Auditor of Public Accounts
Note: the APA report slightly differs from the 2017 Prince William County CAFR. In the APA report, real property taxes are $11.6 million higher, while recordation and will taxes are $2.2 million lower, for a variance of $9.4 million (1.0 percent).

Approximately 83 percent of the County's real estate tax base consists of residential housing (including apartments), while an estimated 16 percent is comprised of commercial, industrial, agricultural and public service properties (the remaining one percent is undeveloped land).[21] To diversify the real property tax base, in recent years, the County has a stated goal of increasing the commercial tax base as a percentage of overall tax revenue to 35 percent. According to the Board's 2017-2020 Strategic Plan, the goal "would best provide consistent and sustainable revenue streams by limiting impacts from fluctuations in any one area of the economy." Currently, commercial tax revenues account for an estimated 14 percent of total revenues – leading the Strategic Plan Team (comprised of 15 residents and three staff members appointed by the Board of County Supervisors) to unofficially describe the goal as a "moonshot" (referencing President Kennedy's challenge to land a man on the moon).[22]

The County has also indicated an interest in identifying the percent of overall taxes paid by commercial and non-commercial taxpayers. While this is understandable, it is also very difficult to do without extensive additional analysis. It is relatively easy to do this calculation for real property, because there are already clear demarcations by classes of real property. It is relatively easy to identify residential property as primarily non-commercial and other classes as primarily commercial. For most other major tax categories, the split is far less

[20] Real property taxes include real property and public service corporations. Personal property taxes include general personal property, mobile homes, machinery and tools, penalties and interest. Other local taxes include bank stock taxes, franchise license taxes, tobacco taxes, meals taxes, admissions taxes, coal, oil and gas taxes and other local taxes not specified.
[21] Prince William County 2017 CAFR
[22] Prince William County – Board Adopts New Strategic Plan to Guide County Government (February 2, 2017). Accessed electronically at http://www.pwcgov.org/news/pages/Board-Adopts-New-Strategic-Plan-to-Guide-County-Government.aspx

clear. For example, in the largest category of personal property – automobiles – there is ownership by both individuals and businesses. This is also the case for sales and use tax, where businesses also make purchases as well as individual consumers. It would require a significant amount of study to do a detailed tax incidence study for the County.

Among detailed studies that have been done that touch on this subject, each year, the Council on State Taxation (COST) produces a study detailing state-by-state estimates of the state and local taxes paid by businesses. The taxes analyzed include business property taxes; sales and excise taxes paid by businesses on their input purchases and capital expenditures; gross receipts taxes; corporate income and franchise taxes; business and corporate license taxes; unemployment insurance taxes; individual income taxes paid by owners of non-corporate (pass-through) businesses; and other state and local taxes that are the statutory liability of business taxpayers.[23] According to this study, in the State of Virginia, businesses currently pay 27.0 percent of state taxes, 57.5 percent of local taxes and a combined 40.6 percent of state and local taxes. These are, of course, aggregate numbers that will not have general application to Prince William County, but they provide at least one view on the amount of taxes that could be attributed to commercial activity within Virginia.

In addition to state-by-state estimates of state and local business and total taxes, the study calculates the total effective business tax rate (TEBTR) imposed on business activity by state and local governments.[24] Table 3 compares Virginia's TEBTR to surrounding states (a lower percentage is considered to be more business-friendly in this analysis). Among the neighboring states, Virginia's rate (4.0 percent) is low – only North Carolina has a lower rate (3.6 percent). Despite having a relatively low TEBTR rate, business taxes per employee in Virginia ($4,900) are higher than North Carolina ($4,300), Tennessee ($4,800) and Kentucky (also $4,800).

Table 3: Business Taxes as a Share of State, Local and Total Taxes and Private Sector GSP, FY2016 ($ Billions)

	State Taxes		Local Taxes		State & Local Taxes			
State	Business	Total	Business	Total	Business	Total	TEBTR	Business Taxes per Employee ($ Thousands)
Virginia	$5.9	$21.9	$10.0	$17.5	$15.9	$39.4	4.0%	$4.9
North Carolina	$9.4	$27.7	$6.6	$14.3	$16.0	$42.0	3.6%	$4.3
Maryland	$7.4	$21.6	$4.6	$16.4	$12.0	$38.0	4.1%	$5.4
Tennessee	$7.4	$13.7	$5.0	$9.5	$12.4	$23.2	4.4%	$4.8
Kentucky	$4.9	$12.3	$2.9	$5.2	$7.8	$17.5	4.7%	$4.8
Washington, D.C.	$4.1	$7.5	$0.0	$0.0	$4.1	$7.5	5.0%	$7.7
West Virginia	$2.1	$5.3	$1.5	$2.0	$3.6	$7.3	5.9%	$6.3
U.S.	$375.9	$973.3	$348.3	$675.6	$724.2	$1,648.9	4.5%	$5.8

Source: COST Total State and Local Business Taxes, August 2017

TEBTRs provide a starting point for comparing burdens across states, but do not provide sufficient information to evaluate a state's (or individual locality's) competitiveness. For instance, states with relatively low TEBTRs that derive most of their business taxes from origin-based taxes (such as property taxes and sales taxes) are not as competitive as states with higher TEBTRs that rely on taxes that have a larger impact on out-of-state businesses.

[23] Council on State Taxation – Total State and Local Business Taxes: State by State Estimates for Fiscal Year 2016 (August 2017). Accessed electronically at http://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/fy16-state-and-local-business-tax-burden-study.pdf

[24] The TEBTR is measured as the ratio of state and local business taxes to private sector gross state product (GSP), the total value of a state's annual production of goods and services by the private sector.

TEBTRs also do not identify who ultimately pays the tax (often referred to as tax incidence). When a tax can be passed on to consumers, the tax burden is different than when it is primarily paid by the business owners or shareholders. For example, sales tax is added onto the bill and collected by the business from the purchaser – in general, the tax burden from sales tax rests on the purchaser, not the seller.

Two states with similar TEBTRs may also vary in how they tax certain industries. For example, some states may levy relatively high taxes on capital-intensive manufacturers and relatively low taxes on labor-intensive service industries. When the state and local tax structure imposes disparate burdens by industry, economic decisions may be impacted by disincentives facing highly taxed industries. Finally, TEBTR is a measure of the average tax burden on existing businesses in a state – it is not a measure of the tax that would be borne by a company investing in a new facility. For this reason, the TEBTR provides one metric that can be used to evaluate a state's business tax structure, but is not a clear indicator of the competitiveness of a state's business tax system in terms of attracting new investment.

County Real Estate Tax

Introduction

The Code of Virginia (§§ 58.1-3200 through 58.1-3389) authorizes localities to levy taxes on real property, which includes land and the buildings and improvements on it.[25] There is no restriction on the tax rate that localities may impose. Additionally, the law provides that all general reassessments or annual reassessments be at 100 percent of fair market value.

Property owned by public service corporations is not assessed by localities; instead, it is assessed by the State Corporation Commission (SCC) and the Department of Taxation. The SCC assesses electric utilities and cooperatives, gas pipeline distribution companies, public service water companies and telephone and telegraph companies. The Department of Taxation assesses pipeline transmission companies and railroads. The focus of this chapter is on the real property tax and not on the revenue generated through the taxation of public service corporations.

History and Background[26]

Beginning in the colonial period and lasting until the adoption of the Constitution in 1851, two classes of real property were taxed: 'land' and 'town lots.' Land (farm land) was taxed directly in relationship to value, while town lots (occupied or rented town property) were taxed according to its rental value. Until 1926, real property was taxed at the state level, while also being subject to local taxation. In 1926, the General Assembly restricted real estate and tangible personal property to local taxation only.

The Virginia Constitution provides that:

- All property shall be taxed;
- All taxes shall be levied and collected under general laws and shall be uniform upon the same class of subjects within the territorial limits of the taxing jurisdiction; and
- All assessments of property be at their fair market value.

Assessment/Valuation Process

Fair market value is determined by the appraisal process; most counties are required to reassess at least every four years (but may reassess more frequently), while counties with populations of 50,000 or fewer may elect to reassess every five or six years. Professional appraisers use three basic approaches in determining fair market value:

- The **sales approach** compares sales prices of comparable or similar properties. This method is considered quite accurate for those types of properties that sell frequently, such as residential properties (although the issue of comparability is often a concern).
- The **income approach** is used for income-producing (such as rental) properties, especially those where there are few comparable sales. "Economic rent" or fair market rent is capitalized to determine value and is not necessarily the actual rent being paid; market comparisons are necessary to determine what rents are being paid for comparable buildings.

[25] Mobile homes, although under the law of fixtures may constitute real property, are classified as tangible personal property, but must be taxed at the same rate applicable to real property. If, however, mobile homes are included in multiple classifications under § 58.1-3506 (Other Classifications of Tangible Personal Property for Taxation), then the rate of tax must be the lowest rate assigned to mobile homes.
[26] History obtained from Virginia Division of Legislative Services: A Legislator's Guide to Local Taxation (Revised 2006). Accessed electronically at http://dls.virginia.gov/pubs/TaxGuide07.pdf

- The **depreciated reproduction cost approach** computes the actual cost to replace or rebuild the structure reduced by depreciation (to reflect age and wear and tear on the structure).

Real Property Tax Relief

The real property tax is generally described as a tax on wealth, and while property has, over the years, been seen as a reasonable proxy for wealth, that case may be harder to make today. In places where property value has appreciated significantly over several decades, houses may have doubled, tripled or more in value compared to the original purchase price. For many families – particularly retirees on a fixed income – the ever-increasing property value and the taxes that go with it are no longer aligned with their ability to pay.[27]

Sections 58.1-3210 through 58.1-3218 of the Code of Virginia provide that localities may, by ordinance, provide property tax relief for elderly and disabled persons in the form of either deferral of or exemption from the taxes owed. To qualify, property owners must be at least 65 years of age or permanently and totally disabled, and the property for which the relief is sought must be the applicant's sole dwelling. Localities also have the ability to exempt or defer the portion of a taxpayer's tax equal to the increase in tax liability since the year the applicant reached 65 years of age or became disabled.

Localities, by ordinance, establish the net financial worth and annual income limitations pertaining to owners, relatives and non-relatives living in the property for which the relief is sought. Localities are also empowered to extend tax relief for the elderly and disabled to dwellings that are jointly owned by individuals, not all of whom are 65 or older or totally disabled.

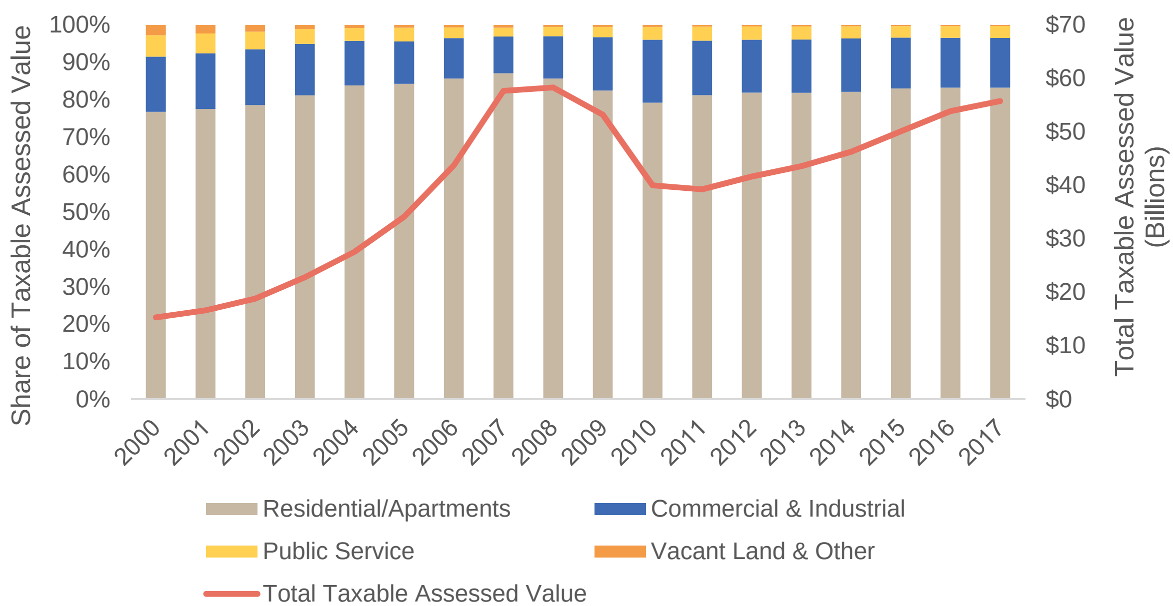
Real Estate Taxes in Prince William County

Prince William County Real Estate Tax Base

Residential properties, including apartment buildings, are the most significant component of the County's tax base. In 2000, residential properties accounted for 76.8 percent of the total taxable assessed value. As shown in Figure 6, that share increased in the years leading up to the Great Recession, accounting for 87.1 percent in 2007, but declined for each of the next three years. Since 2011, the share has been increasing, and totaled 83.2 percent in 2017. Commercial properties as a share of total taxable assessed value averaged 13.4 percent between 2000 and 2017, though in the years following the Great Recession, the source represented a more significant share, accounting for 16.8 percent in 2010. It is notable that the total assessed value of taxable real property decreased significantly as a result of the Great Recession. After peaking at $58.3 billion in 2008, taxable assessed value decreased to $39.3 billion in 2011 – a decline of $19.0 billion (32.7 percent). As of 2017, total taxable assessed values had still not quite returned to pre-Recession levels.[28]

[27] This can also be a barrier for young families or single earner households who may be able to afford monthly mortgage payments (which can be capitalized over many years) but cannot afford the annual property tax bill on top of the mortgage payment. Minority neighborhoods where housing values traditionally have lagged have borne a disproportionate share of the burden.
[28] Total taxable assessed values are by fiscal year; fiscal year reporting is one year behind assessment dates.

Figure 6: Prince William County Taxable Assessed Value, 2000-2017



Source: Prince William County CAFRs

The average assessed value of residential properties has increased significantly in recent years, growing by more than $57,000 (19.9 percent) between 2013 and 2017. The year-over-year change in residential and commercial property values fluctuated during this time period; mostly recently, the County experienced a 1.8 percent increase in 2017 of residential property values, while total commercial property values increased by 7.9 percent. It is notable that not all properties are subject to real property taxes, and as of 2017, 6.6 percent of the County's total assessed value was tax exempt. Table 4 summarizes the County's real estate tax base for the past five tax years.

Table 4: Prince William County Real Estate Tax Base, Tax Years 2013-2017

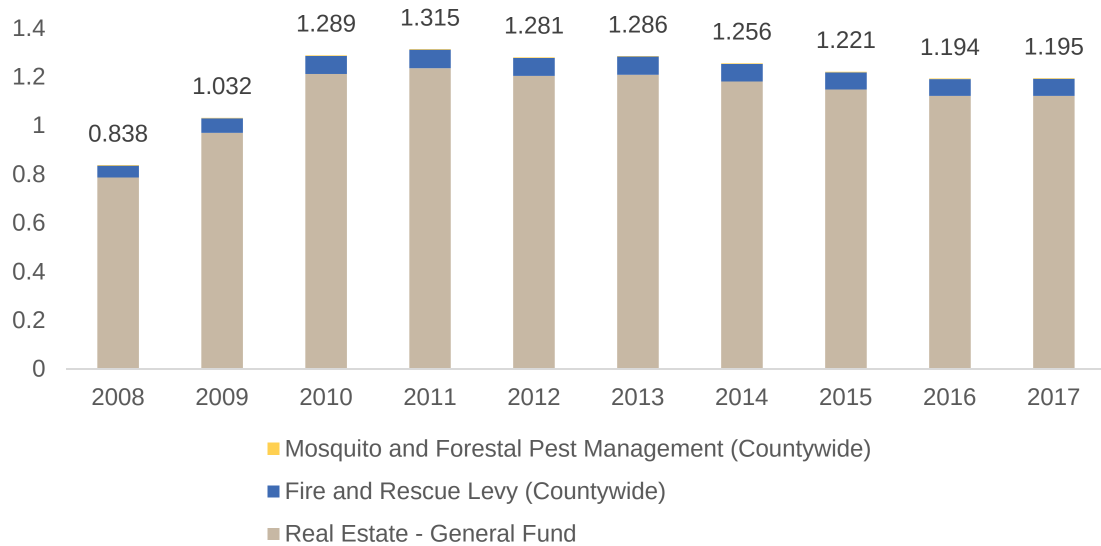
	2013	2014	2015	2016	2017
Avg. Assessed Value of Residential Property	$289,100	$312,100	$332,600	$340,200	$346,700
Change in Residential Property Value	4.7%	7.6%	6.2%	1.8%	1.8%
Change in Commercial Property Value	4.5%	2.2%	4.7%	1.5%	7.9%
Tax Exempt Property as % of Total Assessed Value	7.3%	6.8%	6.5%	6.5%	6.6%

Source: Prince William County FY2019 Budget

Prince William County Real Estate Tax Rates

The BOCS annually sets the general real estate levy and special district tax rates which, when combined, are referred to as the 'direct tax rate.' While the general real estate levy (the primary component of the direct tax rate) supports basic governmental services, the special district taxes fund the operation of volunteer fire and rescue companies and support mosquito and forestal pest management. Over the past ten years (2008-2017), the general real estate levy has increased by a CAGR of 4.0 percent and the fire and rescue levy has increased by a CAGR of 4.3 percent, while the mosquito and forestal pest management levy has remained flat. As illustrated in Figure 7, the total direct tax rate in Prince William County has increased from $0.838 per $100 of assessed value to $1.195 over the same time period, a CAGR of 4.0 percent.

Figure 7: Prince William County Direct Tax Rate, 2008-2017 (per $100 of Assessed Value)



Source: Prince William County CAFR, 2017

There are other service and transportation district levies that apply to certain properties across the County, depending on location, as shown in Table 5. These additional levies include the Bull Run Mountain and Lake Jackson service district levies and the 234-Bypass transportation district levy.[29] Additionally, the towns each impose real estate tax levies, which range from $0.0120 in Occoquan to $0.20 in Quantico.

Table 5: Prince William County 2017 Tax Rates (per $100 of Assessed Value)

Countywide Tax Levies	
Real Estate - General Fund	$1.1220
Fire and Rescue Levy (Countywide)	$0.0705
Mosquito and Forest Pest Management (Countywide)	$0.0025
Total Direct Tax Rate	**$1.1950**
Service and Transportation District Levies	
Bull Run Mountain	$0.1377
Lake Jackson	$0.1650
234-Bypass	$0.0200
Town Real Estate Tax Levies	
Town of Dumfries	$0.1899
Town of Haymarket	$0.0146
Town of Occoquan	$0.0120
Town of Quantico	$0.2000

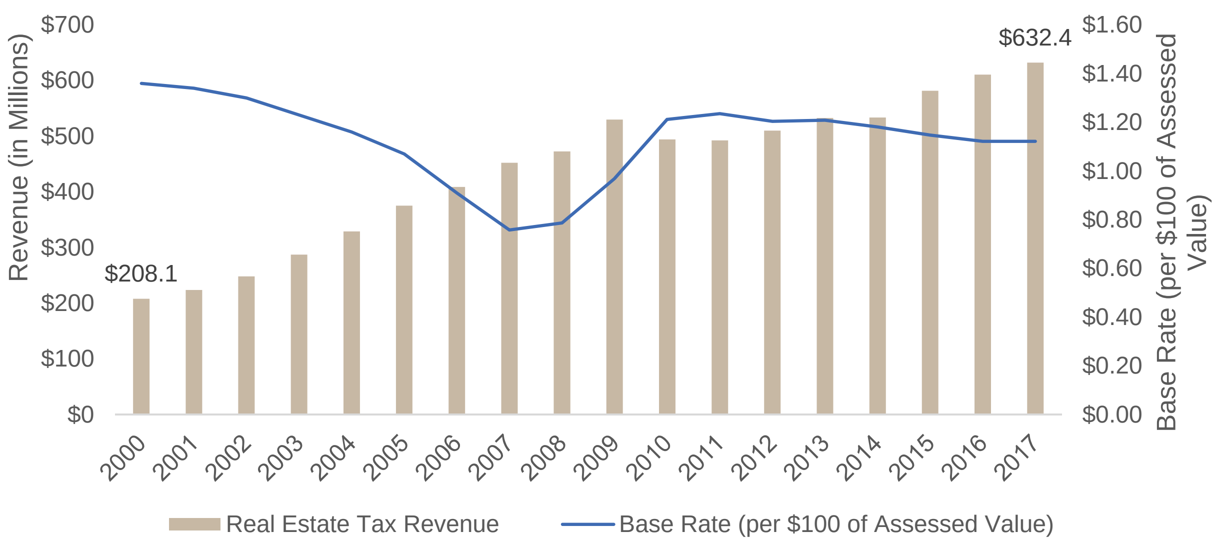
Source: Prince William County CAFR, 2017

[29] The Bull Run Mountain Service District is located in the northwest corner of Prince William County; the levy supports the maintenance of non-state maintained roads within the District. The Lake Jackson Service District is located around Lake Jackson; the levy supports maintenance of private local roads within the District.

Prince William County Real Estate Tax Revenue

The real property tax is the largest source of local government revenue in Virginia. In 2017, $7,683.6 million of the $11,924.1 million collected by counties in local tax revenue (64.4 percent) was attributable to the real property tax. In Prince William County, the tax was responsible for nearly 70 percent of total 2017 local tax revenue. Real estate tax revenues increased from $208.1 million in 2000 to $632.4 million in 2017 – a CAGR of 6.8 percent – as shown in Figure 8. During the same time period, the real estate tax rate decreased from $1.36 per $100 of assessed value to $1.122 – a CAGR of -1.1 percent. The rate increases in 2008, 2009 and 2010 served to, at least in part, ameliorate the decline in assessed value that occurred as a result of the Great Recession.

Figure 8: Prince William County Real Estate Tax Rate and Revenue, 2000-2017



Source: Prince William County CAFRs

The County's reliance on the real estate tax is expected to continue for the foreseeable future. The County is striving, however, to diversify revenue sources to ensure stability as identified in the BOCS' adopted Principles of Sound Financial Management (PSFM).

Real Estate Tax Burden

One way to measure the impact of property taxes is to analyze real estate taxes as a percentage of median household income (MHI). The County's tax burden has fluctuated between 3.4 and 3.7 percent in recent years (as shown in Table 6). This is higher than the average tax burden across the Commonwealth, which was 3.0 percent in 2016.

Table 6: Prince William County Real Estate Tax Burden, 2010-2016

	2010	2011	2012	2013	2014	2015	2016
Median Real Estate Taxes Paid	$3,402	$3,435	$3,402	$3,399	$3,378	$3,444	$3,584
Median Household Income	$91,098	$95,531	$96,160	$98,071	$98,514	$98,657	$98,546
Taxes Paid as a % of MHI	3.7%	3.6%	3.5%	3.5%	3.4%	3.5%	3.6%

Source: U.S. Census Bureau American Community Survey 5-Year Estimates

Real Estate Assessments

The Finance Department's Real Estate Assessments Office is responsible for annually assessing all real property in the County, maintaining property ownership records and administering the County's tax relief programs.[30] In order to perform these duties, the Real Estate Assessments Office gathers and maintains data on every property in the County. The Office also collects and analyzes data pertaining to real estate market indicators such as sales and property income and expense data. This information enables staff to assess property at a fair market value as required by law. The Office uses one or more of the three methods used to value property.

Real Estate Appeals

A County taxpayer may request an administrative appeal of an assessment. In this process, the County appraiser considers market information relative to the property and information provided by the taxpayer. If the information demonstrates that the assessed value should be changed, the appraiser will make the necessary adjustment. If the evidence does not support a change, the appraiser will explain the reasons for not changing the assessment.

If a taxpayer is unsatisfied with the result of the administrative appeal, an appeal may be made to the Board of Equalization (BOE). The BOE is comprised of eight County taxpayers and is established by the Board of County Supervisors to render an independent third party opinion in cases of disagreement between the taxpayer and the assessing official.

Taxpayers may appeal to the Circuit Court of Prince William County within three years of the assessment.

Real Property Tax Relief

In Prince William County, elderly citizens and disabled persons who meet certain criteria may be granted relief from all or part of their real estate taxes (in addition to other taxes and fees). To qualify, an applicant must have a gross income threshold from all sources of not more than $87,073. The first $10,000 of income earned by any relative living in the household other than the owner or spouse is excluded. Additionally, for any applicant who qualifies as permanently and totally disabled, the first $7,500 of any income received by the applicant as permanent disability compensation is excluded. The combined net worth of the applicant and spouse cannot exceed $340,000, excluding the residence for which the exemption is sought and up to 25 acres of land it occupies. For 2018, the income levels that qualify for the relief plan are:

- Income of $0-$60,050: 100 percent exemption
- Income of $60,051-$69,058: 75 percent exemption
- Income of $69,059-$78,065: 50 percent exemption
- Income of $78,066-$87,073: 25 percent exemption

[30] The Real Estate Assessments Office is not responsible for assessing public service properties (operating railroads, interstate pipelines and public utilities). These types of properties are assessed by the State Corporation Commission (SCC).

Peer Government Comparison

Real Estate Tax Base

The assessed value of all taxable property is a key driver of real estate tax revenue in a given locality. In accordance with § 58.1-207 of the Code of Virginia, the Virginia Department of Taxation conducts an annual real estate assessment/sales ratio study that includes every city and county in the Commonwealth. The most recent study, released in May 2018, is based on 2016 assessments and sales.[31]

Table 7 contains the median assessment/sales ratio and the coefficient of dispersion for each peer locality. The median ratio captures the performance of the real estate market; a low median ratio indicates a strong market, while a median ratio close to or in excess of 100 percent may indicate that a reassessment has been undertaken recently, or it may indicate a weak market. Prince William County's median ratio of 91.9 percent is comparable to those of peer governments, which range from 83.3 percent in Fauquier County to 96.6 percent in Alexandria.

The coefficient of dispersion is based on the average absolute deviation as recommended by the International Association of Assessing Officers (IAAO). It measures how closely individual ratios are grouped around the median; a small coefficient of dispersion indicates that the ratios are grouped relatively close to the median and that the assessment of property is more equitable. At 6.3 percent, Prince William County's dispersion is lower than most (only Loudoun and Chesterfield County are lower), indicating a relatively equitable assessment of property. The table also shows the fair market value of real estate, the number of sales in the sample, and the latest year of assessment, which are among the factors that affect the median ratio and the coefficient of dispersion.

Table 7: Assessment/Sales Ratio Statistics, Peer Municipalities (2016)

Locality	Latest Reassessment (Tax Year)	Number of Sales	Median Ratio	Coefficient of Dispersion	Total Fair Market Value of Real Estate
Prince William County	Annual	6,366	91.9%	6.3%	$54,180,903,100
City of Alexandria	Annual	2,498	96.6%	7.4%	$37,023,445,959
Arlington County	Annual	2,885	93.8%	7.0%	$71,275,163,280
Chesterfield County	Annual	3,806	93.4%	6.1%	$33,630,165,000
Fairfax County	Annual	15,736	93.5%	6.3%	$233,534,605,382
Fauquier County	2014	810	83.3%	10.0%	$11,868,673,500
Henrico County	Annual	4,439	91.7%	9.2%	$34,364,429,900
Loudoun County	Annual	5,959	93.0%	5.6%	$71,173,665,521
Stafford County	2016	1,906	88.3%	8.6%	$16,164,343,150
City of Virginia Beach	Annual	3,472	90.2%	9.5%	$52,351,590,900

Source: Virginia Department of Taxation 2016 Assessment/Sales Ratio Study

A locality's total fair market value of real estate, divided by its assessment/sales ratio, produces an estimate of the locality's total true full value of real estate. The lower the assessment/sales ratio, the lower the locality's true value of real estate will be relative to its total fair market value. Table 8 provides the total estimated true full value of locally taxed real estate as well as the per capita estimate true full value of locally taxed real estate. At $58,937.1 million in 2016, Prince William County's estimated true value of real estate ranks fourth highest,

[31] Virginia Department of Taxation – The 2016 Virginia Assessment/Sales Ratio Study (May 2018). Accessed electronically at https://tax.virginia.gov/sites/default/files/inline-files/2016-assessment-sales-ratio-study.pdf

trailing Fairfax, Loudoun and Arlington Counties. On a per capita basis, Prince William County ranks sixth of ten, higher than Chesterfield, Henrico and Stafford Counties, as well as Virginia Beach.

Table 8: Estimated True Value of Locally Taxed Real Estate, Peer Municipalities (2016)

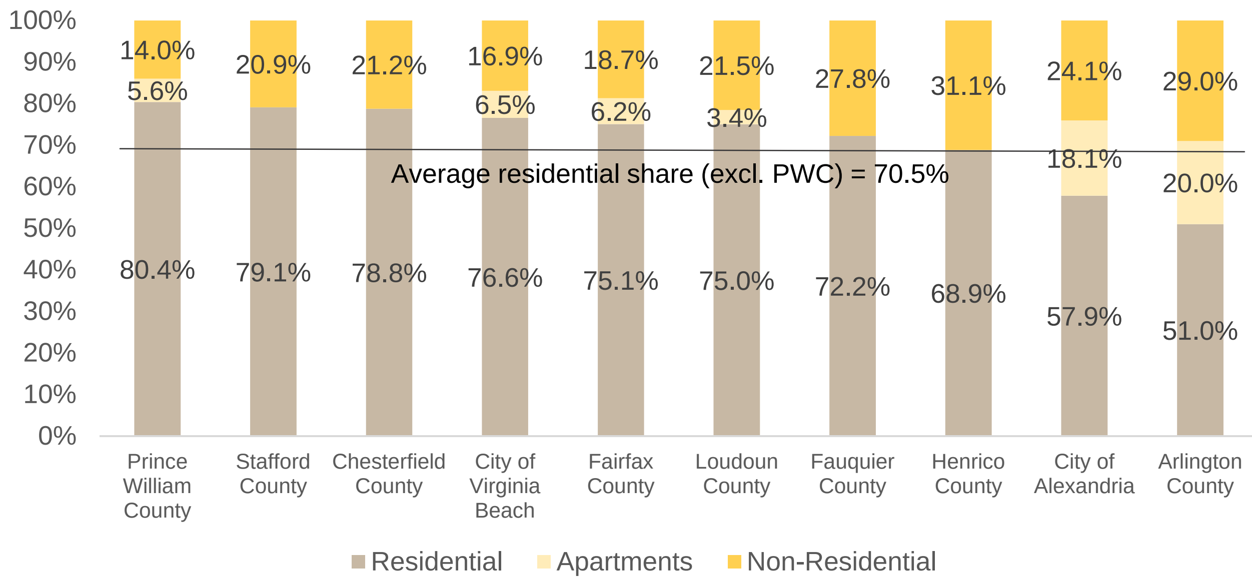
Locality	True Value of Real Estate	2016 Population	Estimated True Value of Real Estate per Capita
Prince William County	$58,937,129,446	448,050	$131,541
City of Alexandria	$38,326,548,612	159,464	$240,346
Arlington County	$76,010,625,232	236,691	$321,139
Chesterfield County	$36,018,169,648	333,963	$107,851
Fairfax County	$249,716,216,191	1,137,290	$219,571
Fauquier County	$14,254,952,558	68,168	$209,115
Henrico County	$37,470,755,534	321,233	$116,647
Loudoun County	$76,497,920,809	385,327	$198,527
Stafford County	$18,316,536,147	141,915	$129,067
City of Virginia Beach	$58,058,767,772	453,628	$127,988

Source: Virginia Department of Taxation 2016 Assessment/Sales Ratio Study

Prince William County's real estate tax base is primarily residential; in 2017, residential properties represented 80.4 percent of the base, while apartments comprised an additional 5.6 percent. All other property types accounted for the remaining 14.0 percent. It is notable that while Prince William County typically includes apartments in its definition of residential properties, most peer localities refer to apartments as commercial properties. In Figure 9, apartments are identified as a separate classification where possible, and are included in non-residential in the localities reporting apartments as commercial properties and not separately identifying them (Chesterfield, Fauquier Henrico and Stafford Counties).

Given these nuances, classifying apartments as non-residential provides the most "apples-to-apples" comparison of the available data. Relative to peer municipalities, Prince William County's composition (80.4 residential, excluding apartments) is more reliant upon residential property; the average residential share (excluding Prince William County) is 70.5 percent. At 79.1 percent residential, Stafford County's composition is most similar to Prince William County.

Figure 9: Taxable Assessed Value of Real Estate, Residential vs. Non-Residential (2017)[32]



Source: FY2017 CAFRs

Real Estate Tax Rates and Rate Changes

The Department of Taxation's annual real estate study also determines the effective local true tax rates (ETTR) across the Commonwealth. The ETTR (expressed per $100 of true value) provides an appropriate means of comparing tax rates on similar properties in different taxing jurisdictions. The ETTR is calculated by multiplying the median ratio by the nominal tax rate. Localities' ETTR tends to be somewhat lower than their nominal tax rates, particularly in instances where the median ratio is below 100 percent. The 2016 nominal tax rate for the Commonwealth was equal to $0.985 per $100 of assessed value; the median assessment/sales ratio for Virginia was 91.2 percent, resulting in an estimated ETTR of $0.898 per $100 of assessed value.

As illustrated in Table 9, in 2016, Prince William County's ETTR was higher than most peer localities, lower only than Loudoun and Fairfax Counties and the City of Alexandria. Using the same median ratio from the Department of Taxation's study, in 2018, the County's ETTR of $1.03 was exceeded only by the City of Alexandria and Fairfax County.

[32] Apartments included in non-residential category for Chesterfield, Fauquier, Henrico and Stafford Counties. Totals do not include amounts assessed by the Commonwealth.

Table 9: Nominal and Effective Tax Rates (per $100 of Value), 2016 and 2018

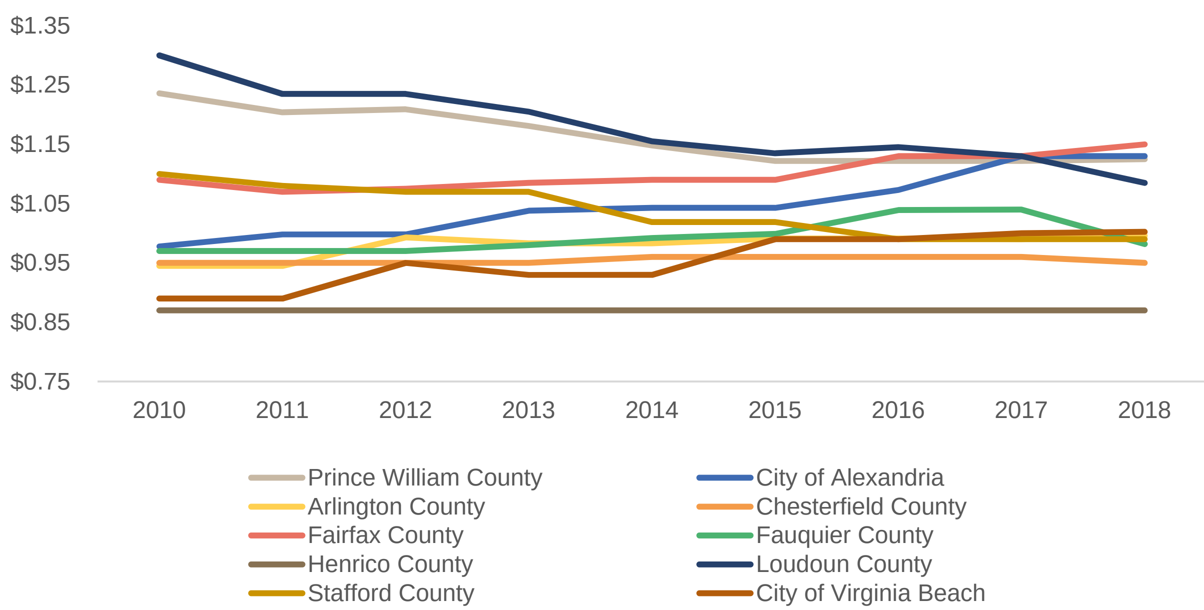
		2016			2018		
Locality	Median Ratio	Nom. Tax Rate	Effective Tax Rate	Rank 1=Lowest	Nom. Tax Rate	Effective Tax Rate	Rank 1=Lowest
Prince William County	91.9%	$1.122	$1.031	7	$1.125	$1.034	8
City of Alexandria	96.6%	$1.073	$1.037	8	$1.130	$1.092	10
Arlington County	93.8%	$0.991*	$0.930	6	$0.996	$0.934	6
Chesterfield County	93.4%	$0.960	$0.896	5	$0.950	$0.887	4
Fairfax County	93.5%	$1.130	$1.057	9	$1.150	$1.075	9
Fauquier County	83.3%	$1.039	$0.865	2	$0.982	$0.818	2
Henrico County	91.7%	$0.870	$0.798	1	$0.870	$0.798	1
Loudoun County	93.0%	$1.145	$1.065	10	$1.085	$1.009	7
Stafford County	88.3%	$0.990	$0.874	3	$0.990	$0.874	3
City of Virginia Beach	90.2%	$0.990	$0.893	4	$1.003	$0.904	5

Source: Virginia Department of Taxation 2016 Assessment/Sales Ratio Study; County websites

** In the report, Arlington County's 2016 nominal tax rate is listed as $1.040; the project team calculates the nominal rate to be $0.991.*

Changes to the general real estate tax rate from year to year are common, as the rate is adjusted based on the assessed value of properties and the needed amount of revenue. As shown in Figure 10, Prince William, Loudoun and Stafford Counties each have a lower rate in 2018 than in 2010, while Chesterfield and Henrico Counties have the same rate in 2018 as they did in 2010. All other peer localities have a higher rate in 2018 than in 2010.

Figure 10: Nominal Real Estate Tax Rates, Peer Localities (FY2010-FY2018)



Source: Local Tax Rates Survey; locality CAFRs

Real Estate Tax Revenue

Not surprisingly, each peer government collected more in real estate tax revenue in 2017 than in 2010, as shown in Table 10, though the amount of growth varies. Alexandria and Arlington County experienced the most significant growth, equal to a CAGR of 5.0 percent – followed by Prince William County at 3.6 percent, Loudoun County at 3.0 percent, Fairfax County at 2.9 percent and Henrico County at 2.2 percent. Each of the other peer localities experienced growth at a CAGR of 2.0 percent or less.

Table 10: Real Estate Tax Revenue, 2010-2017 (Millions)

	2010	2011	2012	2013	2014	2015	2016	2017
Prince William County	$499.0	$498.4	$516.6	$539.9	$561.7	$589.8	$619.5	$641.3
City of Alexandria	$297.7	$309.6	$321.3	$339.5	$359.8	$372.2	$387.6	$418.7
Arlington County	$521.6	$546.6	$589.3	$630.0	$664.6	$685.2	$707.0	$734.0
Chesterfield County	$304.7	$297.6	$288.3	$285.6	$293.1	$306.0	$317.6	$331.2
Fairfax County	$2,146.7	$2,070.7	$2,069.8	$2,145.4	$2,240.0	$2,382.4	$2,464.9	$2,631.1
Fauquier County	$93.2	$92.7	$93.5	$95.4	$98.8	$101.7	$105.4	$108.6
Henrico County	$290.7	$277.4	$273.4	$267.8	$277.4	$285.2	$294.6	$306.2
Loudoun County	$664.4	$682.5	$686.4	$695.3	$722.3	$757.6	$790.8	$817.6
Stafford County	$136.6	$138.1	$140.0	$138.8	$145.0	$148.2	$152.9	$156.9
City of Virginia Beach	$495.7	$465.6	$452.7	$467.2	$455.7	$473.6	$517.6	$535.3

Source: Peer Locality CAFRs

On a per capita basis, the real estate tax revenue collected by Prince William County in 2017 ranked in the middle among peer localities, with Arlington County, Alexandria, Fairfax County, Loudoun County and Fauquier County each collecting more. As a percentage of local revenue, at 60.1 percent, Prince William County's reliance on real property tax revenue is comparable to peer localities, which range from 47.6 percent in Henrico County to 62.8 percent in Fairfax County, as presented in Table 11.

Table 11: Nominal Real Estate Tax and Rate Rankings, 2017

	Per Capita Real Property Tax Revenue	Per Capita Revenue Rank (1=Highest)	% of Local Revenue	Real Property Tax Rate	Rate Rank (1=Highest)
Prince William County	$1,446	6	60.1%	$1.122	4
City of Alexandria	$2,764	2	62.7%	$1.130	1
Arlington County	$3,247	1	62.2%	$0.990	7
Chesterfield County	$998	9	54.5%	$0.960	9
Fairfax County	$2,322	3	62.8%	$1.130	1
Fauquier County	$1,596	5	61.7%	$1.040	5
Henrico County	$951	10	47.6%	$0.800	10
Loudoun County	$2,256	4	55.3%	$1.130	1
Stafford County	$1,124	8	54.8%	$0.990	7
City of Virginia Beach	$1,190	7	48.5%	$1.000	6

Source: Virginia Auditor of Public Accounts; Virginia Department of Taxation Local Tax Rates Survey; County websites; population per U.S. Census Bureau American Community Survey 5-Year Estimates, 2012-2016

Each of the peer governments has high property tax collection rates. The first year real property collection rate in Prince William County was 99.7 percent, lower only than Arlington County at 99.9 percent and Fairfax County at 99.72 percent.[33] Chesterfield County's first year collection rate was lowest at 95.0 percent. It should be noted that the Counties of Chesterfield, Fauquier, Henrico and Loudoun and the City of Virginia Beach report a single rate for the collection of all property taxes, so the comparison of Prince William County's real property collection rate to that of these localities is not exactly an "apples-to-apples" comparison.

Real Estate Tax Burden

The overall real estate tax burden in Virginia, measured as taxes paid as a percentage of median household income, is 3.0 percent. At 3.6 percent, Prince William County's real estate tax burden ranks in the middle among peer governments as shown in Table 12. At the high end of the comparison group, Alexandria has a tax burden of 5.5 percent.

Table 12: Peer Government Real Estate Tax Burden, 2016

	Median Real Estate Taxes Paid	Median Household Income	Taxes Paid as a % of MHI
Chesterfield County	$1,894	$73,869	2.6%
Stafford County	$2,573	$97,528	2.6%
Henrico County	$1,768	$63,699	2.8%
Fauquier County	$2,985	$91,221	3.3%
City of Virginia Beach	$2,281	$67,719	3.4%
Prince William County	$3,584	$98,546	3.6%
Loudoun County	$5,126	$125,672	4.1%
Fairfax County	$5,067	$114,329	4.4%
Arlington County	$5,436	$108,706	5.0%
City of Alexandria	$4,883	$89,200	5.5%
Virginia	**$1,973**	**$66,149**	**3.0%**

Source: U.S. Census Bureau American Community Survey 5-Year Estimates

Each year, the Prince William County Finance Department analyzes and compares the County's assessed property values, adopted tax rates and resulting average residential tax bill to other Washington, DC metropolitan area localities. Prince William County's average residential assessed value is lower than other localities. Despite having the highest total real estate tax rate, the County has the lowest average residential tax bill at $4,175 (as presented in Table 13). Arlington County has the highest average residential assessed value and highest average residential tax bill, despite having the lowest real estate tax rate. This suggests the need to focus on the actual tax bill rather than either component part (assessed value or tax rate).

[33] Prince William County CAFR, FY2017

Table 13: Jurisdictional Real Estate Tax Comparison, CY2017

	Average Residential Assessed Value	Real Estate Tax Rate + Fire Levy	Average Residential Tax Bill	Average Residential Tax Bill Rank (1=Lowest)
Prince William County	$346,700	$1.204	$4,175	1
City of Alexandria	$528,421	$1.130	$5,971	3
Arlington County	$617,200	$1.006	$6,209	5
Fairfax County	$535,597	$1.130	$6,052	4
Loudoun County	$452,700	$1.125	$5,093	2

Source: Prince William County Finance Department

Real Property Tax Relief

In accordance with § 58-3210 though § 58-1-3218 of the Code of Virginia, localities may, by ordinance, provide property tax relief for elderly and disabled persons. Each locality is responsible for establishing the combined gross income and combined net worth limitations for eligibility as well as setting the levels of relief provided based on those parameters. Prince William County's and peer jurisdictions' real property owner tax relief plans are presented in Table 14.

With a combined gross income limitation of $87,073 in 2018, Prince William County's program eligibility is generous, lower only than Arlington County at $99,472. Arlington and Fairfax Counties have the same $340,000 combined net worth limitation as Prince William County; Henrico County, Chesterfield County and Virginia Beach have limitations of $350,000. Alexandria, Fauquier County, Loudoun County and Stafford County have limits at or above $400,000. Among peer localities, it is common to use a tier structure for exemptions, where those with lower incomes receive a higher percentage of relief. Only Fauquier, Henrico and Loudoun Counties have a flat structure.

Table 14: Real Property Owner Tax Relief Plans for the Elderly and Disabled, 2018

Locality	Combined Gross Income	Combined Net Worth	Relief Plan/Exemption
Prince William County	**$87,073; Deduct $7,500 of disability income; Each relative deducts up to $10,000 of income**	**$340,000 Excludes 25 acres**	**Income of $0-60,050: 100% exemption $60,051-69,058: 75% $69,059-78,065: 50% $78,066-87,073: 25%**
City of Alexandria	$72,000 (deferral) $72,000 (exemption)	$430,000; Excludes 2 acres	Income of $0-40,000: 100% exemption $40,001-55,000: 50% $50,001-72,000: 25%
Arlington County[34]	$99,472	$340,000	Income of $0-55,953: 100% exemption $55,954-68,387: 50% exemption $68,388-99,472: 25% exemption
Chesterfield County	$52,000; First $10,000 exempt for non-spousal relatives	$350,000; Excludes 10 acres	Income of $0-27,200: 100% exemption $27,201-39,000: 60% $39,001-52,000: 35%
Fairfax County	$72,000; First $6,500 exempt for non-spousal relatives	$340,000; Excludes 1 acre	Income of $0-52,000: 100% exemption $52,001-62,000: 50% $62,001-72,000: 25%
Fauquier County	$58,000; First $10,000 exempt for non-spousal relatives	$440,000; Excludes 5 acres	On house and up to 5 acres: 100% exemption
Henrico County	$67,000; First $10,000 of each relative excluded	$350,000; Excludes 10 acres	100% relief up to $3,000
Loudoun County	$72,000	$440,000; Excludes 10 acres	On home and 10 acres: 100% exemption
Stafford County	$40,000; First $10,000 exempt for non-spousal relatives	$400,000; Excludes 1 acre	Income of $35,000; max net worth $300,000: 100% exemption $30,000 income; max net worth $400,000: 50% exemption $40,000 income; max net worth $200,000: 50% exemption
City of Virginia Beach	$71,750; First $10,000 exempt for relative	$350,000; Excludes 1 acre	Income of $0-41,966: 100% exemption $41,966.01-45,222: 80% $45,222.01-48,478: 60% $48,478.01-51,734: 40% $51,734.01-54,989: 20% $54,989-71,750: Tax Freeze

Source: Locality websites and local ordinances

[34] Limits shown are for a one or two person household. If income is within the limit and assets are more than $340,000 but less than $540,000, applicants may qualify for a deferral.

The provision of property tax relief for certain homeowners has a direct financial impact on locality revenues. The data in Table 15 was obtained from the University of Virginia's Weldon Cooper Center for Public Service and Prince William County's Real Estate Assessment Office Annual Report. While this information was not provided for Arlington or Henrico Counties, the results for reporting localities are interesting. Total foregone tax revenues range from $1.7 million in Stafford County to more than $26.5 million in Fairfax County. On a per-beneficiary basis, this amounts to between $1,044 in Chesterfield County to $3,646 in Fairfax County.

Table 15: Real Property Tax Relief Plans for the Elderly and Disabled Homeowners: Number of Beneficiaries and Foregone Tax Revenue, 2015 or 2016

Locality	Year	Number of Beneficiaries	Foregone Tax Revenue	Avg. Foregone Tax Revenue per Beneficiary
Prince William County	**2016**	**3,473**	**$9,944,013**	**$2,863**
City of Alexandria	2015	904	$2,831,133	$3,132
Arlington County	N/A	N/A	N/A	N/A
Chesterfield County	2016	3,439	$3,589,856	$1,044
Fairfax County	2015	7,288	$26,574,340	$3,646
Fauquier County	2016	1,058	$2,436,660	$2,303
Henrico County	N/A	N/A	N/A	N/A
Loudoun County	2015	2,181	$7,641,867	$3,504
Stafford County	2016	948	$1,717,487	$1,812
City of Virginia Beach	2016	6,697	$12,266,883	$1,832

Source: Weldon Cooper Center for Public Service and Prince William County Real Estate Assessment Office 2016 Annual Report

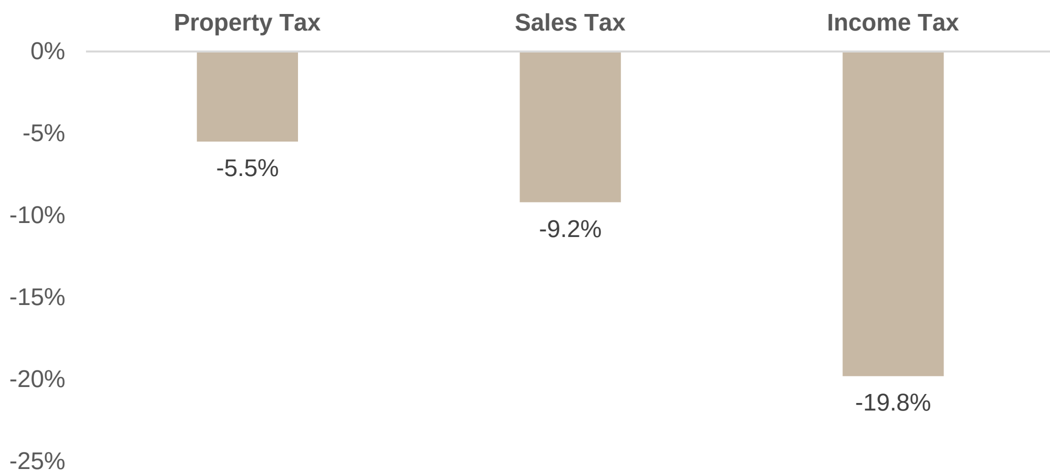
High Level Findings

A detailed SWOT analysis of the real estate tax is provided in Appendix B.

General Characteristics

- **Property taxes are a historically stable revenue source.** Because property values generally change slowly, the property tax base provides a more reliable tax base than income or sales tax. As shown in Figure 11, the property tax was the major tax least affected by the Great Recession. This is not to say, however, that assessed value or the resulting property tax revenue did not decline during this period.

Figure 11: % Change in Real per Capita State-Local Tax Revenues During the Great Recession (Peak to Trough)

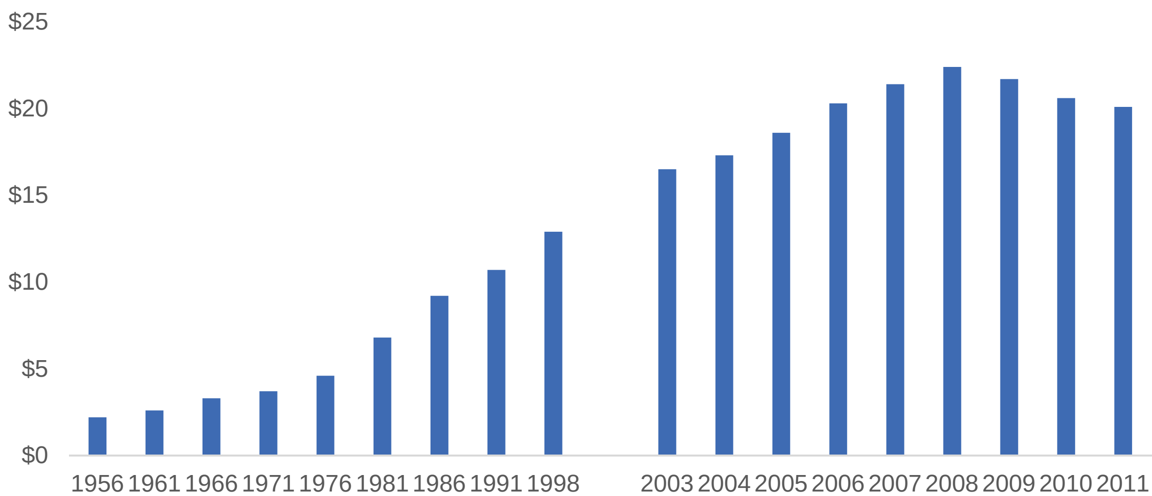


Source: U.S. Census Bureau, Annual Survey of State and Local Government Finances

Throughout recent history (with one notable recent exception), assessed values of real property have continually increased, even during recessionary periods. This helps explain why local governments have often had more stable levels of employment and spending than state governments, even during economic downturns. The years during the Great Recession were the first time that, nationally, assessed values declined in the aggregate.

Figure 12 shows the dramatic effect of the Great Recession, which reversed over 60 years of continuous tax base expansion. It is likely that this decline is primarily due to the Recession's significant connection to downturns in the housing market.

Figure 12: Property Tax Base Nationwide, 1956-2011 (Trillions of Dollars)



Source: George Washington Institute of Public Policy - Tax Analysts Special Report: The Property Tax Base and the Great Recession (2013)

- **The real estate tax is imposed on immovable fixed assets, which makes it difficult to evade the tax.** In fact, the real estate tax has the highest collection rate of any major tax, with high-performing local governments regularly collecting between 95 and 98 percent of taxes owed. Standard and Poor's bond rating checklist notes that a property tax collection rate of below 92 percent is a sign of fiscal uncertainty.[35] At 99.7 percent in 2017, Prince William County's real property collection rate is lower only than Arlington and Fairfax Counties.

- **Real estate tax systems are more open and visible than those for other taxes.** Real property owners can examine their assessments and those of comparable properties and have the opportunity to appeal the assessment. Additionally, real property owners receive a bill showing the entire tax liability – this is not the case with taxes that are collected in small amounts at the time of purchase (sales tax) or are withheld from pay throughout the year along with many other items (individual income tax).

- **Real estate tax is collected to provide local services that have a connection to the overall value of the property.** It is generally understood that areas with strong local services (which can include police and fire protection, parks and recreational opportunities, strong libraries and other amenities) will be associated with strong property values. It is particularly notable that many studies have shown a direct connection between the strength of local schools and property values/housing prices.[36]

- **Ability to pay can be an issue, particularly for property-rich, cash-poor taxpayers.** This creates political pressure for local governments to provide forms of property tax relief.

- **Property taxes are generally due in large lump sums (most commonly once or twice a year).** This can create both animosity among taxpayers and cash flow issues that are often not the case for other taxes, which are paid in smaller increments over the course of the year. There are, however, notable recent examples from around the country of counties and other local property tax collectors providing additional payment alternatives.

- **Property taxes are regressive by nature.** Regressive taxes are those that place a higher tax burden on lower-income taxpayers. In general, higher-income households pay a smaller percentage of their income as property taxes compared to lower-income households.

Prince William County-Specific Findings

- **The real estate tax is the most significant source of revenue for Prince William County and peer localities.** The source generated nearly 70 percent of local tax revenue in 2017 and increased by a CAGR of 6.8 percent between 2000 and 2017, when the tax generated $632.4 million. The County's reliance on real property tax revenue is comparable to that of peer localities, which range from 48.5 percent in Virginia Beach to 62.7 percent in Alexandria.

- **Prince William County's real estate tax base is primarily residential.** In 2017, residential properties (including apartments) represented 83.2 percent of the tax base. Relative to peer municipalities, Prince William County's composition is more heavily reliant upon residential property; the average residential share among peer localities (excluding Prince William County) is 71.5 percent.

[35] Standard and Poor's - Credit Overview: Municipal Ratings (1983).
[36] See, for example, John Clapp, Nanda Anupam and Stephen Ross. "Which School Attributes Matter? The Influence of School District Performance and Demographic Composition on Property Values." Journal of Urban Economics, 2008.

- **On a per-capita basis, Prince William County's estimated true value of real estate ($131,541) is comparable to its peers.** This per-capita amount is higher than Chesterfield County, Henrico County, Stafford County and Virginia Beach.

- **Prince William County's total taxable assessed value decreased significantly as a result of the Great Recession and has not fully recovered.** After peaking at $58.3 billion in 2008, taxable assessed value decreased to $39.3 billion in 2011 – a decline of $19.0 billion (32.7 percent). As of 2017, total taxable assessed values had still not quite returned to pre-Recession levels.

- **Prince William County's real estate tax rate declined in the years leading up to the Great Recession, but the rate was increased in the years that followed.** At its lowest, the general levy rate was $0.758 per $100 of assessed value in 2007. Following the Great Recession, the rate reached $1.212 in 2010 and $1.236 in 2012. Since that time, the rate has been slowly declining; the 2018 rate is $1.125. Relative to peer localities, Prince William County's current real estate tax rate is among the higher rates, trailing only Alexandria ($1.130) and Fairfax County ($1.150).

- **Relative to its peers in 2016, Prince William County's tax burden, measured as real estate taxes paid as a percentage of median household income, ranked in the middle.** Peer tax burdens ranged from 2.6 percent in Chesterfield County to 5.5 percent in Alexandria, with Prince William County at 3.6 percent. The overall 2016 real estate tax burden in Virginia was 3.0 percent.

- **Prince William County has the lowest average residential tax bill among localities in the Washington, DC area.** The County's average residential assessed value is lower than other localities in the Washington, DC area, and despite having the highest total real estate tax rate, the County has the lowest average residential tax bill ($4,175). Arlington County has the highest average residential assessed value and highest average residential tax bill, despite having the lowest real estate tax rate.

- **Prince William County's tax relief program for the elderly and disabled plan has generous parameters.** The County's combined gross income limitation ($87,073) is among the highest (lower only than Arlington County at $99,472). Arlington and Fairfax Counties have the same $340,000 combined net worth limitation as Prince William County; Henrico County, Chesterfield County and Virginia Beach have limitations of $350,000. Alexandria, Fauquier County, Loudoun County and Stafford County have limits at or above $400,000.

- **Increasing the real estate tax rate from $1.125 to $1.178 per $100 of assessed value in FY2019 would generate an estimated $31 million in additional revenue.** This increase would produce the same amount of revenue that would have been generated by increasing the business tangible property (BTP) tax rate on computer equipment and peripherals from $1.25 to $3.70 per $100 of assessed value. It is notable that while Prince William County's 2019 real estate tax rate of $1.125 per $100 of assessed value is comparable with peer governments, at $1.178, it would become the highest rate among the group. See chapter entitled 'Alternatives to the Current Tax Structure' for additional information.

County Personal Property Tax

Introduction

Virginia local governments collect personal property taxes on tangible property (i.e. property that can be touched and moved, such as a car or piece of equipment). The personal property tax is assessed on vehicles, mobile homes and business tangible property.[37] Approximately 79 percent of Prince William County personal property tax revenue is derived from vehicles, trailers and mobile homes.[38] The remaining 21 percent is derived from business tangible property, which will be discussed in a subsequent chapter.

History and Background

Originally imposed at the state level, the tangible personal property tax applied only to cattle and sheep until 1789, when it was extended to include horses, mules, coaches and stages. In 1842, the General Assembly imposed the tax on several other articles, and in 1851, the tax was expanded to include all personal property. The tangible personal property tax has been administered at the local level in Virginia since 1926, when it was removed as a source of state revenue.[39] As mandated by the State Constitution, all cities and counties in Virginia collect tangible personal property taxes.

The term "tangible" refers to property that can be touched and moved, such as a car or piece of equipment. While there are 19 classes of personal property identified in statute, the most common classification of personal property subject to taxation is automobiles.[40] Local governments have the option to exempt a limited class of property that has been established by the General Assembly or to impose a lower tax rate on the class of property.[41] All other property, including personal effects, household items, monies, securities and livestock, is not subject to the personal property tax.[42]

Certain personal property is exempted by federal or state law or is granted a local property exemption. These classifications include personal property used exclusively by churches, personal property owned by federal, state or local governments, the personal property of non-profit organizations specifically enumerated in state law and the personal property of non-profits granted property tax exemption by either the Virginia General Assembly (or locally by the Board of County Supervisors).

Local governments are authorized to value each class of tangible personal property according to an established valuation method. Local governments may have different methods of valuing property among the separate classes, so long as each method is uniform within each class. As a result, assessment ratios and valuation methods of tangible personal property differ among localities.

Personal Property Tax Relief Act

The Personal Property Tax Relief Act (PPTRA) of 1998 (Code of Virginia § 58.1-3524) was enacted by the General Assembly to provide relief to taxpayers from local taxation on qualifying personal use vehicles.[43] As originally constructed, the PPTRA was intended to eliminate local taxation on qualifying vehicles over a five

[37] Mobile homes, although under the law of fixtures may constitute real property, are classified as tangible personal property, but must be taxed at the same rate applicable to real property.
[38] Prince William County Finance Department – Estimate of General Revenue, FY2019-FY2023
[39] Virginia Division of Legislative Services: A Legislator's Guide to Local Taxation (Revised 2006). Accessed electronically at http://dls.virginia.gov/pubs/TaxGuide07.pdf
[40] The classification for tangible personal property subject to tax is found in the Code of Virginia, Title 58.1-3503.
[41] Virginia Division of Legislative Services: A Legislator's Guide to Local Taxation (Revised 2006). Accessed electronically at http://dls.virginia.gov/pubs/TaxGuide07.pdf
[42] Article X, Section 6 of the Constitution gives local governments the flexibility to exempt from property taxation.
[43] § 58.1-3524 of the Code of Virginia

year period. During those five years, the taxpayer would pay a percentage of local personal property tax on the first $20,000 of assessed value of the qualifying vehicle, and the State would reimburse the locality for the remaining percentage of the tax. In 1998, the relief was 12.5 percent; in 1999, it was 27.5 percent and in 2000, the relief was 47.5 percent. Due to the cost of the program and restrictions in the State budget, the reimbursement rate was frozen at 70 percent in 2001. During the 2004 legislative session, the General Assembly capped the statewide reimbursement to localities at $950 million. Since tax year 2006, each locality has received a fixed reimbursement based upon the total reimbursement payment the locality received in 2004. It is important to note that the fixed reimbursement does not account for population increases (and associated increases in the number of vehicles in the County) or other changes in economic conditions.

As currently constructed, each local government establishes one or more reduced tax rates (lower than the rate applied to the general class of tangible personal property) that is applied to the first $20,000 of assessed value. Qualifying vehicles include passenger vehicles, motorcycles, autocycles and pickup and panel trucks that are predominantly used for personal use and are either privately owned or leased where the lessee pays the personal property tax.

Beginning January 1, 2017, Code of Virginia § 46.2-100 was amended to broaden the definition of pickup or panel truck to include vehicles "having a registered gross weight in excess of 7,501 pounds but not in excess of 10,000 pounds." Since owners of personal use trucks with gross weight between 7,501 and 10,000 pounds may now qualify for relief, a decrease in the state paid portion of PPTRA is inevitable due to more trucks qualifying under this newly enacted legislation.

Prince William County Personal Property Tax

In Prince William County, personal property tax is assessed annually on automobiles, trucks, motorcycles, trailers and mobile homes. Under Virginia law, an active Virginia registration makes a vehicle taxable in the municipality where the vehicle is registered. Personal property tax applies to any vehicle normally garaged or parked in Prince William County, even if the vehicle is registered in another state or county.

County Personal Property Tax Revenue

Personal property tax, including those assessed on individuals and the business tangible property tax (BTP; discussed in the following chapter), is the second largest revenue source for Prince William County. In 2017, it totaled $172.7 million, equal to 18.4 percent of total local tax revenues; personal property tax revenues are projected to reach $220.1 million by FY2023. Between 2008 and 2017, personal property tax revenue (including the tax levied on mobile homes) increased by $49.3 million – an overall increase of 68.6 percent or CAGR of 6.0 percent – without any changes to the tax rate.

Approximately 79 percent of Prince William County personal property tax revenue is derived from vehicles, trailers and mobile homes as shown in Table 16. Among these classifications, trucks account for 36.4 percent of total properties and 48.6 percent of net taxes, while automobiles account for 52.3 percent of total properties and generate 41.8 percent of revenue. When combined with heavy trucks, which account for 2.9 percent of total properties and 7.1 percent of net taxes, these three sources comprise 91.5 percent of total properties and 97.6 percent of total personal property tax revenues.

Table 16: Prince William County Personal Property Tax by Vehicle Classification, 2017*

Property Class	Total Properties	% of Total Properties	Net Taxes**	% of Net Taxes
Trucks	180,836	36.4%	$43,218,966	48.6%
Automobiles	259,906	52.3%	$37,155,929	41.8%
Heavy Trucks	14,484	2.9%	$6,353,304	7.1%
Motorcycles	15,143	3.0%	$1,206,150	1.4%
Trailers	15,958	3.2%	$533,028	0.6%
Other Trailers	3,175	0.6%	$249,292	0.3%
Mobile Homes	1,037	0.2%	$87,072	0.1%
Truck Trailers	8	0.0%	$2,064	0.0%
Motor Homes	1,450	0.3%	$0	0.0%
AutoCycles	11	0.0%	$2,863	0.0%
Special Equipment	7	0.0%	$19,708	0.0%
Boat Trailers	2,369	0.5%	$0	0.0%
Horse Trailers	392	0.1%	$0	0.0%
Camping Trailers	544	0.1%	$0	0.0%
Travel Trailers	1,694	0.3%	$0	0.0%
Taxis	273	0.1%	$38,690	0.0%
Farm Equipment	29	0.0%	$0	0.0%
Non-Highway Vehicle	2	0.0%	$0	0.0%
Total	**497,318**	**100.0%**	**$88,867,065**	**100.0%**

Source: PWC Finance Department

** Classifications listed reflect Prince William County's categorization for reporting purposes and do not necessarily align with those categories outlined in statute.*

*** 'Net Taxes' includes adjustments and PPTRA*

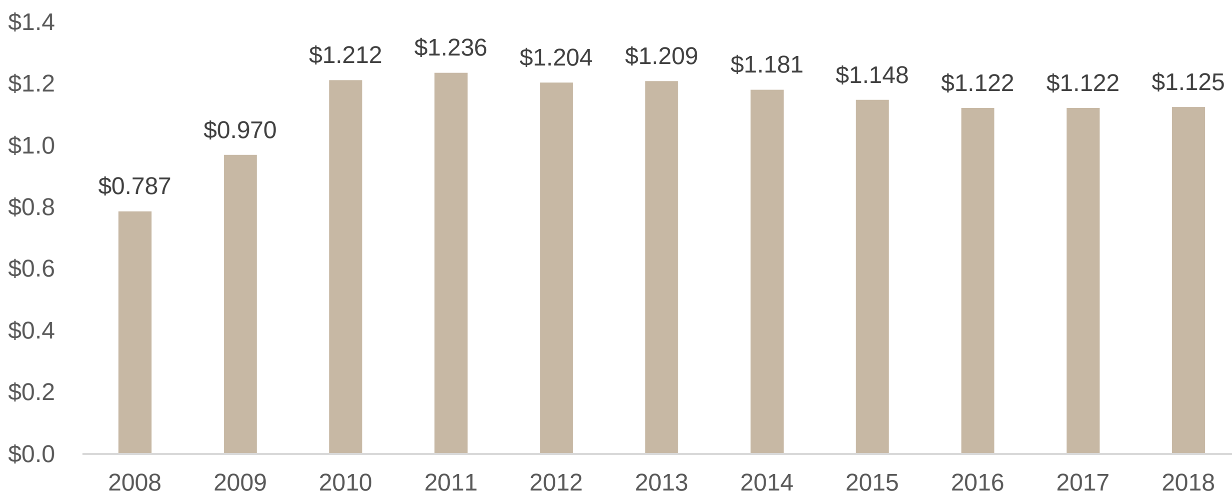
The personal property tax generally has high collection rates. The first year personal property tax collection rate for FY2017 was 96.1 percent.[44] Taxes not collected in the year levied can be collected in the ensuing five years. By the end of the fifth year, approximately 99.5 percent of the adjusted personal property tax is collected.[45] By contrast, national compliance with property taxes in large cities over a 10-year period averaged 94.5 percent in the year that taxes are due.[46]

County Personal Property Tax Rates

The current County rate for vehicles, trailers and motorcycles ('general class') is $3.70 per $100 of assessed value, while the rate imposed on mobile homes is $1.125 per $100 of assessed value. While the County's general class rate has been the same for at least the last ten years, the rate imposed on mobile homes has varied over time as shown in Figure 13. In 2008, the rate was $0.787 per $100 of assessed value; it increased to $1.236 by 2011 and has generally trended downward since, mirroring the County's adopted real estate tax rate each year.

[44] Prince William County Comprehensive Annual Financial Report, FY2017
[45] Prince William County Department of Finance
[46] Michael Chirico and Robert Inman, "An Experimental Evaluation of Notification Strategies to Increase Property Tax Compliance: Free-Riding in the City of Brotherly Love," University of Chicago Press, 2016, p. 136.

Figure 13: Prince William County Personal Property Tax Rate for Mobile Homes, 2008-2018 (per $100 of Assessed Value)



Source: Prince William County CAFR, 2017

The County has effectively exempted the personal property tax on several classifications of personal property by adopting a tax rate of 0.001 percent per $100 of assessed value. These classifications include farm equipment, vanpool vans, aircraft, boats, motor homes, camping trailers, horse trailers and one vehicle owned by qualifying senior citizens and disabled persons or used by a volunteer and auxiliary fire and rescue company member who regularly responds to calls or performs other duties for a volunteer fire company.[47]

In addition, the County 'holds harmless' all tax bills of $5.00 or less. In practice, this means that taxpayers with minimal tax liabilities are not required to submit payments – effectively reducing the administrative effort associated with processing these minor payments.

County Appeals and Adjustments

County vehicle owners can apply to receive a reduction in assessed value for vehicles with high mileage. The deduction for high mileage cannot exceed 40 percent of the normal assessed value for the vehicle. Once a vehicle is established in the County's system as having high-mileage, the reduction in assessed value will continue for as long as the resident owns the vehicle. The minimum mileage required to qualify for vehicles with a model year of 2004 and older is 165,001. The mileage threshold decreases as the model year increases; for a 2018 model year vehicle, the minimum mileage requirement is 10,001 miles or more. According to an analysis by the County Finance Department, the impact of the high mileage deduction is just over $0.1 million per year.

Among peer localities, few were found to have a similar provision. In fact, the Arlington County Commissioner of Revenue notes on its website that "excess mileage alone is not a sufficient reason" for an assessment reduction. Loudoun County provides a high mileage deduction to vehicles that have unusually high mileage (based on NADA calculations). Adjustments vary and a standard percentage is not utilized. Alexandria was found to have a similar provision, though the City does not appear to have a threshold in place to define "high mileage."

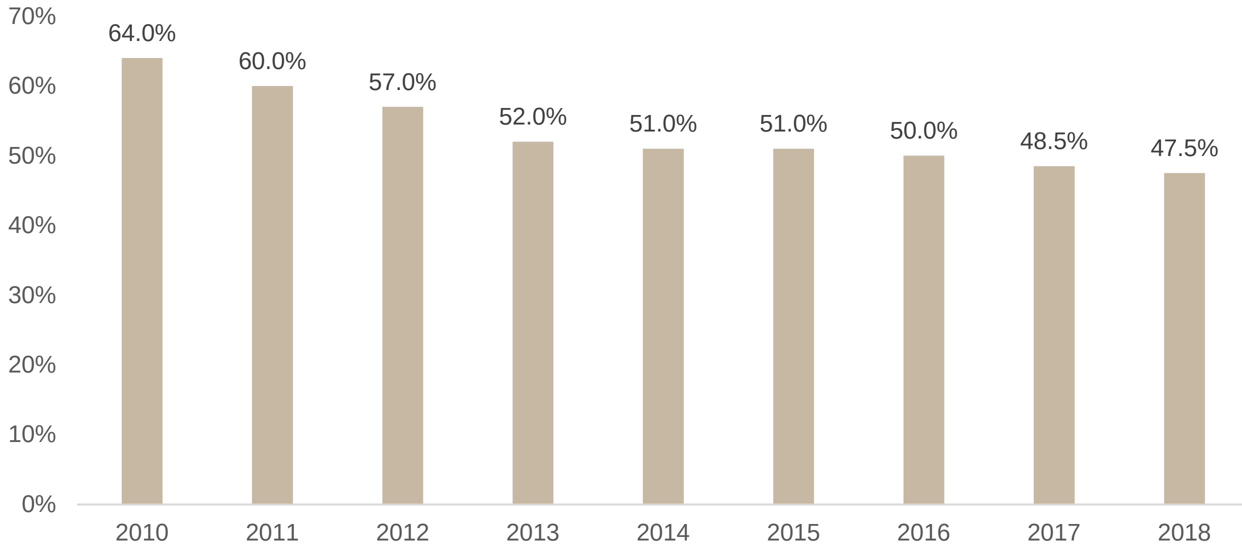
[47] Prince William County Finance Department – Estimate of General Revenue, FY2019-FY2023

Prince William County residents can also appeal assessment due to vehicle condition. Section 58.1-3503 of the Code of Virginia requires all localities to use a recognized pricing guide to value vehicles, although the pricing guide can vary.[48] An appeal can be filed in the County using an Appeal of Vehicle Assessment Form if the condition of the vehicle is such that it has major structural/mechanical damage as of January 1.

County Personal Property Tax Relief

Prince William County receives a fixed amount of $54.3 million each year as reimbursement from the Commonwealth pursuant to the PPTRA. The County has opted to allocate its reimbursement amount on a per-vehicle basis. The amount of tax relief allocated to each vehicle changes from year to year based on the number of qualifying vehicles and has trended downward over time, as demonstrated in Figure 14. In tax year 2010, the amount of relief provided for eligible vehicles was equal to 64.0 percent. For tax year 2018, the reduction in the property tax on qualifying vehicles is equal to 47.5 percent of the tax on the first $20,000 of assessed value. For each year, the reduction in the property tax is equal to 100 percent of the tax on qualifying vehicles assessed at $1,000 or less.

Figure 14: Prince William County Personal Property Tax Relief Percentages, 2010-2018



Source: PWC Finance Department

The PPTRA has the effect of lowering the effective personal property tax rate vehicle owners pay. As shown in Table 17, while the nominal tax rate has remained unchanged at $3.70, the PPTRA relief provided has declined over time. As a result, the effective personal property tax rate on vehicles has increased from $1.33 per $100 of assessed value in 2010 to $1.94 per $100 of assessed value in 2018.

[48] The use of individual sales or trade-in offers as the basis for a vehicle's assessment is not permitted under state law.

Table 17: Prince William County Effective Personal Property Tax Rate, 2010-2018 (per $100 of Assessed Value)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal Tax Rate	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70
PPTRA Relief Percentage	64.0%	60.0%	57.0%	52.0%	51.0%	51.0%	50.0%	48.5%	47.5%
PPTRA Relief Rate	$2.37	$2.22	$2.11	$1.92	$1.89	$1.89	$1.85	$1.79	$1.76
Effective Tax Rate[49]	**$1.33**	**$1.48**	**$1.59**	**$1.78**	**$1.81**	**$1.81**	**$1.85**	**$1.91**	**$1.94**

Source: PWC Finance Department

Other Personal Property Tax Relief

Despite being the largest source of personal property tax relief, the reductions associated with the PPTRA are not the only programs that reduce the tax due to the County (though PPTRA-related reductions are unique in that they are replaced with a state appropriation). In 2017, $6.0 million in tax relief was provided to military members, including those residing at the Quantico Marine Corps Base, and $1.3 million in relief was provided to the elderly and disabled. An additional $1.4 million was provided for various other exemptions.

Compliance Efforts

In addition to policing enforcement and compliance actions, Prince William County relies on citizens to alert its Tax Administration Division of potential tax evaders via an online portal. In addition to this online system, the Division has also established a 24-hour hotline number to assess and collect taxes from apparent tax evaders. Callers may remain anonymous and only the vehicle license plate number and state, along with the location where the vehicle is normally parked or garaged, must be provided. However, according to the Tax Administration Division, the investigation of tips left on this hotline may take several months or more to resolve due to resource/staffing constraints.

Peer Government Comparison

Personal Property Tax Rates

Because Virginia localities have the flexibility to set rates, tax rates by classification vary significantly among municipalities, as illustrated in Table 18. Prince William County's general rate of $3.70 per $100 of assessed value is low relative to peer governments; only Chesterfield and Henrico Counties impose lower rates. Prince William County's rate for mobile homes ranks in the middle among peer governments. It is notable that the mobile home rate in Arlington County, Fairfax County and Virginia Beach is equal to the general rate for vehicles, trailers and motorcycles.

[49] The effective personal property tax rate is calculated as the nominal tax rate – (the nominal tax rate x the PPTRA relief percentage).

Table 18: Peer Government Personal Property Tax Rates by Classification (per $100 of Assessed Value), 2018

	General: Vehicles, Trailers, Motorcycles	Mobile Homes
Prince William County	$3.70	$1.125
Stafford County	$6.46	$0.99
City of Alexandria	$5.00	$1.043
Arlington County	$5.00	$5.00
Fauquier County	$4.65	$0.98
Fairfax County	$4.57	$4.57
Loudoun County	$4.20	$1.09
City of Virginia Beach	$4.00	$4.00
Chesterfield County	$3.60	$0.96
Henrico County	$3.50	$0.00

Source: Virginia Department of Taxation – Local Tax Rates Surveys; municipality websites

Several peer governments have increased their general personal property tax rates in recent years. In 2013, Alexandria increased its rate from $4.75 to $5.00 per $100 of assessed value in order to fund transportation projects. Virginia Beach increased its general personal property tax rate in 2015 from $3.70 to $4.00. Stafford County (which bases its rate on fair market value), increased its rate from $5.49 to $6.89 in 2009 before reducing it over time – first to $6.61 in 2014, then to $6.50 in 2016, and again to $6.46 in 2018. Table 19 displays the history of the general personal property tax rates by jurisdiction since 2008.

Table 19: General Personal Property Tax Rates, 2008-2018 (per $100 of Assessed Value)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prince William County	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70
City of Alexandria	$4.75	$4.75	$4.75	$4.75	$4.75	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00
Arlington County	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00
Chesterfield County	$3.60	$3.60	$3.60	$3.60	$3.60	$3.60	$3.60	$3.60	$3.60	$3.60	$3.60
Fairfax County	$4.57	$4.57	$4.57	$4.57	$4.57	$4.57	$4.57	$4.57	$4.57	$4.57	$4.57
Fauquier County	$4.65	$4.65	$4.65	$4.65	$4.65	$4.65	$4.65	$4.65	$4.65	$4.65	$4.65
Henrico County	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50
Loudoun County	$4.20	$4.20	$4.20	$4.20	$4.20	$4.20	$4.20	$4.20	$4.20	$4.20	$4.20
Stafford County	$5.49	$6.89	$6.89	$6.89	$6.89	$6.89	$6.61	$6.61	$6.50	$6.50	$6.46
City of Virginia Beach	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$3.70	$4.00	$4.00	$4.00	$4.00

Source: Virginia Department of Taxation – Local Tax Rates Surveys; municipality websites

It is notable that in order to be able to compare the County's personal property tax rate to other localities, the effective tax rate, which incorporates assessment valuation methods, must first be calculated. This figure is calculated by multiplying the statutory tax rate by the percent of retail value (based on National Automobile Dealers Association (NADA) data) and the assessment ratio.

Statutory Tax Rate x % of Retail Value x Assessment Ratio = Adjusted Effective Tax Rate
$3.70 x 87% x 100% = $3.22

Prince William County's adjusted effective rate of $3.22 per $100 of assessed value ranks in the middle among peer governments, as shown in Table 20. Prince William and Fairfax Counties, along with Alexandria, use trade-in value, equal to 87.0 percent of retail value. Stafford County uses retail value (100 percent), while all other peer governments use loan value (calculated as 78 percent of retail value). Despite having the highest statutory rate, Stafford County has the lowest adjusted effective rate due to its assessment ratio of 40 percent. At $4.35, Alexandria's effective rate is significantly higher than its peers.

Table 20: Adjusted Effective Personal Property Tax Rates (per $100 of Assessed Value)

	Nominal Rate	% of Retail Value*	Assessment Ratio	Adjusted Effective Rate	Rank (1=Lowest)
Prince William County	$3.70	87%	100%	$3.22	5
City of Alexandria	$5.00	87%	100%	$4.35	10
Arlington County	$5.00	78%	100%	$3.90	8
Chesterfield County	$3.60	78%	100%	$2.81	3
Fairfax County	$4.57	87%	100%	$3.98	9
Fauquier County	$4.65	78%	100%	$3.63	7
Henrico County	$3.50	78%	100%	$2.73	2
Loudoun County	$4.20	78%	100%	$3.28	6
Stafford County	$6.46	100%	40%	$2.58	1
City of Virginia Beach	$4.00	78%	100%	$3.12	4
Avg. (excl. Prince William County)	$4.55	82%	93%	$3.38	N/A

Source: Weldon Cooper Center for Public Service; municipality websites
** Retail value=100%; trade in value=87% of retail value; loan value=78% of retail value*

Collection Rates

The first year personal property tax collection rate in Prince William County for FY2017 was 96.1 percent.[50] This rate ranks in the middle among peer localities; Arlington County's first year personal property tax rate was highest at 99.5 percent; Alexandria's collection rate was lowest at 92.0 percent. It should be noted that the Counties of Chesterfield, Fauquier, Henrico and Loudoun and the City of Virginia Beach report a single rate for the collection of all property taxes, and Fairfax and Stafford Counties report only the real property collection percentage. For these reasons, it is not possible to do a direct comparison of Prince William County's personal property collection rate to these localities.

Personal Property Tax Relief

Each municipality receives a different distribution from the Commonwealth that is based upon a snapshot of 2004 reimbursement payments, as presented in Table 21. At $54.3 million, Prince William County accounts for 5.7 percent of the total $950.0 million state distribution. This amount is lower than Fairfax County's relief, which comprises 22.2 percent of the statewide distribution and just slightly more than Virginia Beach's distribution, equal to $53.4 million (5.6 percent of the total). With the exception of Fairfax County, each locality's share of the total state distribution generally aligns with its share of the population in 2006.

[50] Prince William County Comprehensive Annual Financial Report, FY2017

Table 21: Personal Property Tax Relief by Municipality

	State Distribution	% of Total Distribution	2006 Population	% of 2006 Population	2016 Population	% of 2016 Population
Prince William County	$54,287,527	5.7%	357,503	4.7%	455,210	5.4%
City of Alexandria	$23,578,531	2.5%	136,974	1.8%	155,810	1.9%
Arlington County	$31,252,147	3.3%	199,776	2.6%	230,050	2.7%
Chesterfield County	$41,092,048	4.3%	296,718	3.9%	339,009	4.0%
Fairfax County	$211,313,944	22.2%	1,010,443	13.2%	1,138,652	13.5%
Fauquier County	$13,659,497	1.4%	66,730	0.9%	69,069	0.8%
Henrico County	$37,001,783	3.9%	284,399	3.7%	326,501	3.9%
Loudoun County	$48,070,701	5.1%	268,817	3.5%	385,945	4.6%
Stafford County	$12,542,261	1.3%	120,170	1.6%	144,361	1.7%
City of Virginia Beach	$53,412,868	5.6%	435,619	5.7%	452,602	5.4%
Commonwealth Total	**$950,000,000**	**N/A**	**7,642,884**	**N/A**	**8,411,808**	**N/A**

Source: Virginia Auditor of Public Accounts; U.S. Census Bureau American Community Survey

Because municipalities have flexibility regarding administration of their personal property tax relief programs, nuances exist among the peer governments. For example, there are three methods of applying PPTRA relief:

1. A reduced property tax rate method in which the difference between the general rate and the reduced rate would approximately equate to the amount of State relief;
2. A specific relief method that provides the same percentage of relief for all qualifying vehicles; and
3. A specific relief method that provides a declining percentage of relief as a vehicle's value increases.

The vast majority of localities use the specific relief method that provides the same percentage of relief for all qualifying vehicles. In 2017, just seven Virginia counties used the reduced property tax rate method; two cities and three counties used the specific relief method that provides a declining percentage of relief based on value.

In 2013, the same year that Alexandria increased its personal property tax rate from $4.75 to $5.00 per $100 of assessed value, it also changed its method for distributing personal property tax relief to a tiered system where the percentage of relief declines as the value of the vehicle increases:

- Vehicles valued between $1,001 and $20,000 receive 55.5 percent relief on the first $20,000 of assessed value (maximum relief of $555);
- Vehicles valued between $20,001 and $25,000 receive 45.5 percent relief on the first $20,000 of assessed value (maximum relief of $455); and
- Vehicles valued over $25,000 receive 35.5 percent relief on the first 20,000 of assessed value (maximum relief of $355).

Arlington County also uses this method of applying relief; each of the other peer governments provide the same percentage of relief for all qualifying vehicles.

Localities are also afforded flexibility in determining the value of vehicles where 100 percent of relief is provided. Prince William County and each of its peer governments set the value at $1,000, with the exception of Arlington County, where the threshold is $3,000.

Finally, because the amount of relief eligible to be provided on a per-vehicle basis is contingent upon both the municipality's allocation from the Commonwealth and the number of eligible vehicles in the municipality, each peer government offers a different percentage of relief to taxpayers. At 47.5 percent in 2018, Prince William County is comparable to its peers, as shown in Table 22. It is notable that several governments have unique aspects in the administration of their programs. For example, presumably to encourage fuel efficiency, Arlington County offers 50 percent tax relief (as opposed to the standard 28 percent) for qualifying clean fuel vehicles.

Table 22: Peer Government Personal Property Tax Relief Programs

	PPTR Application Method	100% Relief on Vehicles Valued Up to	PPTR % (State Portion)	Taxpayer Obligation
Prince William County	Specific Relief, Same %	$1,000	47.5% (2018)	52.5%
City of Alexandria	Specific Relief, Declining %	$1,000	55.5% (2018)	44.5%
Arlington County	Specific Relief, Declining %	$3,000	28.0% (2017)	72.0%
Chesterfield County	Specific Relief, Same %	$1,000	54.0% (2018)	46.0%
Fairfax County	Specific Relief, Same %	$1,000	60.5% (2018)	39.5%
Fauquier County	Specific Relief, Same %	$1,000	52.5% (2018)	47.5%
Henrico County	Specific Relief, Same %	$1,000	54.0% (2018)	46.0%
Loudoun County	Specific Relief, Same %	$1,000	39.0% (2018)	61.0%
Stafford County	Specific Relief, Same %	$1,000	40.0% (2017)	60.0%
City of Virginia Beach	Specific Relief, Same %	$1,000	50.3% (2018)	49.7%

Source: Weldon Cooper Center for Public Service; municipality websites

Compliance Efforts

Several peer governments have undertaken efforts in recent years to increase compliance related to payment of personal property taxes. For example, Fairfax County implemented its 'Target Program' as a mechanism to enforce compliance by providing residents with a platform to report vehicles that may be out of compliance with personal property tax laws. The program includes an online anonymous reporting portal; a research process to identify vehicles, owners and clear nexus to Fairfax County; and two-way status communication.[51]

Between July 2015 and July 2016, Fairfax County officials identified 2,300 incorrectly registered vehicles (742 of which had Maryland plates – Maryland does not levy property taxes on vehicles) and recovered an estimated $600,000 in unpaid vehicle property taxes. Fairfax County's enforcement effort is based mostly on resident reports, although during traffic stops, County police sometimes run the license plate to determine who owns the vehicle, and then check to see whether that person lives out of state. Fairfax County also imposes an "Out of State Plate" tax in addition to personal property taxes for vehicles not properly displaying Virginia license plates within 30 days of purchase or residency.

Since 2007, Arlington County has actively pursued vehicles that are registered elsewhere but should be on county tax rolls.[52] According to Prince William County's Tax Administration Division, its compliance efforts are limited due to resource/staffing constraints.

[51] More information available at https://www.fairfaxcounty.gov/dta_taxevaders/Mobile/ProgramInfo.aspx
[52] Washington Post – In Virginia, Thousands of Cars are Illegally Registered with Out-of-State Plates (July 31, 2016). Accessed electronically at https://www.washingtonpost.com/local/virginia-politics/in-virginia-thousands-of-cars-are-illegally-registered-with-out-of-state-plates/2016/07/31/3848d482-5414-11e6-b7de-dfe509430c39_story.html?utm_term=.494127aada15

High Level Findings

A detailed SWOT analysis of the personal property tax (including the BTP tax discussed in the following chapter) is provided in Appendix C.

- **The tangible personal property tax has been a long-time source of local government revenue.** It has been administered at the local level in Virginia since 1926, when it was removed as a source of state revenue. Since that time, it has grown to become the second largest source of revenue for counties and cities, exceeded only by the tax on real property.

- **Personal property taxes, including those assessed on individuals and the BTP, are the second largest revenue source for Prince William County.** The source totals $172.7 million, which is 18.4 percent of total local tax revenues. Approximately 79 percent of personal property tax revenue in the County is derived from vehicles, trailers and mobiles homes.

- **The tax is broadly applied.** All cities and counties in Virginia collect tangible personal property tax. The most common classification of personal property subject to tax is automobiles.[53]

- **Local governing bodies are authorized to establish tax rates for tangible personal property.** Consequently, tax rates by classification vary significantly among Virginia's localities. Assessment ratios and valuation methods of tangible personal property also differ among localities.

- **The County has high tax collection rates.** The current personal property tax collection rate for FY2017 was 96.1 percent.[54] By contrast, national compliance with property taxes in large cities (which is primarily real property taxes) over a 10-year period averaged 94.5 percent.[55] It is noteworthy that the County's high tax collection rate is achieved with a fraction of the resources found in most peer jurisdictions.[56]

- **Some County residents may not be aware that a tax on personal property exists.** Although jurisdictions throughout Virginia levy a personal property tax, many U.S. states do not. This can lead to taxpayer confusion, particularly for new Virginia residents.

- **The PPTRA provides state funding to assist localities in lowering property taxes associated with vehicle ownership – but those amounts have not increased in more than ten years.** The statewide reimbursement to localities is capped at $950 million; since 2006, each locality has received a fixed reimbursement based upon the total reimbursement payment the locality received in 2004. This fixed reimbursement does not account for population increases (and associated increases in the number of vehicles in the County) or other changes in economic conditions.

[53] The classification for tangible personal property subject to tax is found in Code of Virginia, Title 58.1-3503. There are 19 classes of personal property identified in the statute.
[54] Prince William County Comprehensive Annual Financial Report, FY2017
[55] Michael Chirico and Robert Inman, "An Experimental Evaluation of Notification Strategies to Increase Property Tax Compliance: Free-Riding in the City of Brotherly Love," University of Chicago Press, 2016, p. 136.
[56] RSM, LLP – Prince William County, Virginia Internal Audit of the Cash Collection and Handling Process (April 29, 2015). Accessed electronically at http://www.pwcgov.org/government/dept/audit/Documents/PWC%2008042015%20ACCEPTED%20Cash%20Collection%20and%20Handling%20IA%20Report.pdf

- **Prince William County receives $54.3 million each year as reimbursement from the Commonwealth pursuant to the PPTRA.** The County has opted to allocate its reimbursement on a per-vehicle basis. The amount of relief changes from year to year based on the number of qualifying vehicles, and has trended downward over time. In 2010, the amount of relief provided to eligible vehicles was 64.0 percent; in 2018, relief is equal to 47.5 percent.

- **Because local governments are provided with flexibility to administer their PPTR programs, each peer government offers a different percentage of relief to taxpayers.** At 47.5 percent in 2018, Prince William County is comparable to its peers.

- **Prince William County has not increased its general personal property tax rate of $3.70 per $100 of assessed value in many years, but has modified the personal property tax rate on mobile homes in nearly every year since 2008.** In 2008, the rate was $0.787 per $100 of assessed value; it increased to $1.236 by 2011 and has generally trended downward since; mirroring the County's adopted real estate tax rate each year.

- **Prince William County's adjusted effective rate of $3.22 per $100 of assessed value ranks in the middle among peer governments.** Despite having the highest statutory rate ($6.46), Stafford County's assessment ratio of 40 percent results in the lowest adjusted effective rate among peer localities ($2.58). At $4.35, Alexandria has the highest adjusted effective rate.

- **Increasing the County's nominal personal property tax rate to $3.89 per $100 of assessed value would result in an adjusted effective tax rate of $3.38, commensurate with the peer locality average.** This nominal rate increase of 5.0 percent would generate between $9.5 million and $11.1 million annually. See chapter entitled 'Alternatives to the Current Tax Structure' for additional information.

Business Tangible Property Tax

Introduction

The business tangible property (BTP) tax is one component of the personal property tax. In Prince William County, the BTP tax is levied on all general office furniture and equipment, machinery and tools, equipment used for research and development, heavy construction equipment, computer equipment and peripherals that is located in the County on January 1 of each year.

In February 2018, the Prince William Board of County Supervisors voted 6-1 to advertise an increase in the BTP tax rate for computer equipment and peripherals to $3.70 (from $1.25) per $100 of assessed value. This change would have had the effect of increasing the rate to the general rate imposed on all other business equipment, as shown in Table 23.

Table 23: Prince William County Business Tangible Property Tax Rates by Classification (per $100 of Assessed Value), FY2019

Property Tax Classification	Rate
General Class: Business Equipment, Furniture and Fixtures	$3.70
Heavy Equipment and Machinery	$3.70
Mining and Manufacturing Tools	$2.00
Programmable Computer Equipment and Peripherals Used in a Trade/Business	$1.25
Research and Development	$1.00

Prince William County Finance Department

The County Finance Department estimated that increasing the rate to $3.70 would generate an additional $20 million annually. While the proposal was defeated in a 6-2 vote by the Board in April 2018, it is likely to be an issue of continued interest and debate. The BTP tax on computer equipment and peripherals is the primary source of revenue within this tax category – particularly as it relates to data centers – and is therefore the focus of this chapter.

History and Background

Businesses are assessed a BTP tax on items such as furniture and fixtures, computers and construction equipment. As with the personal property tax, the BTP tax is an *ad valorem* tax, meaning that the tax amount is set according to the value of the property. A higher-valued property pays more tax than a lower-valued property.

Business Tangible Property Tax Revenue

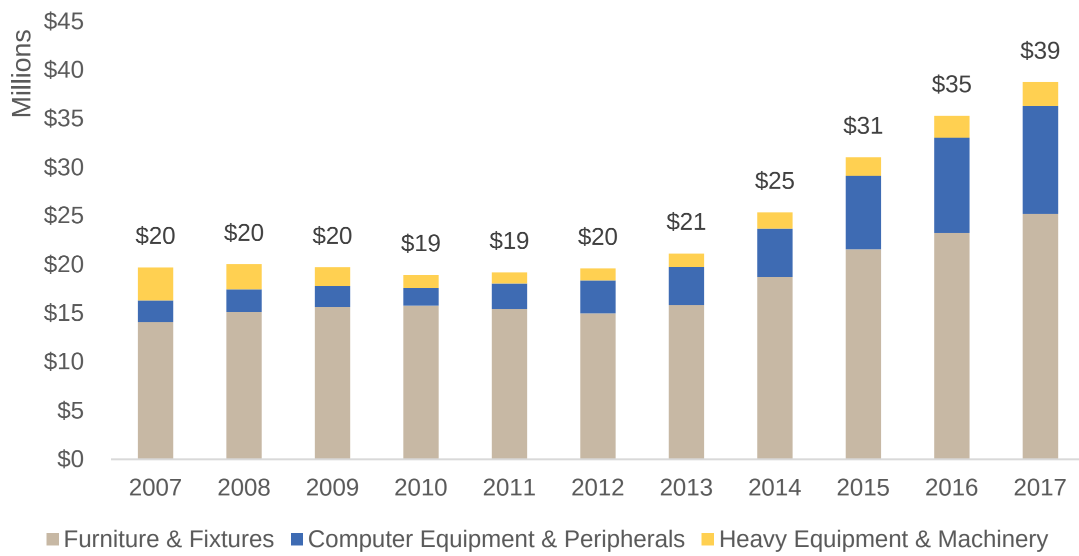
The BTP tax, totaling $38.8 million, accounted for 30.4 percent of total personal property tax collections in the County in tax year 2017. It is comprised of three property classes:

- Furniture and fixtures
- Computer equipment and peripherals
- Heavy equipment and machinery

Figure 15 shows the County's BTP tax revenue by property class for tax years 2007 through 2017. Taxes on computer equipment and peripherals represent the fastest growing BTP tax class, both in terms of dollar value and share of total BTP taxes.[57] In tax year 2007, computer equipment and peripheral revenue totaled $2.2 million, equal to 11.4 percent of BTP taxes. By 2017, revenue had increased to $11.1 million (28.6 percent).

Furniture and fixtures accounted for 65.0 percent of BTP taxes in tax year 2017, while heavy equipment and machinery accounted for 6.4 percent. Computer equipment and peripheral tax revenue increased as a CAGR of 17.3 percent between 2007 and 2017, as compared to 6.0 percent for furniture and fixtures and a decline of 3.0 percent for heavy equipment and machinery.

Figure 15: Business Tangible Property Tax Revenue by Property Class, Tax Year 2007-2017



Source: PWC Business Tangible Property Tax Roll Summaries, Tax Years 2007-2017

County Data Centers

In recent years, the County has sought to attract data centers – the primary payers of the tax on computer equipment and peripherals. The County estimates that data centers account for 90 percent of computer equipment and peripherals taxes paid. To assist in data center attraction efforts, the County has reduced the BTP tax rate on computers and peripherals. In 1999, the rate was decreased from $3.70 to $1.50 per $100 of assessed value; the rate was lowered again, to $1.25, in 2001. Additionally, in 2016, the County designated nearly 10,000 acres of land as a Data Center Opportunity Zone Overlay District. This zoning permits the development and operation of data centers in all industrial, office and commercial zoning within the districts. It also promotes fast-track rezoning approvals for data centers within the Zone.

State statute permits local governments to establish, by ordinance, one or more technology zones to attract growth in targeted industries by creating special incentives for qualified businesses locating or expanding operations in a zone. Incentives may include a reduction of user and permit fees, local tax incentives, special zoning treatment, exemption from local ordinances or other incentives adopted by ordinance. A detailed description of these Technology Zones programs in Arlington, Chesterfield and Stafford Counties is provided in Appendix D.

[57] Prince William County Business Tangible Property Tax Roll Summaries, Tax Years 2007-2017.

The term “data centers” has different meanings (it may mean a campus, building, hall, space, cage or rack) as well as different ownership structures (they may be owned, leased or co-located). The Code of Virginia identifies a data center for tax purposes as a “facility whose primary services are the storage, management and processing of digital data and is used to house (i) computer and network systems, including associated components such as servers, network equipment and appliances, telecommunications, and data storage systems; (ii) systems for monitoring and managing infrastructure performance; (iii) equipment used for the transformation, transmission, distribution, or management of at least one megawatt of capacity of electrical power and cooling, including substations, uninterruptible power supply systems, all electrical plant equipment, and associated air handlers; (iv) Internet-related equipment and services; (v) data communications connections; (vi) environmental controls; (vii) fire protection systems; and (viii) security systems and services.”[58] This broad definition makes it difficult to conclusively identify property as being used in a data center, since in many cases, the equipment is leased and is being reported by the leasing company along with assets not in data centers. Further, the existing filing process does not ask taxpayers to identify computers and peripherals as being in a data center.

From a real estate perspective, as of January 1, 2018, the County has 16 data centers in various stages of completion.[59] Of the 16, four are identified in the County’s record system as having been built in 2017 and, for purposes of inventorying total data centers in the County, the addresses do not exactly match the BTP addresses. One of the centers appears to have been substantially completed during 2016; another was approximately 50 percent complete in 2016, while the improved value for the remaining two indicates they were constructed during 2017.

The real estate and BTP addresses match completely for 11 of the 12 remaining data centers; the 12th BTP address is on the same road as the real estate address, and most likely it is for the same parcel. Of the 12, three are identified as colocation facilities; the rest are single-tenant or owner-occupied. One of the three used to be assessed by the State Corporation Commission (SCC). The property sold in 2017 to an entity that does not report to the SCC, and the County began assessing the property in 2018.[60]

Using the same address-based approach, there are currently 21 additional parcels that may eventually become data centers, one of which has a very minimal improvement on it with a “year built” designation of 1955.[61] For many of these parcels, sub-division into multiple street addresses is possible (and in fact, probable in many instances). As a result, it is not possible to determine what the 21 parcels will eventually become. However, County staff believe that most of the parcels will develop into data centers.

According to the County Department of Economic Development, the County is home to 3.5 million square feet of data center space; this total accounts for locations which may house servers for multiple businesses. Most prospective data centers seek assistance from the Department of Economic Development, and the Department has maintained a database of data center partners since 1999.

The Commonwealth has undertaken several efforts to attract data centers. Since 2008, Virginia law has allowed a retail sales and use tax exemption for computer equipment used in certain data centers in Virginia. The exemption has been changed and expanded several times, but it generally exempts the purchase of computer equipment within a computer data center and certain support facilities, provided certain criteria are met. All local

[58] Per Code of Virginia Title 58 Chapter 31 (58.1-3506 Section 43)
[59] According to County’s real estate-based information. Dates of construction and improvement range from 1999 to 2017.
[60] The data center referenced was owned by a telecommunications company and then purchased by another major telecommunications company.
[61] All improvements have a “year built” flag. This particular structure is likely a barn or storage unit that may be torn down if and when a data center is constructed.

governments adhere to the State sales tax exemption; the data center sales tax exemption applies to both the state tax and the local sales tax.[62]

For tax years beginning January 2019, the Code of Virginia was amended to create a separate classification for computer equipment and peripherals used in data centers when valuing this equipment for BTP tax purposes. The new classification requires that property be valued by either a percentage (or percentages) of original cost. This change segregates computers and peripherals into different classifications for valuation purposes; however, the County indicates that it has always valued this property using this method. The change requires the County to assert that both percentage schedules (computers and peripherals, and computers and peripherals used in a data center) will accurately determine fair market value.

The Northern Virginia Technology Council, in a February 2018 report, found that the data center industry strengthens and diversifies the economy and drives innovation in Virginia. The study noted that "because data centers are very capital intensive, they have a disproportionate impact on local property tax revenue, while making minimal demands on local services." The report also finds that "Based on data from Loudoun County and Prince William County, this combination provides a greater than 8-to-1 benefit to cost ratio, enables these localities to draw $134 million a year less from the state general fund for school budgets, and reduces local property tax rates that otherwise would be required to fund county operations."[63] Key findings from the report include:

- **Data centers make a large contribution to Virginia's economy.** In 2016, the industry was responsible for directly and indirectly supporting approximately 43,275 jobs, $3.2 billion in labor income, and $10.2 billion in economic output in Virginia.

- **Data centers are a high-performance industry.** In 2016, they paid a statewide average private sector weekly wage of $2,336 – more than twice the statewide average of $1,044 across all private sector industries.

- **Data centers are a significant driver of capital investment.** In 2016, data centers made $2.6 billion in capital investments in Virginia and that investment was responsible for supporting approximately 4,617 jobs, $254.3 million in labor income, and $670.0 million in economic output in the state's construction industry.

There is concern that increasing the BTP tax rate on computer equipment and peripherals may deter investment in the County. Currently, Prince William County is the second largest data center market in Virginia (trailing only Loudoun County) – and those who are considering Prince William County may be deterred from locating there. In discussions with stakeholders, it was suggested that there is a very real possibility that the tax increase would remove the County from consideration on new data center projects. Businesses are continually assessing total cost of ownership (TCO) related to computing activities. If the BTP tax rate increases (particularly if it is a significant increase along the lines of going from $1.25 to $3.70 per $100 of appraised value), it may also mean that cloud-based services will be more cost competitive versus the capital and operating costs (including taxes) of on-site computers. If that is the case, it could erode the existing base of BTP tax related to computer equipment and peripherals.

[62] The State may be re-examining its policy with respect to sales tax exemptions for data centers; it is possible this could result in policy changes in the near future. The Virginia House of Delegates referenced this topic as one that could be included in a possible special legislative session on tax reform in the fall of 2018.

[63] Northern Virginia Technology Council – The Economic and Fiscal Contribution that Data Centers Make to Virginia, Executive Summary (February 2018). Accessed electronically at http://www.nvtc.org/documents/resources/NVTC_DataCenters_2018_Executive_Summary_lowres.pdf

Table 24 illustrates the estimated impact of increasing the computer equipment and peripherals tax from $1.25 to $3.70 per $100 of assessed value. The top two tiers of businesses, which collectively account for less than one percent of total businesses paying BTP tax on computer equipment and peripherals, would pay an estimated 96 percent of the increase resulting from the higher rate. The average tax increase for businesses in the highest tier would be more than $1.5 million; the average increase for tier two businesses would be $43,000. Conversely, the more than 3,600 businesses considered to be in the lowest tier account for more than 83 percent of total business but would be responsible for less than one percent of the increase resulting from the higher rate. On average, those businesses would experience an increase of $41.

Table 24: Impact of Increasing Computer Tax Rate from $1.25 to $3.70 per $100 of Assessed Value[64]

Number of Businesses Impacted	Portion of Businesses	Total Tax Increase	Portion of Tax Increase	Average Increase per Business
Top Tier	0.3%	$20,067,403	92.5%	$1,543,646
Second Tier	0.4%	$774,474	3.6%	$43,026
74	1.7%	$382,046	1.8%	$5,163
70	1.6%	$95,959	0.4%	$1,371
550	12.6%	$228,909	1.1%	$416
3,640	83.4%	$147,803	0.7%	$41
4,365	**100.0%**	**$21,696,593**	**100.0%**	**$265,611**

Source: Prince William County Finance Department data, PFM analysis

The increase could also have broader implications related to significant changes in business taxes that could impact this and other industries' location decisions. Any major change in taxes targeted to a specific industry may cause other industries to become concerned about their tax structure in the future as well.

Tax rates are not the only factor that drives location decisions. Businesses will factor in a variety of business expenses, including the cost of land and buildings, real estate taxes, and labor costs, for example. In some of the peer local governments, there are also higher and/or special taxes on businesses that do not apply in Prince William County, including the merchants' capital tax, amusement tax, and meals tax. While these are not business taxes per se, they will impact on economic activity, and certain types of businesses will take this into account in their location decisions.

While the existence of tax incentives can attract business to a state, discontinuing their use can have a negative effect on business activity. The State of Washington serves as something of a cautionary tale. In December 2007, Washington's Attorney General ruled the state's data center incentives invalid – and two large corporations immediately halted construction on data center facilities in the state. One of those corporations subsequently chose to move one of its key services to another state. Other corporations cited state and local taxes as important considerations to decisions to construct new data center facilities in Oregon. The State of Washington's incentives were re-enacted in 2010, resulting in a data center construction boom, but those incentives were again allowed to lapse in 2011 – resulting once more in business loss to neighboring Oregon.

In 2012, Washington again re-enacted its incentives but chose not to reauthorize them in 2014 – directly resulting in the loss of data center business to the State of Iowa. Washington then re-enacted its incentives in

[64] Based on Tax Year 2017 Computer and Peripheral BTP tax returns

2015. The Joint Legislative Audit and Review Committee (JLARC) recommended in 2016 that the incentives be continued. While the market has improved in the state, momentum was lost that must now be regained.[65]

It is also noteworthy that while Virginia's current sales and use tax exemptions used to be relatively unique, that is no longer the case. When Virginia enacted its data center sales and use tax exemption in 2009, only seven other states offered similar incentives. Today, over half of all states offer incentives for data centers. Seven of those 27 data center incentives were enacted in 2015 alone, and most states now offer incentives that are more competitive than Virginia's. Since 2012, when Virginia last revised its data center sales and use tax exemption, a third of the states offering similar incentives have reduced their eligibility criteria to be more attractive to smaller data centers.[66]

Peer Government Comparison

As part of its review, the project team benchmarked nine peer governments. Benchmarking analyses provide a means for identifying areas of convergence and divergence from the peer governments.

PFM's benchmarking focused generally on the overall BTP tax structure and tax treatment of computer equipment. Though it can be difficult to make direct comparisons across local governments, it is possible to make general observations and examine patterns.

Business Tangible Property and Computer Equipment Rates

Table 25 reflects the BTP and computer equipment tax rates for the County and peer governments. Prince William County's general BTP rate is fourth lowest, with only Fauquier County ($2.30), Henrico County ($3.50) and Chesterfield County ($3.60) having lower rates. As currently constructed, Prince William County's computer equipment rate is one of three benchmark local governments to impose lower rates on computer equipment than on general business property.

Table 25: Rates per $100 of Assessed Value, 2018

Local Government	Business Tangible Property	Computer Equipment
Prince William County (current)	**$3.70**	**$1.25**
Prince William County (proposed)	**$3.70**	**$3.70**
Stafford County	$5.49	$5.49
Arlington County	$5.00	$5.00
City of Alexandria	$4.75	$4.75
Fairfax County	$4.57	$4.57
Loudoun County	$4.20	$4.20
Chesterfield County	$3.60	$3.60
Fauquier County	$2.30	$2.30
Henrico County	$3.50	$0.40
City of Virginia Beach	$4.00	$0.40

Source: Locality websites

[65] State of Washington Department of Commerce – State of the Data Center Industry: An Analysis of Washington's Competitiveness in this Fast-Growing High Tech Field. Accessed electronically at http://www.commerce.wa.gov/wp-content/uploads/2018/01/Commerce-Data-Center-Study-and-appendices-2017.pdf.
[66] Northern Virginia Technology Council – The Economic and Fiscal Contribution that Data Centers Make to Virginia (February 2018).

Multiple peer governments have taken steps to attract data centers by lowering their rates on computer equipment. In April 2017, Henrico County reduced its personal property tax rate on computer equipment and peripherals used in data centers from $3.50 to $0.40 per $100 of assessed value. The same year, Facebook announced it would build a $1 billion data center in eastern Henrico County, generating an estimated 100 full-time jobs.[67]

In December 2017, Virginia Beach decreased its tax rate on computer equipment and peripherals used in data centers from $4.00 to $0.40 per $100 of assessed value. Other incentives offered by the City include applying no inventory tax, exempting business equipment for manufacturers from tax, and applying no tax on machinery and tools equipment.[68]

While not a peer locality, the City of Danville is the most recent example of communities taking steps to attract data centers to the area. In September 2018, City Council members informally decided (by a 7-2 unofficial vote) to place a proposed rate of $0.25 per $100 of assessed value for data processing centers on the regular meeting agenda. If City Council members approve the rate in October 2018, Danville will have the lowest rate in the state.

Computer Equipment Depreciation Schedules

Each peer government requires taxpayers to use a depreciation schedule when filing taxes on computer equipment and peripherals, and the parameters vary from government to government. The Prince William County business community has expressed concern that the schedule may not be depreciating property fast enough to keep up with the market. As shown in Table 26, Prince William County's computer equipment depreciation schedule is comparable to peer governments.

Table 26: Peer Government Computer Equipment Depreciation Schedules, 2018

Local Government	Years After Purchase					
	1	2	3	4	5	6+
Prince William County	**50%**	**35%**	**20%**	**10%**	**5%**	**5%**
City of Alexandria	65%	45%	30%	20%	5%	5%
Arlington County	65%	45%	30%	10%	10%	10%
Chesterfield County	50%	40%	20%	10%	5%	1%
Fairfax County	50%	35%	20%	10%	2%	2%
Fauquier County	60%	40%	20%	10%	10%	10%
Henrico County	70%	46%	28%	17%	10%	4%
Loudoun County	50%	40%	30%	20%	10%	10%
Stafford County	35%	30%	25%	20%	15%	15%
City of Virginia Beach[69]	40%	40%	40%	30%	15%	15%

[67] Richmond Times-Dispatch – "Facebook to build $1 billion data center in eastern Henrico County" (October 4, 2017). Accessed electronically at http://www.richmond.com/news/virginia/government-politics/facebook-to-build-billion-data-center-in-eastern-henrico-county/article_cd4a106d-162c-53bb-92b4-af12cd9139ac.html

[68] Virginia Business – "Virginia Beach reduces tax rate for data center equipment" (December 19, 2017). Accessed electronically at http://www.virginiabusiness.com/news/article/virginia-beach-reduces-tax-rate-for-data-center-equipment

[69] Virginia Beach schedule shown is for data center business property

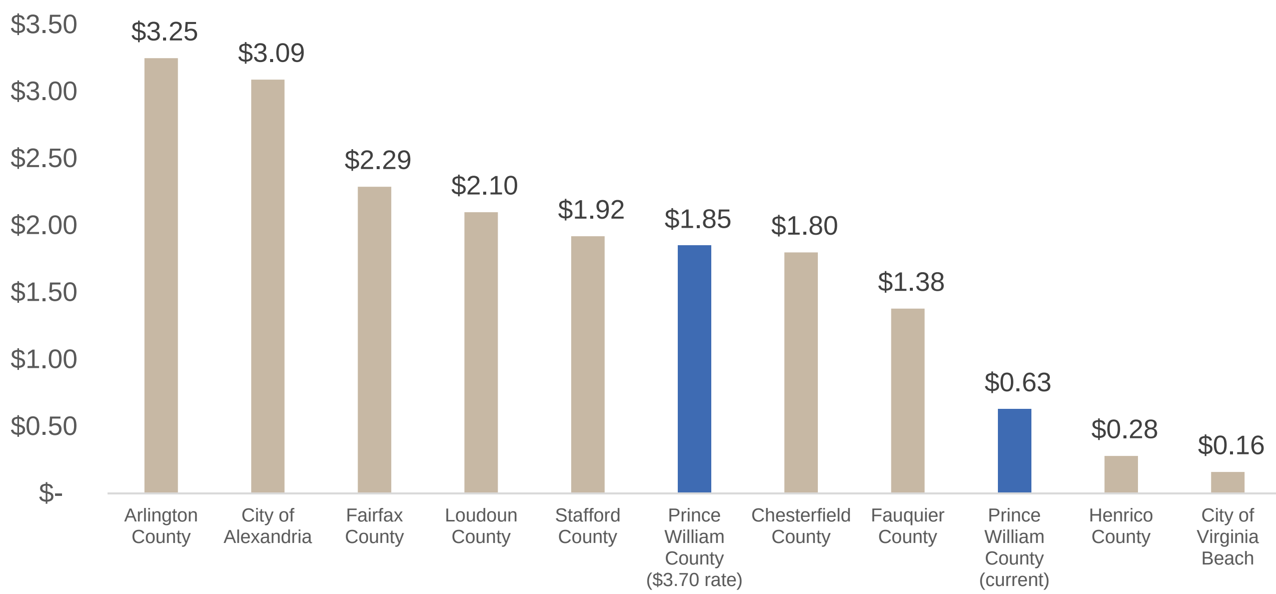
When the base rate per $100 of assessed value and the depreciation schedules are taken together, the result is an effective tax rate (i.e., the actual rate at which a businesses' property is taxed) that more accurately depicts the tax rate imposed on taxpayers. Prince William County's effective tax rate, even with the proposed rate increase, would be comparable to the peer governments, as illustrated in Table 27.Table 27

Table 27: Peer Government Effective Computer Equipment Tax Rates, 2018 (per $100 of Assessed Value)

Local Government	Rate	Years After Purchase					
		1	2	3	4	5	6+
Prince William County (current)	**$1.25**	**$0.63**	**$0.44**	**$0.25**	**$0.13**	**$0.06**	**$0.06**
Prince William County (proposed)	**$3.70**	**$1.85**	**$1.30**	**$0.74**	**$0.37**	**$0.19**	**$0.19**
City of Alexandria	$4.75	$3.09	$2.14	$1.43	$0.95	$0.24	$0.24
Arlington County	$5.00	$3.25	$2.25	$1.50	$0.50	$0.50	$0.50
Chesterfield County	$3.60	$1.80	$1.44	$0.72	$0.36	$0.18	$0.04
Fairfax County	$4.57	$2.29	$1.60	$0.91	$0.46	$0.09	$0.09
Fauquier County	$2.30	$1.38	$0.92	$0.46	$0.23	$0.23	$0.23
Henrico County	$0.40	$0.28	$0.18	$0.11	$0.07	$0.04	$0.02
Loudoun County	$4.20	$2.10	$1.68	$1.26	$0.84	$0.42	$0.42
Stafford County	$5.49	$1.92	$1.65	$1.37	$1.10	$0.82	$0.82
City of Virginia Beach	$0.40	$0.16	$0.16	$0.16	$0.12	$0.06	$0.06

Figure 16 displays the resulting effective tax rate one year after purchase for each of the peer governments. Prince William County's rate, as currently constructed ($0.63), is higher than only Henrico County ($0.28) and Virginia Beach ($0.16). Even when factoring in the proposed rate increase, Prince William County's effective tax rate still ranks among the middle of its peers – and significantly lower than Arlington County ($3.25) and Alexandria ($3.09).

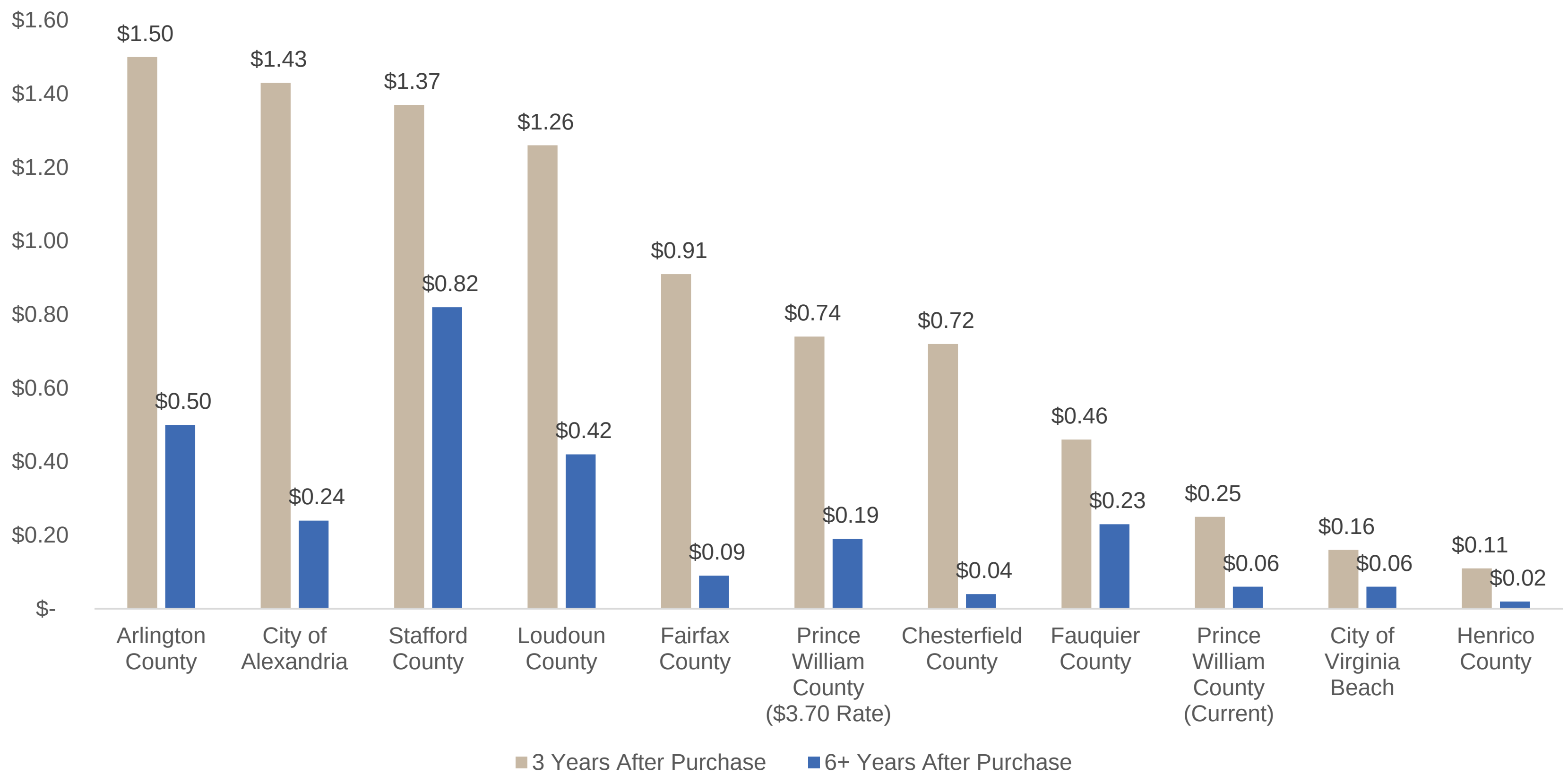
Figure 16: Computer Equipment Effective Tax Rate, 2018, One Year After Purchase (per $100 of Assessed Value)



Source: Peer government business tax documents

Three years after purchase, computer equipment in Prince William County is taxed at an effective rate of $0.25 per $100 of assessed value, higher only than Virginia Beach ($0.16) and Henrico County ($0.11). Six years after purchase, computer equipment in Prince William County is taxed at an effective rate of $0.06 per $100 of assessed value, on the lower end of the peer group and comparable to Fairfax ($0.09) and Virginia Beach ($0.06). Even with the proposed rate increase, Prince William County's effective tax rate at three and six years after purchase is meaningfully lower than many peer localities, as shown in Figure 17.

Figure 17: Computer Equipment Effective Tax Rate, Years 3 and 6+, 2018
(per $100 of Assessed Value)



Source: Peer government business tax documents

High Level Findings

A detailed SWOT analysis of the personal property tax (including the BTP tax) is provided in Appendix C.

Based on inquiries and analyses of the County's tax and revenue structures and their relationship to peer local governments, the following high level findings are a useful tool for discussion of revenue alternatives. The project team identifies the following as key high level findings:

Characteristics

- **The BTP tax on computer equipment and peripherals is a meaningful source of total local tax collections.** The tax accounts for 8.7 percent of total personal property tax collections and 28.6 percent of total business tangible property taxes.

- **The depreciation rates of personal property make it difficult to determine fair market value, with some classes of property – particularly computer equipment and peripherals – depreciating faster than others.** Article X, Section 2 of the Constitution of Virginia requires that all assessments of tangible personal property be at fair market value. Localities are authorized to value each class of tangible personal property according to a different method. Commissioners of the revenue may have different methods of valuing property among the separate classes, so long as each method is uniform within each class.

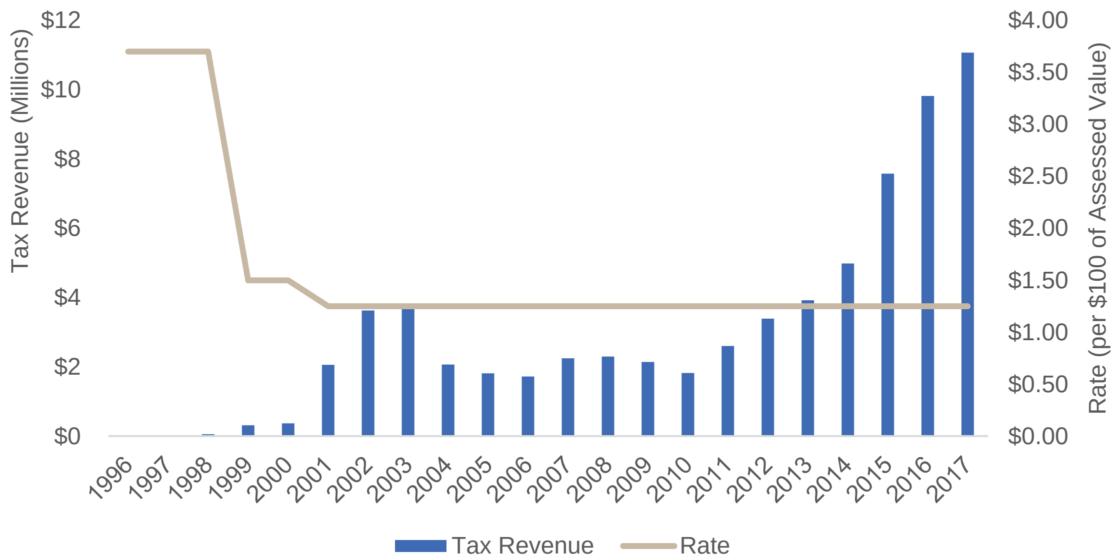
Prince William County-Specific Issues

- **In Prince William County, businesses are assessed a business tangible property tax on items such as furniture and fixtures, computers and construction equipment**. The County imposes different tax rates depending on the classification of the property.

- **Administrative issues exist – particularly related to data.** Due to the current filing process, it is not possible to know the location of all servers/equipment subject to taxation.

- **The County has sought to attract data centers in recent years – in part by decreasing the tax rate on programmable computer equipment and peripherals used in trade/businesses.** In 1999, the rate on computer equipment and peripherals was decreased from $3.70 to $1.50 per $100 of assessed value; the rate was further lowered to $1.25 in 2001, as shown in Figure 18. The County estimates that data centers account for 90 percent of computer equipment and peripherals taxes paid today.

Figure 18: Computer Equipment and Peripherals Tax Rate and Revenue, 1997-2017



- **Computer tax revenues have increased significantly in recent years.** Since the year 2000, revenues have grown from less than $0.5 million to more than $11 million annually.

- **Currently, the County is home to 3.5 million square feet of data center space, with another 1.5 million square feet of facilities in the development pipeline.** In the past year, the County has welcomed several large data centers, including campuses for CloudHQ and Iron Mountain and additional sites for Amazon Web Services.[70] In comparison, Loudoun County, through which 70 percent of global internet traffic is routed, has approximately 10 million square feet of data center space.[71]

- **In February 2018, the Board of County Supervisors voted 6-1 to advertise an increase in the business tangible property tax rate for computer equipment and peripherals from $1.25 per $100 of assessed value to $3.70.** Increasing the rate on computer equipment would make it commensurate with the general business equipment rate. The County Finance Department estimates that increasing the rate to $3.70 would generate approximately $20 million annually.

- **In April 2018, the proposal to increase the business tangible property tax rate for computer equipment and peripherals was defeated in a 6-2 vote by the Board.** As a result, the rate remained at $1.25 per $100 of assessed value in the FY2019 budget. A possible rate increase is likely to be an issue of continued interest and debate.

---

[70] Data Center Frontier – Prince William Considers Tax Hike on Data Center Equipment (February 28, 2018). Accessed electronically at https://datacenterfrontier.com/prince-william-county-considers-tax-increase-on-data-center-equipment/

[71] Loudoun County Department of Economic Development – Data Centers. Accessed electronically at https://biz.loudoun.gov/key-business-sectors/data-centers/

- **The impact of an increase to $3.70 would be disproportionately spread among taxpayers.** The top two tiers of businesses, which collectively account for less than one percent of total businesses paying BTP tax on computer equipment and peripherals, would pay an estimated 96 percent of the increase resulting from the higher rate. Conversely, the more than 3,600 businesses considered to be in the lowest tier account for more than 83 percent of total business but would be responsible for less than one percent of the increase resulting from the higher rate.

- **Increasing the tax rate on computers may impact business decisions, but it is not the only factor that drives location decisions.** Tax rates may directly impact business decisions, particularly business with many computers, such as data centers. In discussions with stakeholders, it was suggested that there is a very real possibility that the tax increase would remove the County from consideration on new data center projects. At the same time, businesses will factor in a variety of business expenses in location decisions – the cost of land and buildings, real estate taxes, and labor costs, for example. In some of the peer local governments, there are higher and/or special taxes on businesses that do not apply in Prince William County.

  Businesses are continually assessing total cost of ownership (TCO) related to computing activities. If the BTP tax rate increases (particularly if it is a significant increase along the lines of going from $1.25 to $3.70 per $100 of appraised value), it may mean that cloud-based services will be more cost competitive versus the capital and operating costs (including taxes) of on-site computers. If that is the case, it could then erode the existing base of BTP related to computer equipment and peripherals.

  It is also possible that the dramatic increase will become a broader concern about changes in business taxes that could impact this industry and others' location decisions. Put simply, it is possible that current businesses may leave and/or new businesses may not choose to stay in the County if the rate is increased – though, as previously noted, other factors will likely also be considered

- **The State of Washington offers a cautionary tale about the impact of discontinuing incentives.** Over the past ten years, the state has allowed to lapse and reinstated its data center incentives several times. At the same time, Washington has lost much of its potential and actual data center business to neighboring Oregon. The Washington JLARC recommended in 2016 that the incentives be continued. While the market has improved in the state, momentum was lost that must now be regained.

- **Virginia's sales and use tax exemption is no longer unique, making the state less competitive than it was previously.** When Virginia enacted its data center sales and use tax exemption in 2009, only seven other states offered similar incentives. Today, over half of all states offer incentives for data centers. Seven of those 27 data center incentives were enacted in 2015 alone and most states now offer incentives that are more competitive than Virginia's – since 2012, when Virginia last revised its data center sales and use tax exemption, a third of the states offering similar incentives have reduced their eligibility criteria to be more attractive to smaller data centers.

County Business, Professional and Occupational License Tax

Introduction

In many localities, certain businesses, professions and occupations are subject to local license taxes. Most business licenses are established to regulate certain activities that have a public health, safety or related public purpose. However, within the Commonwealth of Virginia, local governments are provided the authority to collect a business, professional and occupational license (BPOL) tax as a means to raise revenue for the local government. Additionally, those localities that do not levy a BPOL tax may instead levy a merchants' capital tax. The following sections will provide background and analysis of the BPOL tax, benchmark its use among peer governments and discuss possible impacts on County businesses and the economy.

History and Background[72]

The BPOL tax has a long history of use in Virginia. The tax dates back to the War of 1812, and it has been used continuously since that time. Originally a state-levied tax, the structure was initially a flat fee that varied by type of business (though in some cases the tax was graduated based on gross receipts). The tax evolved in the 1900s to the current system, where it is based on the gross receipts of businesses. While local governments were initially only permitted to levy a BPOL tax on those business taxed at the Commonwealth level, the Code of Virginia was amended in 1964 to permit counties and those cities and towns with general tax powers in their charters to impose a license tax regardless of whether the Commonwealth taxed the particular business.

In 1978, the Virginia General Assembly established rate caps based on business classification. These rate caps were set based on a study that differentiated how profit margins vary for different types of businesses. By setting various tax rates based on profit margins, the premise was that businesses should pay taxes as a percentage of their profits, rather than strictly on gross receipts. Because the study has not been updated since 1978, significant changes in the economy over the past four decades are not necessarily captured in the current rate caps.

The State does not require a locality to levy a BPOL tax – it only mandates that localities doing so do not exceed the statutory maximum rates. Localities may also impose a lower tax rate or provide for sub-classifications within the categories listed, provided the tax imposed does not exceed the maximum rate specified in that section.

The maximum BPOL tax rates (per $100 of gross receipts) allowable under Virginia law are:

- Contracting: $0.16
- Retail: $0.20
- Repair, personal and business services: $0.36
- Financial, real estate and professional services: $0.58
- Wholesale trade: $0.05 (per $100 of gross purchases rather than gross receipts)

State law also provides for some exemptions for both state and local license tax purposes. For example, manufacturers are exempt from the tax on merchants if subject to the state tax on capital and sold to licensed dealers or retailers (but not to consumers). Other examples of exempt businesses include banks and funeral homes. Additionally, a legislative amendment restricts localities from imposing a license fee and levying a license tax upon nonprofit organizations and venture capital funds.

[72] History of BPOL tax obtained from VA Department of Taxation 2000 BPOL Guidelines and Chmura – Evaluation of Virginia's BPOL Tax and Industry Profitability

Figure 19 provides a summary of the current state and local BPOL tax authority:

Figure 19: State and Local BPOL Tax Authority

The Code of Virginia Mandates:

- Statutory exemptions from the BPOL tax
- Rate caps based on business classifications
- Classifications subject to taxation
- Gross receipts thresholds for certain licensable privileges below which a locality cannot impose the tax

Local Governments May Through Ordinance:

- Set tax rate levels lower than those authorized by state law, or select classifications to tax or not tax
- Establish subclassifications and provide for different rates or exemptions
- Establish graduated tax rates so that the rate increases or decreases with volume
- Establish a threshold amount of gross receipts below which no tax will be imposed

The BPOL tax has been a controversial issue at the state and local level. There have been multiple attempts to repeal the tax. In 1995, for example, legislation was introduced to repeal the BPOL tax that led to a year-long study. However, a replacement revenue source could not be identified, so the legislature opted instead to address some of the administrative issues associated with the tax.

The Courts have also weighed in on some aspects of its administration in recent years. For example:

- In 2015, the Virginia Supreme Court ruled against Arlington County related to how out-of-state receipts are treated for determining income subject to the tax. The County argued that the Nielsen Corporation incorrectly deducted a portion of its out-of-state gross receipts that it had already excluded from its total amount of Virginia taxable income. Nielsen countered that the deduction was allowed under a state formula that permits companies with offices outside Virginia to estimate tax deductions without proving where that income originated. The Virginia Supreme Court sided with Nielsen and ordered a circuit court judge to use Nielsen's approach to calculate what the company owed the county.[73]

- In August 2017, the Virginia Supreme Court issued a tax ruling related to BPOL taxes on international sales in duty-free shops. The Court found that Loudoun County's BPOL tax on Dulles Duty Free LLC's sale of duty-free goods to international travelers violated the U.S. Constitution's Import-Export Clause, which prohibits states from imposing duties on exported goods without express permission from Congress.

[73] The Washington Post – VA Court Ruling on Business Taxes Could Mean Big Loss of Tax Revenue (February 25, 2015). Accessed electronically at https://www.washingtonpost.com/local/va-court-ruling-on-business-taxes-could-mean-big-loss-of-tax-revenue/2015/02/25/4b85dfc4-bd14-11e4-bdfa-b8e8f594e6ee_story.html?utm_term=.8e2492dc05ac

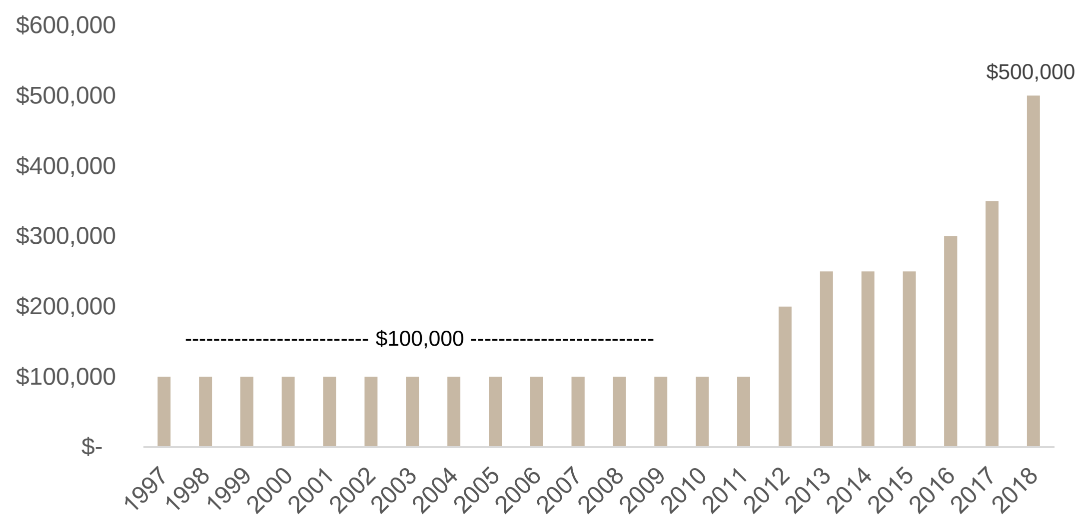
Prince William County BPOL Tax Structure

Businesses operating in Prince William County are required to apply for a business license. With few exceptions, a license is required for each individual business location and for each individual business operation/occupation/profession.

Gross Receipts Thresholds

The County imposes its BPOL tax as a flat rate once a gross receipts threshold is reached (as opposed to using an incremental rate based on the dollar value of gross receipts). The threshold is currently set at $500,000 or more per location for the license year (or purchases, in the case of wholesale merchants). This minimum threshold has increased over time. After remaining unchanged for several years, the floor has been increased five times during the past seven years, as shown in Figure 20.

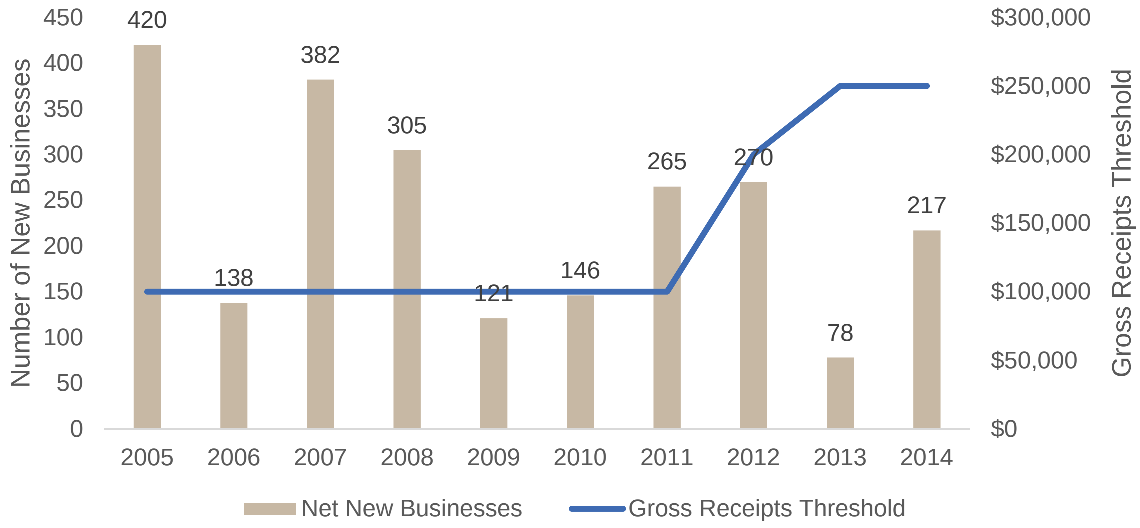
Figure 20: Prince William County BPOL Tax Minimum Gross Receipts Threshold, 1997-2018



Source: Prince William County Finance Department data

As shown in Figure 21, the number of new startup firms locating in the County did not increase significantly when the threshold was raised from $100,000 to $200,000 in 2012. It was increased again in 2013 to $250,000, but the number of new businesses decreased by a total of 75. Despite additional threshold increases in 2016 and 2017, the number of new businesses has decreased each year since 2014 – totaling 232 in 2017, the lowest of the past 10 years.

Figure 21: Number of New Startup Firms and Gross Receipts Thresholds in Prince William County, 2008-2017[74]



Source: Prince William County Finance Department data; Virginia LMI

Additionally, there does not appear to be a correlation between new businesses locating in the County on a per capita basis and the gross receipts threshold. In the four years preceding the new higher threshold in (2008-2011), the number of new businesses per 10,000 residents ranged between 7.2 and 9.6. In the years since (2012-2016), that number has ranged from 6.4 to 9.1.

Another method to analyze the relationship between business activity and the gross receipts threshold is to compare Prince William County to Stafford County (which has no BPOL tax and therefore, no threshold to increase), and to the Commonwealth as a whole. Detailed tables containing supporting data for the following analysis are provided in Appendix E.

- **New Startup Firms:** Between 2008 and 2011, Prince William County's new startup firms total increased by a CAGR of 0.5 percent (compared to -3.9 percent in Stafford County and -0.2 percent across Virginia). Since implementing the series of gross receipts threshold increases in 2012, however, the number of new startup firms in the County has decreased by a CAGR of -7.9 percent (compared to -2.9 percent in Stafford County and +4.3 percent across the Commonwealth). Further, the number of new startup firms per 10,000 residents decreased by a CAGR of -12.2 percent in Prince William County between 2012 and 2017, as compared to -6.4 percent in Stafford County and +2.5 percent across Virginia.

- **Total Jobs:** The number of jobs in Prince William County has increased at a faster pace since 2012 (CAGR of 4.5 percent) than it did between 2008 and 2011 (CAGR of 0.9 percent). This post-gross receipts increase trend also outpaces Stafford County (3.6 percent) and Virginia (1.0 percent). When analyzed per 10,000 residents, the trend between 2012 and 2017, while nearly flat at -0.4 percent, was similar to the trends observed in Stafford County (-0.2 percent) and Virginia (-0.7 percent).

[74] The following criteria were used to define new startup firms: setup and liability date both occurred during the year; establishment had no predecessor UI Account Number; private ownership; average employment less than 250; and for multi-unit establishments, the parent company must also meet the above criteria.

- **Taxable Sales:** Prince William County's taxable sales between 2008 and 2010 grew at a CAGR of 2.8 percent, as compared to 3.3 percent in Stafford County and -0.4 percent across the Commonwealth. Since 2012, however, total taxable sales have increased significantly (CAGR of 5.9 percent), nearly matching the trend seen in Stafford County (6.2 percent) and nearly doubling that of Virginia as a whole (2.9 percent). Taxable sales per 10,000 Prince William County residents increased by a CAGR of 1.0 percent since 2012, as compared to -1.8 percent between 2008 and 2011. This post-threshold increase is comparable to the statewide CAGR (1.1 percent) but less significant than that observed in Stafford County (2.4 percent).

It is notable that other factors (such as recovery from the Great Recession and other economic variables) may play a role in the metrics described in the preceding discussion. There may be other exogenous variables that also impact on the data from year to year. Additionally, it is understood that increasing the threshold would not likely have had an immediate effect on business decisions. Based on this data and analysis, it is uncertain whether increasing the gross receipts threshold has made a meaningful impact on the number of businesses locating in Prince William County.

BPOL Tax Rates

The County sets the rate per $100 of taxable gross receipts by business classification, and those rates cannot exceed the maximums specified in State statute. As shown in Table 28, Prince William County imposes the maximum allowable BPOL tax rate on only one business classification, wholesale merchants.

Table 28: 2018 Prince William County Tax Rate Schedule and Statutory Maximums (per $100 of Taxable Gross Receipts)

Business Classification	County Tax Rate	Statutory Maximum Rate
Finance, Real Estate and Professional Services	$0.33	$0.58
Public Utility	$0.29	$0.50
Hotel, Motel or Lodging Establishments	$0.26	$0.36
Repair, Personal or Business Services & All Other Services	$0.21	$0.36
Retail Merchants	$0.17	$0.20
Direct Sellers	$0.17	$0.20
Contractors	$0.13	$0.16
Wholesale Merchants[75]	$0.05	$0.05

Source: PWC 2018 Business License Application; Code of VA § 58.1-3706, § 58.1-3716, § 58.1-3719.1

BPOL Taxpayers

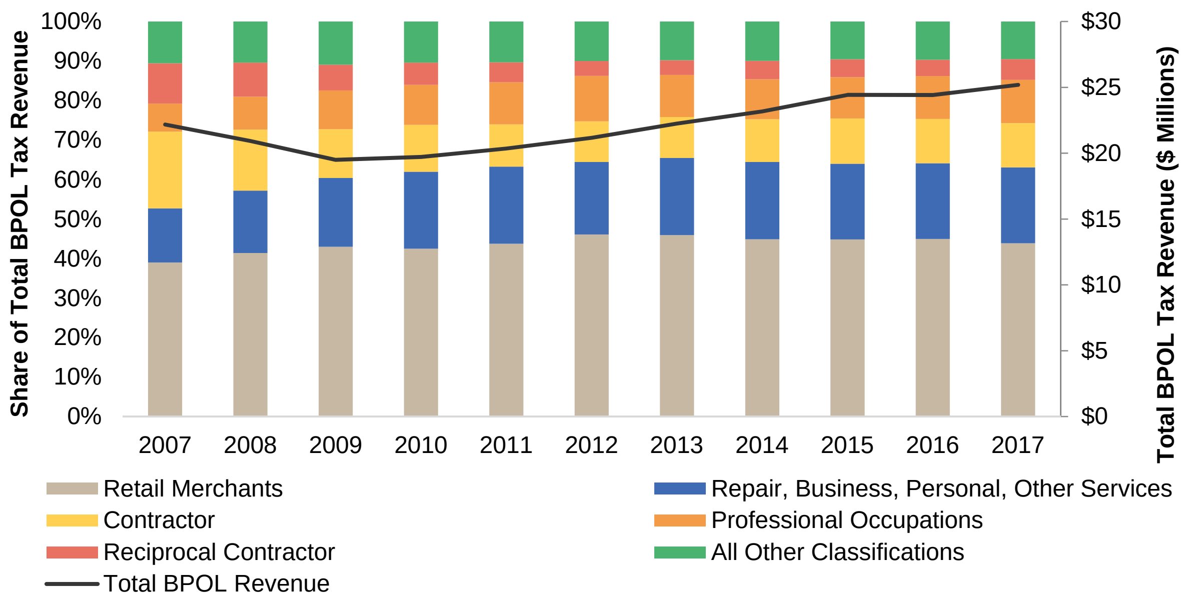
Because the BPOL tax is tied to gross receipts, it is a relatively stable revenue source. BPOL tax revenues are fairly predictable and reliable. Even as the base of the tax has changed somewhat in recent years, the tax collections have generally increased.

In Prince William County, retailers consistently account for the largest share of business and BPOL taxes paid; the business classification's share has ranged from 39 percent to 46 percent over the past decade. In 2017, retailers accounted for 32 percent of all businesses subject to the tax and were responsible for generating approximately 44 percent of total BPOL tax revenue, $11.0 million of $25.2 million in revenue.

[75] Rate applied to gross purchases

The repair, personal, business and other services category is the second largest source of BPOL tax revenue, accounting for $4.8 million (just under 20 percent of the total tax revenue) Prince William County-based contractors, builders and developers, or out-of-state contractors, builders and developers ("contractors") currently account for $2.8 million (just over 11 percent), though the share was closer to 20 percent in 2007. Reciprocal contractors, defined as contractors located in another Virginia jurisdiction which imposes a BPOL or similar tax, account for $1.3 million (an additional 5 percent of the total). When the two categories of contractors are combined, they represent approximately 15 percent of total BPOL tax revenues. Professional occupations comprise just over an additional $2.8 million (11 percent), and all other classifications account for $2.4 million (the final 10 percent). Generally, shares by classification have remained relatively steady over time, as shown in Figure 22.

Figure 22: Total BPOL Tax Revenue and Share of BPOL Tax Revenue by Business Classification, 2007-2017[76]



Source: PWC Finance Department

Table 29 provides a summary of the County's BPOL tax by business classification. Over time, the total number of businesses subject to BPOL tax has decreased – a trend likely associated with the threshold increases (though it is possible economic factors have also had an influence).

[76] "All Other Classifications" includes wholesale merchants, public utilities, real estate services, hotels and motels, financial services, restaurants serving mixed drinks, certified short-term rentals, peddler, itinerant merchants, direct sellers, federal R&D prime contractors, non-profit or private clubs serving mixed drinks and itinerant event sponsors.

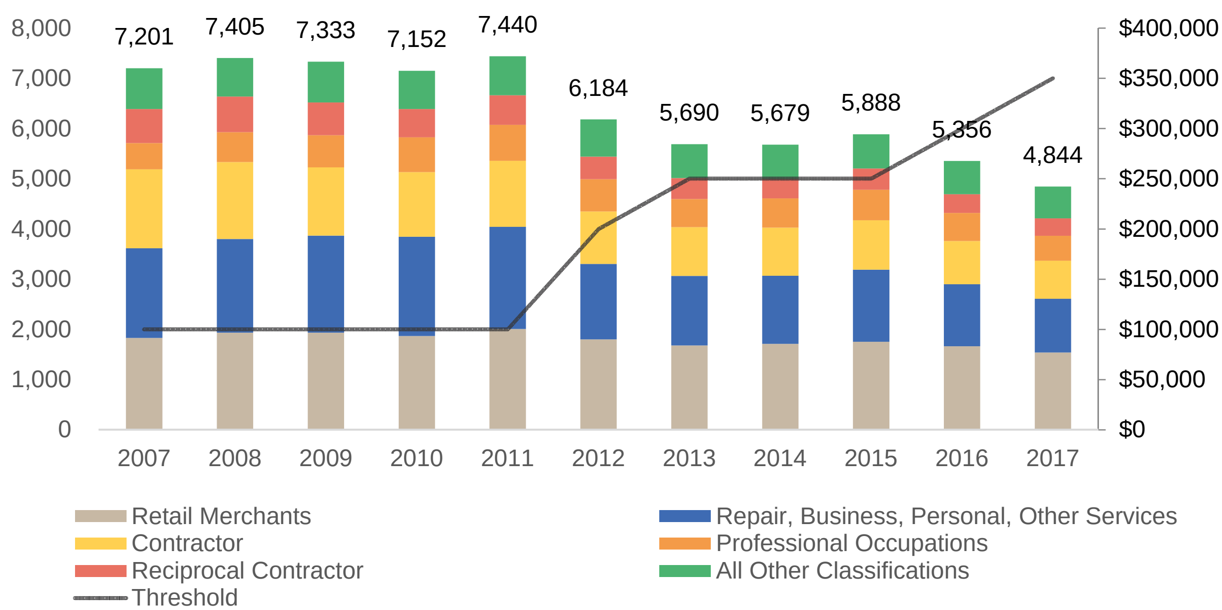
Table 29: Summary of 2017 County BPOL Tax Data by Business Classification[77]

	Retail	Repair, Personal, Business & Other Svcs	Contrs	Prof Occups	Recip Contrs	All Other	Total
# of Filers Subject to Tax	1,541	1,068	758	498	346	633	**4,844**
# of Filers Not Subject to Tax	1,295	3,815	2,116	432	2,033	325	**10,016**
% of Filers Subject to Tax	54.3%	21.9%	26.4%	53.5%	14.5%	66.1%	**32.6%**
Total BPOL Tax Payments (millions)	$11.0	$4.8	$2.8	$2.8	$1.3	$2.4	**$25.2**
Average BPOL Tax Payment	$7,169	$4,531	$3,723	$5,549	$3,813	$3,791	**$5,201**
% of Total Filers	31.8%	22.0%	15.6%	10.3%	7.1%	13.1%	**100.0%**
% of Total BPOL Tax Collected	43.9%	19.2%	11.2%	11.0%	5.2%	9.5%	**100.0%**

Source: PWC Finance Department

As shown in Figure 23, more than 7,000 businesses were subject to the BPOL tax when the threshold was $100,000 in gross receipts between 2007 and 2011. As the threshold increased, the total number of businesses subject to the BPOL tax decreased. In 2017, the total was 4,844 – nearly 35 percent lower than the peak six years earlier. And each time the threshold is increased, there is foregone tax revenue that would have been collected from now-exempt businesses. The increase from $250,000 to $300,000 in 2016 resulted in an estimated $215,000 in foregone revenue; the increase to $350,000 in 2017 resulted in nearly $200,000 in foregone revenue; and the increase to $500,000 in 2018 resulted in more than $560,000 in foregone revenue.[78] Each of these annual totals is in addition to the foregone revenue from the prior years.

Figure 23: Businesses Subject to BPOL Tax by Classification, 2007-2017



Source: PWC Finance Department

[77] It is notable that in 2017, the gross receipts threshold was $350,000
[78] Estimates based on County analysis of gross receipts by increment.

Table 30 displays the BPOL tax generated by businesses (across all classifications) by gross receipts in 2017. More than 67 percent of total businesses filing were below the gross receipts threshold of $350,000 and generated no BPOL tax revenue. Businesses with gross receipts of $1,000,000 and above paid 90.7 percent of total BPOL taxes but comprised just 17.6 percent of business filings. Those businesses with at least $25 million in gross receipts accounted for less than one percent of filers but generated nearly 30 percent of total BPOL tax revenue.

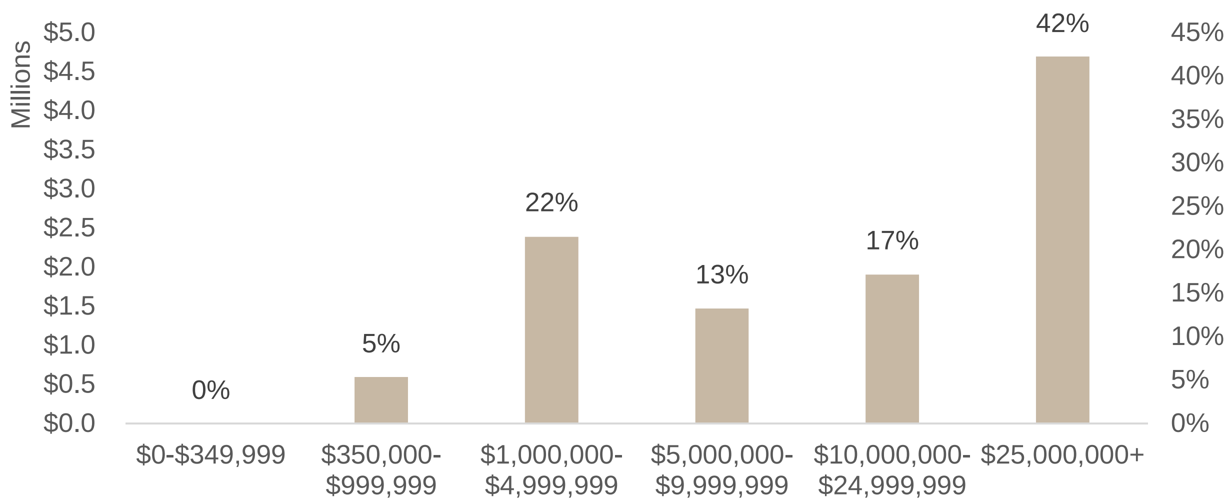
Table 30: 2017 BPOL Tax Revenue by Gross Receipts

Gross Receipts Range	# Businesses	% of Total Businesses	BPOL Generated	% of Total BPOL
$0-$349,999	9,062	67.3%	$0	0.0%
$350,000-$999,999	2,025	15.0%	$2,333,839	9.3%
$1,000,000-$4,999,999	1,824	13.6%	$7,234,108	28.9%
$5,000,000-$9,999,999	297	2.2%	$3,744,118	14.9%
$10,000,000-$24,999,999	170	1.3%	$4,415,535	17.6%
$25,000,000+	78	0.6%	$7,336,225	29.3%
Total	**13,456**	**100.0%**	**$25,063,825**	**100.0%**

Source: Prince William County Finance Department

Figure 24 shows the County's retail merchant BPOL tax revenue by various gross receipts ranges. Among retail merchants (the biggest contributor to BPOL tax revenues by classification), businesses with $1,000,000 and above in gross receipts account for nearly 95 percent of total retail BPOL taxes paid. Businesses with $25 million or more in gross receipts accounted for 42.5 percent of total retail BPOL taxes paid.

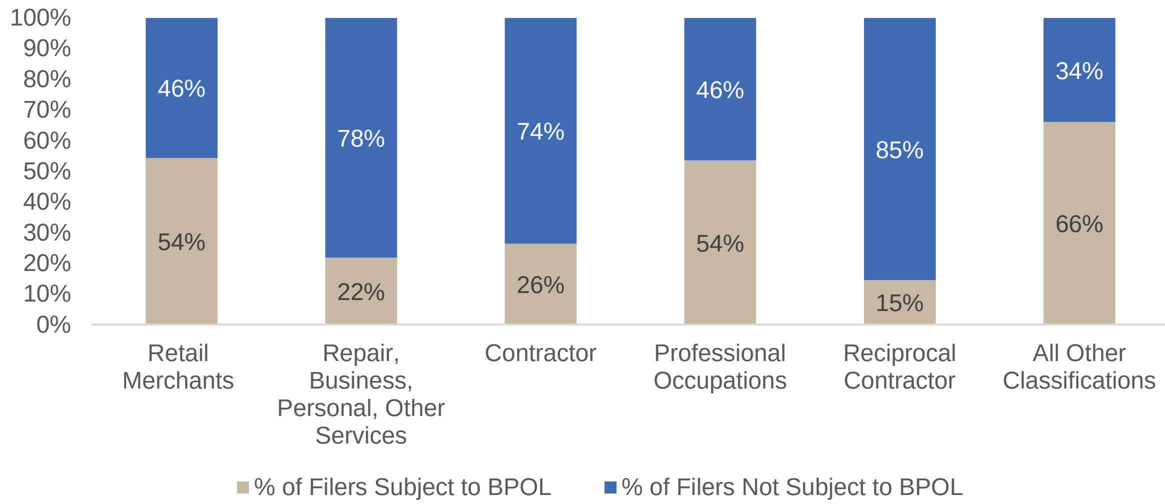
Figure 24: 2017 Retail Merchant BPOL Tax Revenue by Gross Receipts Cohort



Source: Prince William County Finance Department
Note: Numbers do not add to 100 percent due to rounding

Figure 25 illustrates the breakdown of businesses filing for a business license by those not subject to the BPOL tax due to the threshold in 2017 (when that threshold was equal to $350,000). Of the 14,860 businesses that filed a business license application, more than 10,000 (67 percent) were below the established threshold. Among retail and professional occupation businesses, 54 percent of filers were subject to the BPOL tax. The three other categories had a much lower share of filers subject to the tax: 26 percent of contractors, 22 percent of repair, personal, business and other services companies, and 15 percent of reciprocal contractors filing met the BPOL tax threshold. Interestingly, 66 percent of filing businesses in all other classifications are subject to the BPOL tax.

Figure 25: Percent of Filers Subject to BPOL Tax by Classification, 2017



Source: PWC Finance Department

It is worth noting that currently, only businesses with expected annual gross receipts (or purchases in the case of wholesale merchants) of $500,000 or more and building trade contractors, are required to file for a business license. However, any business located in the County may file and obtain a business license, and the County encourages businesses to do so. The fact that businesses with gross receipts below the threshold are not required to file limits the amount of available data on business choosing not to file. Access to this information can be important from a public safety and public health perspective as well as a tax compliance perspective, as BTP tax could still apply to these businesses. For example, it is helpful for first responders to know the type of business or industry that is occupying a location. It can also be helpful for comparison with permitting requirements for certain types of businesses. While the Fire Marshal performs inspections of all business locations and shares information with first responders, the availability of this additional data through required filing may be beneficial.

Peer Government Comparison

As part of its review, the project team benchmarked nine peer governments. Benchmarking as analysis is a useful tool for identifying areas of convergence and divergence among peer governments.

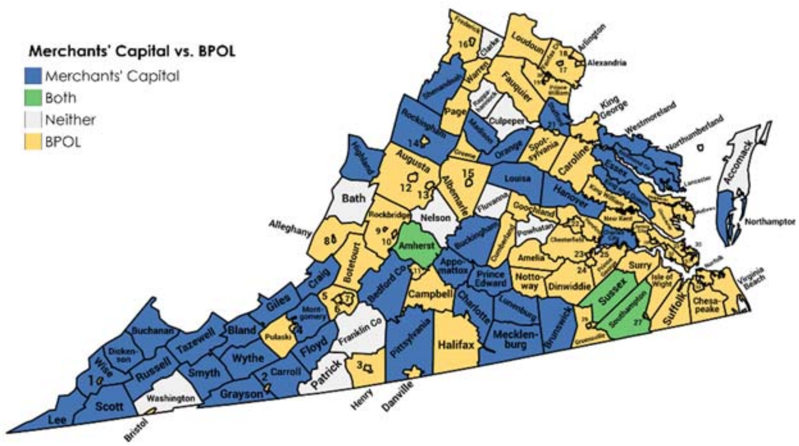
PFM's benchmarking focused generally on the overall BPOL tax structure. Though it is understandably difficult to make direct comparisons across these local governments, it is possible to make general observations and examine patterns.

BPOL Tax versus Merchants' Capital Tax

In Virginia, municipalities have the option of imposing either the BPOL tax or a merchants' capital tax. Under the merchants' capital tax, "capital" generally refers to merchandise for sale, including inventory of stock on hand, certain daily rental passenger cars, and certain daily rental property. The situs for assessment and taxation is the locality in which the property is physically located on the locality's tax day (usually January 1).

Figure 26 illustrates where each tax is imposed. According to § 58.1-3704 of the Code of Virginia, no locality may impose a merchant's capital tax if it also imposes a business license tax on retail merchants. While some localities impose both of the taxes, they do not use the business license tax for retail sales. Forty-six of 95 Virginia counties impose a merchants' capital tax. Generally, the BPOL tax is collected in more urban, populous counties, while a merchants' capital tax is collected in more rural areas of the Commonwealth. Among peer governments, only Stafford County imposes a merchants' capital tax.

Figure 26: Localities Imposing BPOL Tax versus Merchants' Capital Tax



BPOL Tax Rates

Table 31 compares the rates used in peer governments for each core business type.

As discussed in the prior section, retailers consistently account for the largest share of business and BPOL taxes paid in Prince William County; retailers accounted for 32 percent of all businesses subject to the tax and were responsible for generating approximately 44 percent of total BPOL tax revenue in 2017. The $0.17 retail rate resulted in $11.0 million of the $25.2 million in total BPOL tax revenue. That rate, which is also imposed in Fairfax and Loudoun Counties, is the second lowest levied among peer governments. Fauquier County's tax rate ($0.10) is the lowest. A map illustrating the retail BPOL tax rate for each local government imposing the tax can be found in Appendix F.

For other business classifications, Prince William County generally ranks among the middle of its peers, imposing neither the highest nor the lowest rates. Excluding Stafford County, Prince William County has the third lowest contractor tax rate (tied with Loudoun), the third lowest wholesalers and distributors tax rate (tied with Alexandria and Loudoun County at the statutory cap of $0.05 per $100 of gross purchases) and the fifth lowest financial services tax rate (tied with Loudoun). Prince William County and Loudoun County have very similar tax rate structures – in fact, they differ only in the tax rate charged for business services.

Table 31: BPOL Tax Rates per $100 of Gross Receipts by Business Classification, CY2017 or FY2018[79]

	Retailers	Contractors	Wholesalers and Distributors[80]	Financial Services	Business Services
Prince William County	**$0.17**	**$0.13**	**$0.05**	**$0.33**	**$0.21**
City of Alexandria	$0.20	$0.16	$0.05	$0.35	$0.35
Arlington County	$0.20	$0.16	$0.08	$0.36	$0.35
Chesterfield County	$0.19	$0.14	$0.10[81]	$0.20	$0.20
Fairfax County	$0.17	$0.11	$0.04	$0.31	$0.19
Fauquier County	$0.10	$0.085	$0.04	$0.30	$0.19
Henrico County	$0.20	$0.15[82]	$0.20[83]	$0.20	$0.20
Loudoun County	$0.17	$0.13	$0.05	$0.33	$0.16
Stafford County	N/A	N/A	N/A	N/A	N/A
City of Virginia Beach	$0.20	$0.16	$0.12	$0.58	$0.36
Statutory Maximum	**$0.20**	**$0.16**	**$0.05**	**$0.58**	**$0.36**

Source: Virginia Economic Development Partnership Guide to Local Taxes on Business, 2016-2017, FY2018 BPOL applications
Note: Some localities charge a fee for the issuance of a license and/or charge different tax rates based on the amount of the business' gross receipts or purchases.
In the preceding table, red cells indicate instances where Prince William County's rate is higher; green cells indicate instances where Prince William County's rate is lower; and yellow cells indicate instances where Prince William County's rate is the same.

As shown in Table 31, Henrico County imposes the tax at a flat rate of $0.20 per $100 of gross receipts across all business classifications. It is also notable that the $0.20 imposed on wholesale merchants is the tax rate for gross purchases between $10,001 and $5,000,000, and that rate decreases incrementally as gross purchases increase. For top-tier wholesale merchants with gross purchases of $10,000,001 and over, the tax rate is $0.0125.

BPOL Tax Thresholds

Through ordinance, counties and cities may establish a threshold amount of gross receipts below which no tax will be imposed. State law dictates the minimum thresholds based upon population of a jurisdiction. Localities with a population of less than 25,000 have no threshold, localities between 25,000 and 50,000 have a $50,000 minimum threshold, and localities with more than 50,000 population have a minimum threshold of $100,000.[84] As a result, the structure of the BPOL tax varies from jurisdiction to jurisdiction. Among peer governments, Prince William County has the highest threshold, as shown in Table 32.

[79] Tax rates shown are based on the threshold amount for that locality. It is notable that some localities break out the five major categories into greater detail. For example, most localities have the same BPOL tax rates for financial, real estate and professional services, but some localities have different BPOL tax rates for financial, real estate and professional services.
[80] With the exception of Arlington, which taxes wholesalers and distributors on the basis of receipts, all jurisdictions listed in the table impose BPOL on wholesalers and distributors based on gross purchases. It is also notable that despite the statutory cap on wholesalers of $0.05 per $100 of gross purchases, several municipalities in the preceding table impose the BPOL on wholesalers at a rate that exceeds this cap. When the Commonwealth adjusts statutory caps for business categories, localities' rates are maintained if higher than the newer threshold.
[81] Rate shown is for wholesale merchants. The rate for direct sellers – wholesale is $0.05.
[82] Rate shown is for contract basis contractors. Fee basis contractors are subject to BPOL tax at a rate of $1.50 per $100 of gross receipts.
[83] Rate shown is the maximum rate applied to gross purchases of between $10,001 and $5,000,000
[84] Virginia Administrative Code 23VAC10-500-100. Rates and Fees.

Table 32: FY2018 BPOL Tax Structure, Peer Governments

	BPOL Tax Structure
Prince William County	**BPOL tax imposed when gross receipts exceed $500,000.**
Alexandria	Businesses with annual gross receipts of $10,000 or more are subject to the BPOL tax.
Arlington County	No BPOL tax is due if a business' gross receipts are below $10,000. Businesses with gross receipts between $10,001 and $50,000 pay a flat fee of $30. Businesses with gross receipts between $50,001 and $100,000 pay a flat fee of $50. Businesses with gross receipts in excess of $100,000 pay using the scale by business type.
Chesterfield County	Businesses with gross receipts of $10,000 or less pay no BPOL fee. Businesses with gross receipts of $10,000 or more pay a minimum fee of $10. Businesses with gross receipts of $300,000 or greater pay using the scale by business type.
Fairfax County	There is no fee for businesses with gross receipts/purchases of $10,000 or less. Businesses with gross receipts/purchases of $10,001-$50,000 pay a fee of $30. Businesses with gross receipts/purchases of $50,001-$100,000 pay a fee of $50. BPOL tax is imposed on businesses with gross receipts of $100,001 or more.
Fauquier County	Businesses (except contractors) with gross receipts of $200,000 or less are exempt from BPOL tax. Contractors with gross receipts of $25,001 or less are exempt from BPOL tax.
Henrico County	Businesses with gross receipts of $200,000 or less are exempt from BPOL tax.
Loudoun County	Businesses with gross receipts of $200,000 or less pay a flat BPOL tax of $30.
Stafford County	N/A - No BPOL tax.
Virginia Beach	A flat tax of $40 is due if a business' gross receipts are below $25,000. Businesses with gross receipts of between $25,001 and $100,000 pay a flat tax of $50. Businesses with gross receipts in excess of $100,000 pay using the scale by business type. The City caps the tax at a flat fee of $50 for the first two years of operation for a business new to the City.

Source: FY2018 published BPOL tax application forms and tax administration websites

BPOL Tax Burden Comparison

As a result of varying rates, thresholds and other locally-controlled provisions, the BPOL tax owed for businesses in the same classification with the same gross receipts varies (sometimes widely) from jurisdiction to jurisdiction. Table 33 provides an example of the impact of these nuances on BPOL tax liabilities for retail merchants at various gross receipts levels.

Generally, businesses in jurisdictions levying the same rates incur the same liability once the threshold is reached. For example, retail businesses with $1 million in gross receipts incur a tax liability of $1,700 in Prince William County – higher only than Fauquier County ($1,000) and Chesterfield County ($1,330), and tied with Loudoun and Fairfax Counties.

Table 33: BPOL Tax Generated by Retail Merchants

Peer Government	Rate	Gross Receipts					
		$10,000	$100,000	$300,000	$1,000,000	$10,000,000	$25,000,000
Prince William County	**$0.17**	**$0**	**$0**	**$0**	**$1,700**	**$17,000**	**$42,500**
City of Alexandria	**$0.20**	$20	$200	$600	$2,000	$20,000	$50,000
Arlington County	**$0.20**	$0	$200	$600	$2,000	$20,000	$50,000
Chesterfield County	**$0.19**	$0	$10	$0	$1,330	$18,430	$46,930
Fairfax County	**$0.17**	$0	$0	$510	$1,700	$17,000	$42,500
Fauquier County	**$0.10**	$0	$0	$300	$1,000	$10,000	$25,000
Henrico County	**$0.20**	$0	$0	$600	$2,000	$20,000	$50,000
Loudoun County	**$0.17**	$30	$30	$510	$1,700	$17,000	$42,500
Stafford County	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A
City of Virginia Beach	**$0.20**	$40	$200	$600	$2,000	$20,000	$50,000

Source: Peer government business license forms, PFM analysis

It is possible that the BPOL tax structure may impact business decisions, but there are a variety of factors that drives location decisions. Businesses will consider different types of business expenses in location decisions – the cost of land and buildings, real estate taxes, and labor costs, for example. In some of the peer local governments, there are also higher and/or special taxes on businesses that do not apply in Prince William County, including the merchants' capital tax, amusement tax, and meals tax. While these are not business taxes per se, they will impact on economic activity, and certain types of businesses will take this into account in their location decisions.

High Level Findings

A detailed SWOT analysis of the BPOL tax is provided in Appendix G.

Characteristics

- **The BPOL tax has a long history of use in the Commonwealth of Virginia.** The tax dates back to the War of 1812, and it has been used continuously since that time. An advantage of a long-used tax is that its impact has generally already been built into market decision-making and is recognized and understood by those who pay the tax. This tends to improve overall compliance. For the County, it also provides data on past performance of the tax, which is useful for revenue estimating purposes.

- **Because the BPOL tax is tied to gross receipts, it is a relatively stable revenue source.** BPOL tax revenues are typically predictable and reliable. Even at the height of the Great Recession in 2008, BPOL tax revenues declined by just 5.7 percent from a year prior. Even as the base of the tax has changed somewhat in recent years (through creating a dollar threshold at which tax is owed), the tax collections have generally increased.

- **Though a relatively small revenue source, the BPOL tax enhances revenue diversification.** In general, it is considered a best practice to maintain a variety of tax revenue sources. An over-reliance on one revenue source can magnify the negative impacts of that revenue source, and it can also heighten the risk of revenue volatility. Budgeted at $25.8 million in FY2018 (2.3 percent of total general fund revenue), the BPOL tax lowers the County's reliance on its primary revenue source, the real property tax.

- **The Commonwealth's role in administering the BPOL tax is to provide a structure for uniform application of the law.** The Code of Virginia identifies the occupational classifications subject to BPOL taxation, provides for certain exemptions from the tax, sets rate caps based on certain business classifications and establishes gross receipts thresholds for certain licensable privileges below which a locality cannot impose the tax. As is generally the case across the country, Virginia local governments cannot impose taxes unless authorized to do so by the Commonwealth. This standard, which is known as Dillon's Rule, is currently applied in 39 states, including Virginia.[85]

- **Local governments have a fair amount of flexibility when imposing the BPOL tax.** Through ordinance, counties and cities may set tax rate levels lower than those allowed by state law, or select classifications to tax or not tax. Local governments may also establish sub-classifications and provide for different rates or exemptions, may establish graduated tax rates so that the rate increases or decreases with volume, and may establish a threshold amount of gross receipts below which no tax will be imposed.

- **The BPOL tax is sometimes perceived as unfair and/or inequitable**. Because it is based on gross receipts, the BPOL tax is imposed upon businesses even when they are not making a profit. Gross receipts taxes have greater impact on high-volume industries and those with lower profit margins. Additionally, businesses that generate the same amount of sales could have a different tax liability depending upon industry sector or locality, and many exemptions exist. It is notable that many business groups (such as the National Federation of Independent Businesses) have opposed the BPOL tax and/or sought changes to it at the state level.

- **The BPOL tax imposition on a per-location basis (a state requirement) may impact on tax collections.** Franchise businesses with more than one location may have significant gross receipts but be able to avoid having to pay the tax at some locations if they are under the $500,000 gross receipts filing threshold. That said, the threshold may be currently low enough that this is not a major issue for most franchise businesses. It might, however, become a more important issue should the threshold be increased in the future.

Prince William County-Specific Issues

- **The BPOL tax is a challenge for the County to administer.** Taxpayers file once per year, estimating their gross receipts very early in the year. They then must re-file the following year to adjust the estimate to actual. Thus, double-filing necessitates an adjustment to every business' tax liability – resulting in refunds, additional payments, penalties, interest and often delinquent filings in cases where a developer or contractor does not expect to earn gross receipts in the County the following year. Administration is also a challenge due to low staffing levels in the Tax Administration Division as compared some of its peer jurisdictions.[86]

- **There exists a lack of certain types of BPOL data.** Businesses below the $500,000 gross receipts threshold are encouraged but not required to file, which leads to a lack of data for any business choosing not to file.

---

[85] A general discussion of the state-local government relationship is found on the National League of Cities website at http://www.nlc.org/build-skills-and-networks/resources/cities-101/city-powers/local-government-authority

[86] For more information, see the County's Internal Audit of the Cash Collection and Handling Process (April 29, 2015). Accessed electronically at http://www.pwcgov.org/government/dept/audit/Documents/PWC%2008042015%20ACCEPTED%20Cash%20Collection%20and%20Handling%20IA%20Report.pdf

- **The County is limited by state statute on maximum rates for various categories, including federally funded research and development contractors ($0.03 per $100 of gross receipts).** Because the current state statute is narrowly written, only one federal contractor in the County received the reduced rate, even though County staff believe that the universe of federal contractors is larger. If the legislation were changed, more contractors may qualify for the reduced rate. Given the high proportion of federally funded contractors within Prince William County, this $0.03 per $100 rate limitation on R&D has a potentially significant revenue impact.

- **The County benefits from high compliance rates.** An expedited tax lien process, where the County can file without involving the court system, lends itself to reported high levels of compliance among businesses that file. The County has one auditor and five inspectors dedicated to supporting compliance efforts, including conducting site visits and reviewing office building tenant lists.

- **In Prince William County, retailers consistently account for the largest share of BPOL taxes paid.** The share of taxes from the retail classification has ranged from 39 to 46 percent over the past decade. In 2017, retailers accounted for 32 percent of all businesses subject to the tax and were responsible for generating approximately 44 percent of total BPOL tax revenues, which equates to $11.0 million of $25.2 million in BPOL tax revenue.

- **The use of a flat rate may make it disadvantageous for businesses near the $500,000 threshold to cross it.** For example, a real estate business with $501,500 in gross receipts would have receipts of $499,845 after paying the BPOL taxes, and would have benefitted more from earning $499,999.99 and not being subject to the BPOL tax, as illustrated in Table 34. This structure may serve as a disincentive for businesses to accurately report gross receipts when they are near the minimum tax payment threshold.

Table 34: Net Receipts after BPOL Taxes

Business Classification	BPOL Tax Rate	$500,000	$500,500	$501,000	$501,500	$502,000
		Net Receipts (After BPOL Taxes)				
Finance, Real Estate, Professional Services	$0.33	$498,350	$498,848	$499,347	$499,845	$500,343
Public Utility	$0.29	$498,550	$499,049	$499,547	$500,046	$500,544
Hotel, Motel or Lodging Establishments	$0.26	$498,700	$499,199	$499,697	$500,196	$500,695
Repair, Personal/ Business Services, Other	$0.21	$498,950	$499,449	$499,948	$500,447	$500,946
Retail Merchants	$0.17	$499,150	$499,649	$500,148	$500,647	$501,147
Direct Sellers	$0.17	$499,150	$499,649	$500,148	$500,647	$501,147
Contractors	$0.13	$499,350	$499,849	$500,349	$500,848	$501,347
Wholesale Merchants	$0.05[87]	$499,750	$500,250	$500,750	$501,249	$501,749

[87] Per $100 of gross purchases.

- **The County's minimum gross receipts threshold for payment of the BPOL tax, currently set at $500,000, has increased five times over the past seven years.** Prior to 2012, the threshold had been $100,000 for at least 15 years. The County recently amended the BPOL tax ordinance to enact a $500,000 threshold, effective FY2018 – which is higher than the threshold set by all of the peer governments included in the benchmarking analysis. Despite changes to the gross receipts threshold, tax rates by classification have not changed over this time period.

- **It is unclear whether increasing the gross receipts threshold has made a meaningful impact on business activity in Prince William County.** An analysis of new startup firms, total jobs and taxable sales data before and after 2012 did not reveal significant increases in business activity as a result of the threshold increases. It is notable that other economic factors would certainly have influenced business trends during the time period evaluated.

- **The County's tax rates by business classification are generally below the statutory maximums.** The only exception is for wholesale merchants, which are taxed at a rate of $0.05 per $100 of gross purchases.

- **From a policy perspective, taxation, as the economy becomes more "cloud-based" (i.e., less tied to physical location), is an ongoing concern.** As the economy becomes less reliant on location for operations, governments are finding it hard to capture revenue from constantly evolving technologies like cloud computing. The transition to cloud computing will make it more difficult to identify the location of revenue generating activities, and present additional complications in administering taxes, including BPOL.

Local Sales and Use Tax

Introduction

Virginia's counties and cities are authorized to impose up to a one percent local sales and use tax on a base identical to the tax base for the state sales and use tax. All counties and cities have chosen to impose the local tax at the maximum rate of one percent, which means that there is a uniform five percent state and local sales and use tax imposed throughout the Commonwealth.[88]

There is also a special regional state sales and use tax on motor fuel of two percent of the retail price of the fuel in all of the localities comprising the Northern Virginia Transportation District or any transportation district contiguous to the Northern Virginia Transportation District.

The general retail sales tax is levied on the sale, lease or rental of tangible property, excluding motor vehicle sales and trailers, vehicle rentals, boat sales, gasoline sales, natural gas, electricity and water, and the purchases by organizations that have received tax-exempt status.

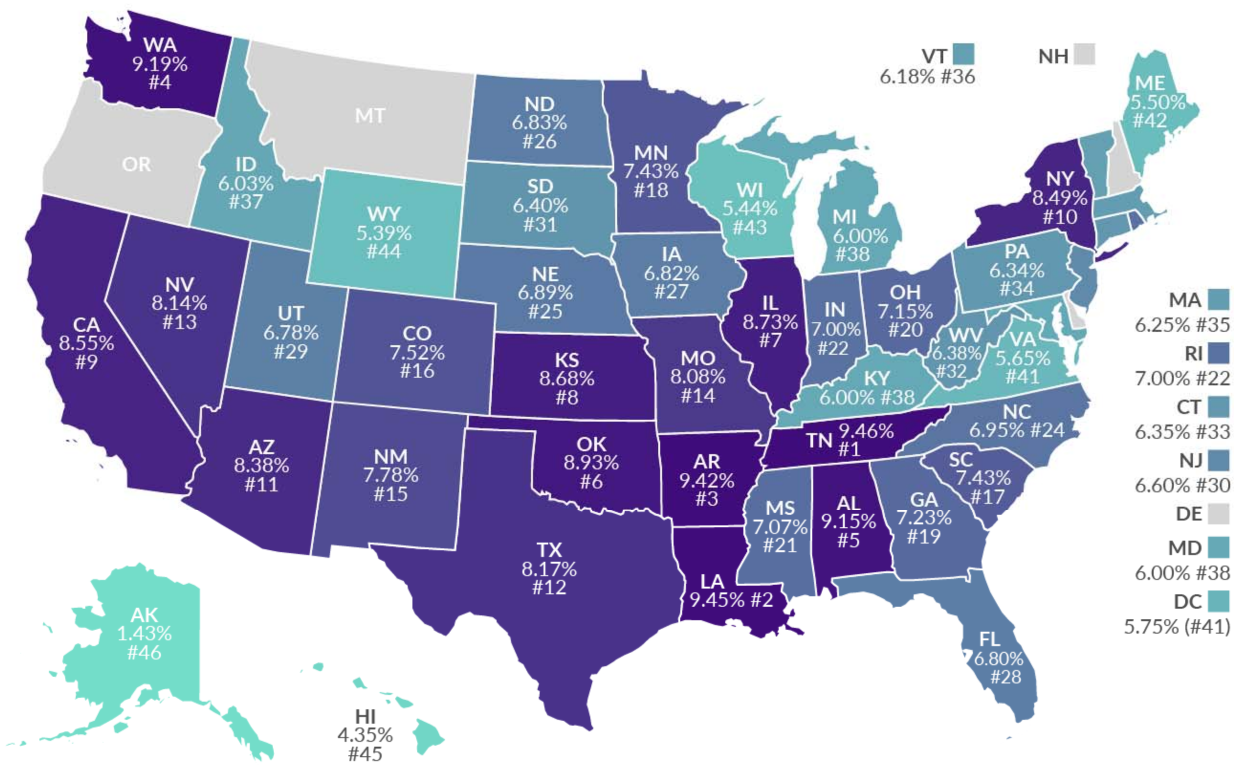
Sales tax revenue is collected by the Virginia Department of Taxation, and is distributed to the County on a monthly basis. There is a two month lag between the date of sale and the receipt of funds by the County.

Virginia Sales Tax Rates

Local sales taxes are collected in 38 states. Relative to other states, Virginia's combined rate is relatively low, ranking 41st of the 50 states. Figure 27, from the Tax Foundation, details the relative rank of state and local sales taxes among the states as of July 1, 2018. As noted in the description, this takes into account local varying sales tax rates (such as, in the case of Virginia, the transportation districts. In this respect, the map is an average for states as a whole, and actual rates will be higher in some places within the state).

[88] Because the state sales tax on food for human consumption was reduced to 1.5 percent, the combined state and local sales tax on food is 2.5 percent.

Figure 27: Combined State and Average Local Sales Tax Rates, July 1, 2018



Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1.25%), Utah (1.25%), and Virginia (1%); we include these in their state sales tax. The sales taxes in Hawaii, New Mexico, North Dakota, and South Dakota have broad bases that include many services. This map does not include sales taxes in local resort areas in Montana. Salem County is not subject to the statewide sales tax rate and collects a local rate of 3.3125%. New Jersey's average local score is represented as a negative.

Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites

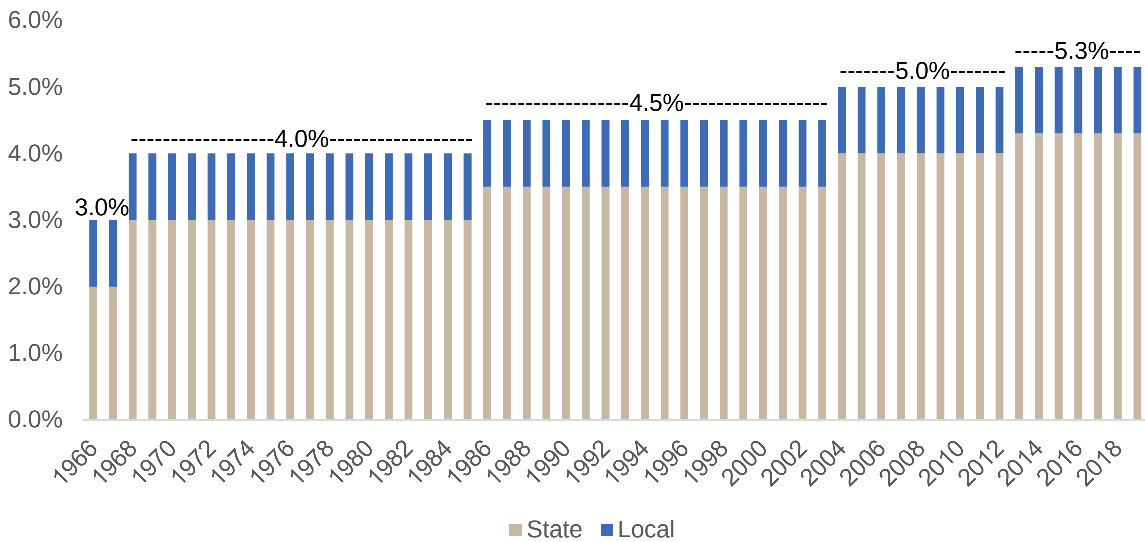
Combined State & Average Local Sales Tax Rate

Lower Higher

Source: Tax Foundation

Virginia's retail sales and use tax became effective on September 1, 1966. At the time, the Commonwealth was authorized to impose a state sales and use tax at a rate of two percent, while cities and counties were authorized at a local rate of up to one percent. Every city and county adopted the one percent rate. The same legislation that authorized this also provided that the state rate would increase from two percent to three percent on July 1, 1968. The original purpose was to provide a quality education to all of Virginia's children. Figure 28 displays the combined sales and use tax rate since 1966.

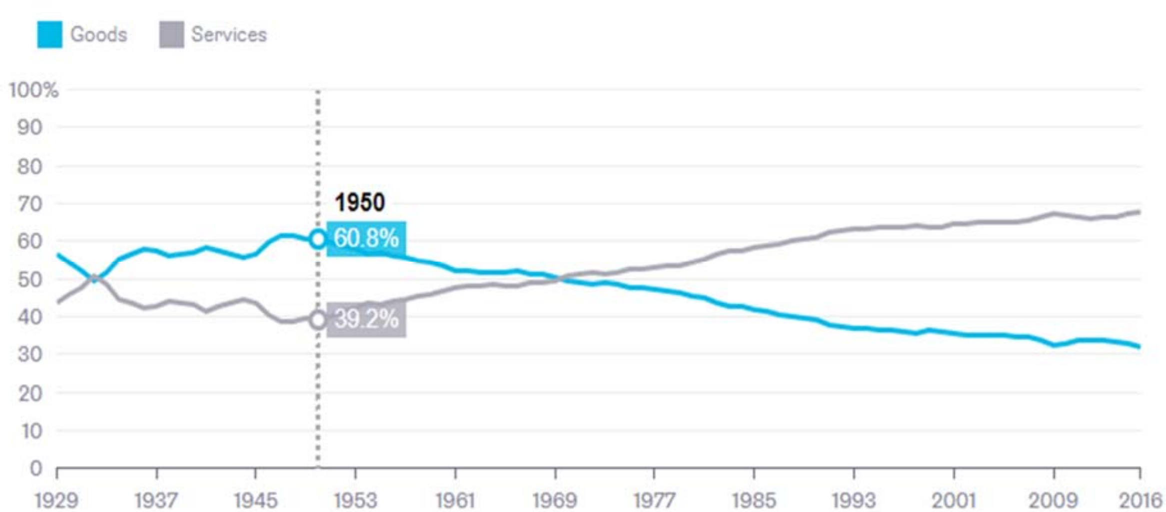
Figure 28: Virginia State and Local Sales and Use Tax Rate, 1966-Present



Virginia Sales Tax Base

As with all jurisdictions that collect sales tax, the rate is ultimately taxed against a base of economic activity that is subject to the sales tax. In most states, the sales tax base is composed of tangible goods, and they are considered to be taxed unless specifically exempted. On the other hand, services are often considered to be not taxed unless specifically listed. This dichotomy was understandable when sales tax statutes were written (mostly in the early 20th century) and most consumption was tangible goods. However, this is no longer the case – today, the majority of personal consumption is services, and these are often not subject to the sales tax. Figure 29 shows the change in consumption over time:

Figure 29: Percent of Consumption: Goods and Services



Source: U.S. Bureau of Economic Analysis, Bloomberg Analysis

Among the states, there have been some attempts to add services to the sales tax base. As Table 35 shows, Virginia is among the states with the fewest number of identified taxable services.

Table 35: State Taxation of Services by Category, 2017 (# of Services Taxed)

State	Utilities	Pers. Svcs.	Bus. Svcs.	Comp. Svcs.	Online Svcs.	Admis./ Amuse.	Prof. Svcs.	Repair	Other Svcs.	Total
AL	12	1	6	3	6	10	0	1	3	42
AK	0	0	0	0	0	0	0	0	1	1
AR	16	7	12	1	0	12	0	11	14	73
AZ*	12	2	7	0	5	9	0	2	23	60
CA	2	2	7	1	0	1	0	3	5	21
CO	4	1	2	0	4	2	0	3	3	19
CT	10	9	21	6	8	10	0	10	25	99
DE	9	20	34	6	8	10	9	19	37	152
DC	14	9	17	6	4	10	0	14	17	91
FL	9	4	11	0	2	13	0	15	15	69
GA	10	4	5	2	0	8	0	1	6	36
HI	16	20	34	8	6	14	9	18	42	167
ID	0	3	4	0	4	9	0	6	4	30
IL	12	2	1	1	1	9	0	1	2	29
IN	12	4	3	1	5	3	0	1	7	36
IA	10	15	17	0	1	13	0	13	20	89
KS	10	10	9	1	1	13	0	15	15	74
KY	11	2	4	1	6	8	0	4	4	40
LA*	10	8	5	3	5	9	0	13	7	60
ME	10	1	6	0	5	3	0	4	4	33
MD*	5	3	13	1	0	11	0	4	3	40
MA*	9	1	4	0	1	1	0	2	1	19
MI	12	2	7	1	1	1	0	1	2	27
MN	15	8	11	0	6	12	0	6	9	67
MS	10	5	8	3	7	11	0	13	22	79
MO	8	1	2	1	0	10	0	0	2	24
MT	12	0	0	0	0	1	0	0	4	17
NE	14	10	14	3	6	12	0	12	10	81
NV	0	1	4	0	0	7	0	2	7	21
NH	6	1	0	0	0	0	0	0	2	9
NJ	12	6	17	1	4	7	0	15	22	84
NM*	16	20	32	8	6	14	9	18	41	164
NY	5	5	13	1	1	6	0	14	19	64
NC	12	7	8	0	6	9	0	14	6	62
ND	4	1	4	2	1	8	0	0	2	22
OH	8	11	14	5	8	13	0	11	16	86

State	Utilities	Pers. Svcs.	Bus. Svcs.	Comp. Svcs.	Online Svcs.	Admis./ Amuse.	Prof. Svcs.	Repair	Other Svcs.	Total
OK*	9	3	5	1	0	10	0	0	5	33
OR	0	0	0	0	0	0	0	0	1	1
PA	9	5	16	4	8	2	0	14	9	67
RI	11	1	6	2	1	5	0	3	8	37
SC	4	6	7	4	2	10	0	1	5	39
SD	14	19	28	8	8	13	5	18	39	152
TN	11	10	7	3	6	12	0	14	13	76
TX	12	10	14	8	8	12	1	10	15	90
UT	7	8	6	0	5	11	0	15	12	64
VT	9	2	5	1	6	11	0	2	1	37
VA	1	3	4	0	0	1	0	4	4	17
WA	16	20	33	8	8	13	9	16	44	167
WV	8	18	27	4	5	13	1	13	26	115
WI	11	10	8	3	7	14	0	13	16	82
WY	10	7	5	4	5	6	0	16	13	66
Total	16	20	34	8	8	15	9	19	47	176

** No response, 2007 data reported*
Source: FTA, Taxation of Services Survey, 2017

Clearly, as states work to expand their sales tax base to align with actual consumption, Virginia has a lot of opportunity to expand where other states have already defined their sales tax base to include services. These are really the two alternatives available to state and local government – expand the base or increase the rate. In many instances, expanding the base aligns with common tax best principles. For example, in many cases, otherwise not-taxed services are in direct competition with taxed tangible goods. An obvious example are motion pictures: if a person purchases this on a physical medium (such as a CD), they will pay tax on the purchase, as it is a tangible good. However, if the person would purchase it as streaming content or as a digital download, it will often not be taxed. In these cases, there is no difference in the consumption, just how it is delivered – and that should not be treated differently, from a consumption tax perspective.

As the prior table shows, there are abundant opportunities for Virginia to expand the base where other states are already doing so. This will, of course, also expand local government revenue. This would help to maintain the sales tax as a true consumption tax and help diversify the County's revenue base.

Local Sales and Use Tax in Prince William County

Table 36 details sales and use tax revenue collections in Prince William Count over time. It is notable that this period has been one of sustained national economic expansion, and sales tax revenue, which tends to mirror the economy, has seen continued tax collection growth.

Table 36: Prince William County Local Sales Tax Revenue, 2013-2023 (in millions)

Actual					Budget		Forecast			
2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
$55.2	$56.5	$59.7	$60.6	$63.0	$64.3	$66.2	$68.2	$70.2	$72.3	$74.5

Source: Prince William County Finance Department Estimate of General Revenue FY2019-2023

The four incorporated towns within Prince William County (Dumfries, Haymarket, Occoquan and Quantico) share in the local sales tax based on the ratio of school age population in the towns to the school age population on the entire County according to the latest statewide school census. The County realizes approximately 99 percent of the monthly sales taxes collected.

Online Sales Tax and Economic Nexus

For decades, two key rulings have made it impossible for state and local governments to compel many retailers to collect sales tax on their behalf. In Bellas Hess vs. Illinois Department of Revenue and Quill vs. North Dakota, the U.S. Supreme Court had ruled that catalogue and phone sellers (Bellas Hess) and Internet sellers (Quill) could not be compelled to collect and remit sales tax unless they had nexus within the state (generally defined as a physical presence (nexus) in a particular state. This has been a significant issue for sales tax collection and it has grown ever more important as e-commerce has become a bigger part of the economy. As the 'Amazon generation' of consumers continues to spend a greater share of their dollars on-line, states began looking for ways to stem this revenue loss.

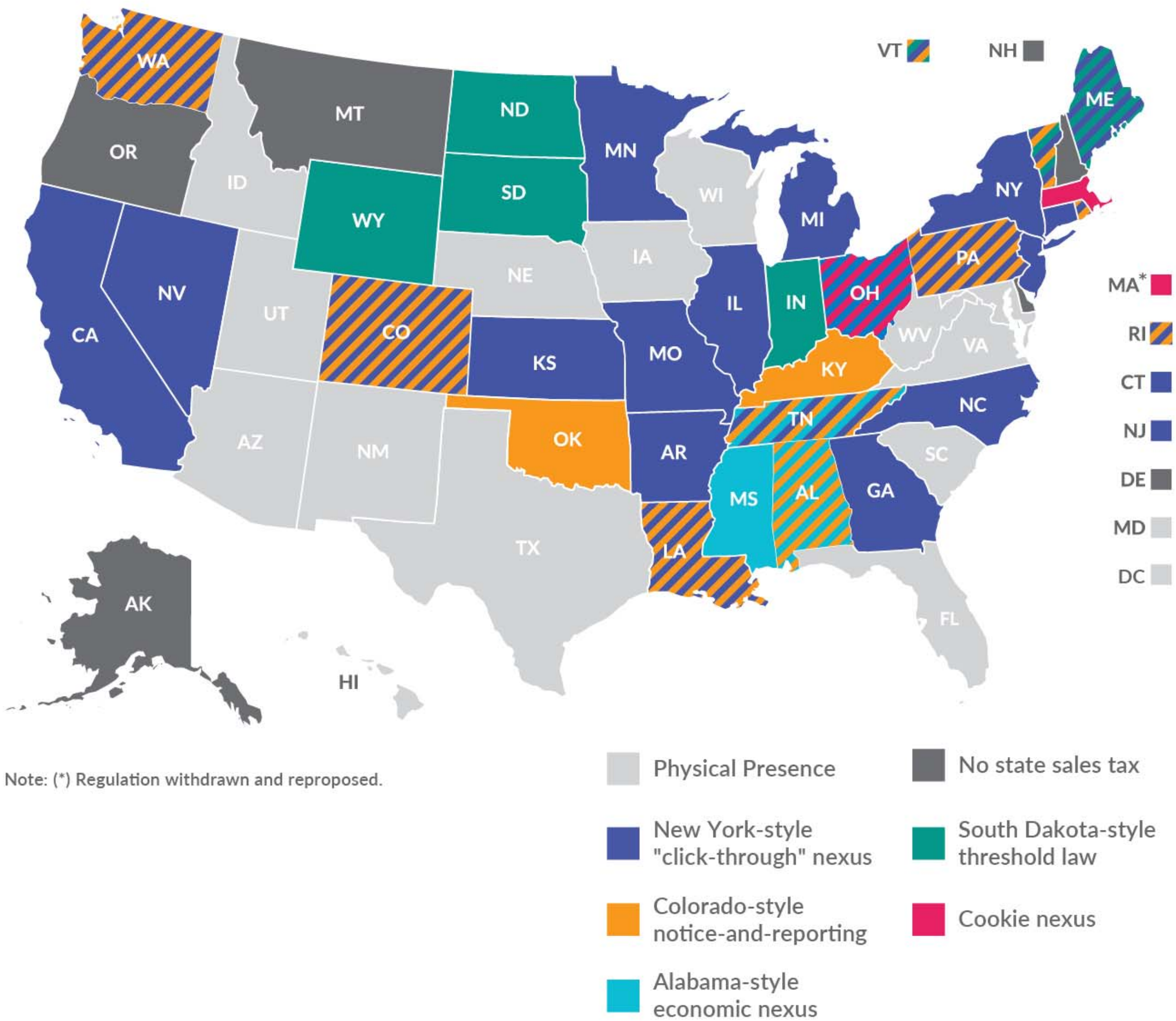
Of late, state efforts have focused on new ways to create nexus, primarily through what is referred to as 'economic nexus' (where the amount of sales in dollars or number of transactions into a state creates sufficient grounds to require collection of the tax). In the last few years, many states have enacted this type of standard. South Dakota was one of the early states to enact this sort of statute. Because South Dakota does not have a state income tax, the sales tax is by far the primary source of revenue. In fact, the South Dakota 'economic nexus' statute was seen as a test case, and its statute eventually made it through the judicial system all the way to the Supreme Court.

Earlier this years, in a 5-4 decision, the Supreme Court upheld the South Dakota law. Justice Powell wrote the opinion for the Court, and the decision was a sweeping indictment of the prior decisions in Bellas Hess and Quill. He wrote that "Quill is flawed on its own terms" and noted that "the Quill Court itself acknowledged that the physical presence rule is 'artificial at its edges.'"

The estimates of lost state and local government revenue from the Bellas Hess and Quill decisions vary considerably, but all agree the amounts in the aggregate run into the billions of dollars. One study, conducted by the State of Washington that is often quoted by the National Conference of State Legislatures (NCSL) puts the combined loss from these two court cases at $26 billion in 2015. Of course, some developments since that time (primarily Amazon's voluntary collections in all 50 states) may have reduced this estimate – but continued growth in e-commerce may have increased it. It is quite possible that the two issues are something of a wash. For a different perspective, the Government Accountability Office projected that states could collect an additional $8 to $13 billion annually in sales tax, which amounts to a two to four percent increase in revenue. This is probably a useful benchmark for additional sales tax revenue for state and local governments.

The issue is now in front of states, in terms of determining where these remote sellers are going to have to collect and remit sales tax to states (and, ultimately, local governments). According to the Tax Foundation, 31 states have some form (or forms) of requirements for the collection of sales tax by remote sellers, as depicted in Figure 30.

Figure 30: State Taxation of Internet Sellers without Physical Presence



Source: Tax Foundation

Some states already have similar laws or will move quickly to enact laws resembling South Dakota's to collect sales tax on internet purchases (in fact, some already have since the decision was announced). Other states would need to make significant changes to their sales tax system to be able to start collection, particularly large states that have resisted joining other states in adopting more uniform, simplified sales tax laws.

In reviewing the current Commonwealth of Virginia sales and use tax statutes,[89] the Commonwealth has not defined economic nexus as a basis for compelling collection of sales and use tax by out-of-state sellers.[90] It is notable that the Commonwealth has provided for imposition of the collection burden on sellers should there be federal legislation authorizing the collection, but it does not apply to a federal SCOTUS ruling. As a result, it

[89] § 58.1-605 relates to sales tax; § 58.1-606 relates to use tax.
[90] § 58.1-612. Tax collectible from dealers; "dealer" defined; jurisdiction, accessed electronically at https://law.lis.virginia.gov/vacode/title58.1/chapter6/section58.1-612/

will require state legislative action for additional collection of sales tax under an economic nexus standard. The project team has recently confirmed that impression with the Virginia State Budget Director.

Peer Government Comparison

All states and most local governments that collect sales tax have some form of audit function, which helps ensure compliance by businesses who have a statutory duty to collect sales tax when they sell goods and services subject to the tax. The issue for these governments is determining the appropriate amount of resources dedicated to compliance. Sales tax audits serve two important functions: first, they will generally identify and recover some businesses (or individuals) who are not collecting sales tax that should be collecting the tax and/or some businesses or individuals who are collecting but not remitting the tax. Just as importantly, the threat of a possible audit acts as a deterrent to others to collect and remit the tax.

Studies of the effectiveness of state and local government audits have generally found that they uncover more tax revenue owed than what they cost in salary, benefits and related expenditures – and this generally does not take into account any additional revenue that results from boosting voluntary compliance. Of course, there has to be a point of diminishing returns, so adding additional auditors is usually done incrementally, to determine the appropriate level of staffing. Adding additional auditors can also be done in conjunction with offering a tax amnesty program: the threat of additional audit enforcement (or enhanced penalties) may also spur voluntary enforcement. A well-conceived tax amnesty program can also yield additional resources, but there is a very real concern that many amnesty programs are counter-productive. For example, if governments routinely offer amnesty, the threat of penalties and interest is lessened and some taxpayers may choose to wait (rather than promptly pay) for the next tax amnesty. They should also only be offered for taxes that are not known to the government – any taxes already identified as owed, where penalties and interest may already apply, should not be eligible for the amnesty.

An alternative approach to hiring additional local government staff is to engage a vendor who specializes in delinquent tax collection. As an example, one major revenue recovery company provides sales tax audit and recovery services on an 18 percent contingent fee basis. An audit for the City of San Diego identified that, over a three year period, this service recovered $9,358,836 for the City with the contingent fee totaling $1,353,441, for a net gain in revenue of $8,005,395.[91]

There are concerns with this approach. A contingent fee audit presents a clear conflict of interest danger. Because the auditor only gets paid based on recovering revenue for the local government, there is an incentive to interpret the statutes and regulations in an aggressive manner. There is also the question (which can be difficult to answer) whether the uncovered additional revenue would have been uncovered through normal means (or the taxpayer would have eventually come into voluntary compliance). Finally, the percentage of the revenue that is remitted to the private auditor may be greater than what the local government might have spent should it have chosen to conduct the audits themselves.[92]

[91] Office of the City Auditor, City of San Diego, "Citywide Revenue
Most Major Revenues Are Audited; However, The City Can Do More To Ensure Accurate Receipt," March 2010, p. 22.
[92] American Institute of CPAs, "Contingent Audit Fee Arrangements," May 2013, accessed electronically at
https://www.aicpa.org/Advocacy/Tax/StateLocal/DownloadableDocuments/AICPA-contingent-fee-audit-comments-5-14-13.pdf

High Level Findings

A detailed SWOT analysis of the collection of sales and use tax by out-of-state sellers is provided in Appendix H.

- **Virginia provides for a single local option sales tax rate, which limits the ability of local governments to diversify their revenue base.** At the same time, this uniform rate makes it easier for taxpayer businesses to comply with the sales tax. It is also considered a 'best practice' related to the national Streamlined Sales Tax initiative, which seeks to create greater uniformity among the states related to sales tax definitions and rates.

- **Among states with a sales tax, Virginia taxes the fewest services.** This is important, because, over time, consumption has shifted from being primarily goods (where the sales tax nearly always applies) to services (which are often not taxed unless specifically enumerated in sales tax statutes). As this trend to greater consumption of services continues, the actual sales tax base will continue to erode unless the State seeks to broaden its base (as many states have done).

- **As with other revenue sources, the use of selective sales tax audits is important to ensure compliance.** Local governments have generally found that audit compliance programs (coupled with education efforts and, in some cases, targeted amnesty programs, pay for themselves. One alternative to hiring in-house auditors is to use firms that specialize in this, although there are legitimate concerns about how these private sector services work in practice.

Motor Vehicle License Fee

Introduction

Section 46.2-752 of the Code of Virginia authorizes cities and counties to levy a motor vehicle license fee (also referred to as a registration fee). Nearly all of Virginia's counties and cities opt to impose it; as of 2016, 88 counties (92.6 percent) and 32 cities (91.4 percent) collected motor vehicle license fees. The amount of the locally-imposed fee on any motor vehicle or trailer cannot exceed the amount of the annual fee imposed by the Commonwealth. The current Commonwealth fees are shown in Table 37.

Table 37: Commonwealth of Virginia Motor Vehicle License Fees (as of July 1, 2018)

Vehicle Registration	Fee
Passenger - 4,000 lbs. or less	$40.75
Passenger - 4,001 - 6,500 lbs.	$45.75
Pickup Truck - 4,000 lbs. or less gross weight	$40.75
Pickup Truck - 4,001 - 6,500 lbs. gross weight	$45.75
Pickup Truck - 6,501 - 10,000 lbs. gross weight	$51.75
Moped	$20.25
Motorcycle	$28.75
Autocycle	$25.75
Low speed vehicle	$40.75
Trailer Registration	**Fee**
1,500 lbs. or less	$18.00
1,501 - 4,000 lbs.	$28.50
4,001 lbs. or more	$40.00

Source: Virginia DMV

Locally-imposed motor vehicle license fees are a relatively small source of revenue for Virginia local governments. These fees provided $189.2 million for Virginia cities and counties in 2017, equal to 0.9 percent of total local-source revenue collected.[93]

History and Background[94]

Vehicle registrations have been required in Virginia since 1906, when owners were obligated to register "automobiles, locomobiles or any vehicle of any kind" with the Secretary of the Commonwealth. The registrations were valid for the life of the vehicle, and the fee for registration was $2.50. At the time, the requirement was valid only in counties and cities whose governing bodies adopted the provisions. Over the decades that followed, more localities adopted the state requirement and state law first permitted, and then required, that motor vehicle owners obtain certificates of title.

In 1932, Virginia law required that all motor vehicles operating on public highways be registered; these registrations expired annually on March 31 and were subject to a fee based on the weight of the vehicle. In 1972, the General Assembly authorized the staggering of registration renewals, and in 1973, registrations were spread throughout the year, and annual issuance of new license plates was replaced with a system of annual validation decals.

---

[93] Virginia Auditor of Public Accounts – 2017 Comparative Report
[94] History obtained from Virginia Division of Legislative Services: A Legislator's Guide to Local Taxation (Revised 2006). Accessed electronically at http://dls.virginia.gov/pubs/TaxGuide07.pdf

The legislature has been active in modifying aspects of the fee. Since 1990, the General Assembly has been creating and adding to a list of persons to whom local vehicle licenses may be issued free of charge at the issuing locality's discretion.

In 1996, localities were granted more latitude, as they were provided with the discretion to limit, restrict or deny this free issuance and in 1997, leased vehicles became treated the same as owned vehicles. In 2000, residents 65 and older were granted a 50 percent discount of the local fee and in 2001, localities were granted the ability to impose a surcharge of up to one dollar per vehicle, with the proceeds going to the Commonwealth's Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund.

In many localities, the issuance (or denial) of vehicle licenses has been used as a mechanism for collecting various local taxes, fee and fines. In 1956, the General Assembly authorized localities to require that all local personal property taxes owed on any vehicle be paid as a precondition to the issuance of a local license for the vehicle.

In 1995, the legislature granted localities the ability to require that local parking tickets be paid before the issuance of a local vehicle license. Under state law (§ 46.2-752(D)), the Counties of Arlington, Fairfax, Loudoun, and Prince William and towns within them and any city may require that no vehicles be licensed by that jurisdiction unless all parking fines owed to the jurisdiction by the owner of the vehicle have been paid.[95]

Prince William County withheld the issuance of a license for non-payment of taxes prior to 2009, the last year the County issued a license (decal). The taxpayer had to be delinquent in a prior year, as the license was sent along with the tax bill if not delinquent. The County has not withheld the issuance of a license for parking tickets, as it utilizes different systems for parking violations and taxes, and those with tax liabilities are not identified in the parking violation system. The County would have to resume issuing a license in order to enforce either of these provisions.

In 1992, the General Assembly began allowing local governments to enter into agreements with the DMV where the DMV would not issue or renew the registrations of any vehicle owned by a person owing the locality $100 or more in delinquent personal property taxes with respect to the vehicle. This threshold was lowered to $50 in 1997 and removed in 2002, along with making the statute applicable to all taxes and fees assessable against the applicant, rather than against the vehicle.

Prince William County Motor Vehicle License Fees

Vehicles that are principally garaged or parked in Prince William County must be registered with the County. New County residents, residents with a newly purchased vehicle and residents with a vehicle that has been relocated to the County are required to register their vehicles. Changes in vehicle status (i.e. change of ownership and change of location) also must be reported to the County. Prince William County does not issue vehicle decals. Since at least 2006, the vehicle registration/license fee has been $24 for automobiles, trucks and motorhomes and $12 for motorcycles.

As was discussed previously in the context of the personal property tax, of the nearly 500,000 vehicles registered in the County in 2017, automobiles accounted for 52.3 percent of the total. Trucks accounted for an additional 36.4 percent, and the two sources combined make up 88.7 percent of total revenue, as shown in Table 38.

[95] The law does not apply to vehicles owned by firms or companies in the business or renting motor vehicles.

Table 38: Prince William County Vehicle Registrations by Classification, 2017

Property Class	Total Properties	% of Total Properties
Automobiles	259,906	52.3%
Trucks	180,836	36.4%
Trailers	15,958	3.2%
Motorcycles	15,143	3.0%
Heavy Trucks	14,484	2.9%
Other Trailers	3,175	0.6%
Boat Trailers	2,369	0.5%
Travel Trailers	1,694	0.3%
Motor Homes	1,450	0.3%
Mobile Homes	1,037	0.2%
Camping Trailers	544	0.1%
Horse Trailers	392	0.1%
Taxis	273	0.1%
Farm Equipment	29	0.0%
AutoCycles	11	0.0%
Truck Trailers	8	0.0%
Special Equipment	7	0.0%
Non-Highway Vehicle	2	0.0%
Total	**497,318**	**100.0%**

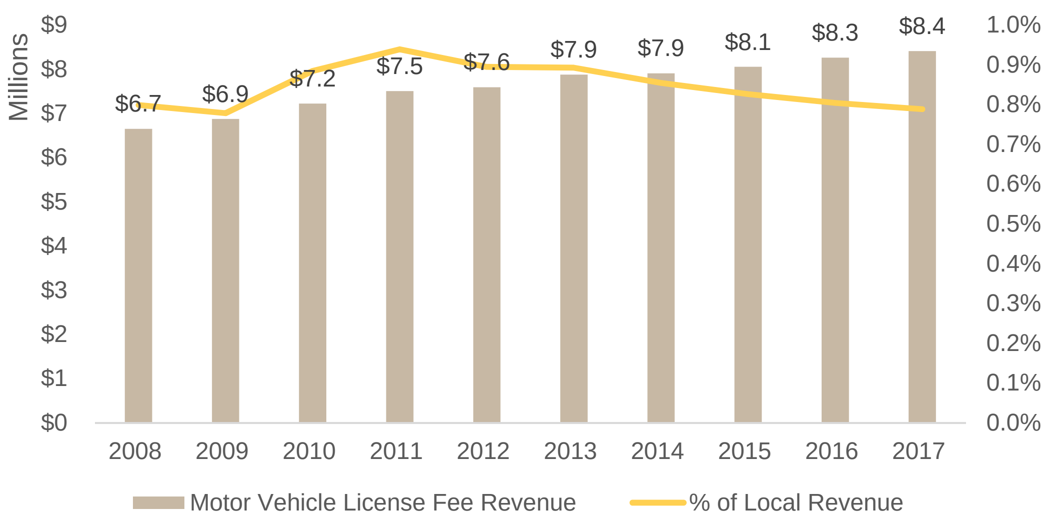
Source: PWC Finance Department

Vehicles exempt from the County's vehicle registration fee include:

- Vehicles owned by active duty military persons not claiming Virginia as their home of record;
- Vehicles with disabled permanent license plates;
- Vehicles displaying a disabled placard;
- Vehicles owned by certain fire and rescue volunteers;
- Vehicles with antique plates, government-issued plates or medal of honor plates; and
- Newly purchased vehicles that replace a vehicle on which the owner has already paid the license fee for the year.

County motor vehicle license fee revenue increased from $6.7 million in 2008 to $8.4 million in 2017, a CAGR of 3.0 percent. County motor vehicle license fees have historically generated less than one percent of total local revenue, as shown in Figure 31.

Figure 31: Prince William County Motor Vehicle License Fee Revenue, 2008-2017 (in Millions)



Source: Virginia Auditor of Public Accounts

The County Finance Department estimates that local motor vehicle license fee revenue will increase by between 1.7 and 2.1 percent over the next five years and will total $9.5 million by 2023, as presented in Table 39. Year-over-year growth is projected to slow slightly during that time frame.

Table 39: Prince William County Motor Vehicle License Fee Revenue Forecast, 2018-2023 (in Millions)

	Budget	Forecast					
	2018	2019	2020	2021	2022	2023	CAGR
Motor Vehicle License Fee Revenue	$8.7	$8.9	$9.0	$9.2	$9.4	$9.5	1.9%
Year-over-year Increase	N/A	2.1%	1.9%	1.9%	1.8%	1.7%	N/A

Source: Prince William County Finance Department Estimate of General Revenue, FY2019-2023

Peer Government Comparison

Motor Vehicle License Fee Revenue

In comparison to its peers, as illustrated in Table 40, the $8.4 million collected by Prince William County in 2017 ranked fourth among peer municipalities, with only Fairfax County ($27.0 million), Chesterfield County ($13.9 million) and Virginia Beach ($11.2 million) collecting more – each of which have higher fees than Prince William County. As a share of total local revenue, Prince William County ranked in the middle at 0.8 percent – with a lower reliance than Chesterfield County (2.3 percent), Fauquier and Henrico Counties (1.1 percent), Virginia Beach (1.0 percent) and Stafford County (0.9 percent).

Table 40: Peer Government Motor Vehicle License Fee Revenue, 2017

	Motor Vehicle License Fee Revenue	Total Local Revenue	% of Total Local Revenue	Automobile Rate
Prince William County	$8,409,000	$1,066,941,000	0.8%	$24.00
Fairfax County	$27,038,173	$4,187,459,417	0.6%	$33.00
Chesterfield County	$13,944,691	$607,385,670	2.3%	$40.00
City of Virginia Beach	$11,189,995	$1,104,117,717	1.0%	$30.00
Henrico County	$7,199,016	$642,671,283	1.1%	$20.00
Loudoun County	$7,091,920	$1,479,716,822	0.5%	$25.00
Arlington County	$5,292,865	$1,180,615,644	0.4%	$33.00
City of Alexandria	$3,661,152	$667,373,397	0.5%	$33.00
Stafford County	$2,522,370	$286,490,477	0.9%	$23.00
Fauquier County	$1,957,392	$175,907,949	1.1%	$25.00
Commonwealth of Virginia	$189,153,429	$20,235,511,037	0.9%	N/A

Source: Virginia Auditor of Public Accounts, government data

Motor Vehicle License Fee Rates

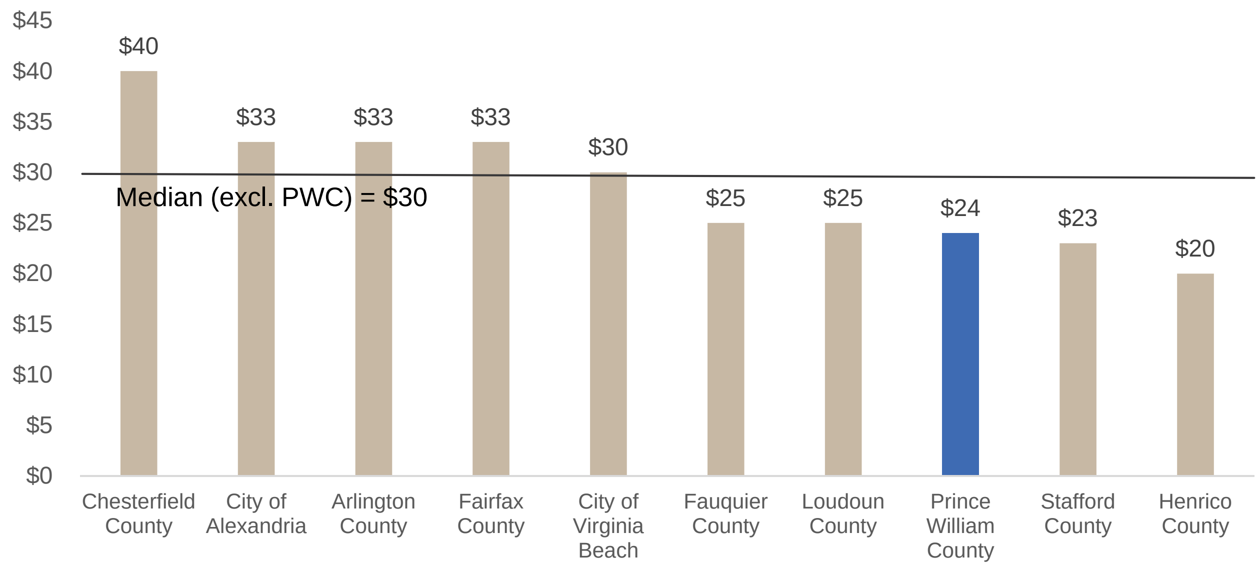
The revenue generated by the motor vehicle license fee is a result of both the motor vehicle base and the rate. As depicted in Table 41 and Figure 32, the County's current fees for automobiles and trucks ($24) and motorcycles ($12) are low relative to peer governments; the median automobile fee (excluding Prince William County) is $30; the average is $29. Chesterfield County charges the highest fee, at $40, while Henrico County's is the lowest at $20. Prince William County's fee for trucks ($24) ranks 9th of 10, with only Stafford County having a lower fee rate ($23); Prince William County has the lowest motorcycle rate ($12), less than half of Loudoun County ($25).

Table 41: Motor Vehicle License Fee Rates, 2019

Municipality	Automobiles		Trucks		Motorcycles	
	Rate	Rank	Rate	Rank	Rate	Rank
Prince William County	$24.00	8	$24.00	9	$12.00	10
City of Alexandria	$33.00	2	$33.00	4	$21.00	4
Arlington County	$33.00	2	$33.00	4	$18.00	5
Chesterfield County	$40.00	1	$40.00	1	$15.00	7
Fairfax County	$33.00	2	$38.00	2	$18.00	5
Fauquier County	$25.00	6	$25.00	6	$15.00	7
Henrico County	$20.00	10	$25.00	6	$15.00	7
Loudoun County	$25.00	6	$25.00	6	$25.00	1
Stafford County	$23.00	9	$23.00	10	$23.00	2
City of Virginia Beach	$30.00	5	$35.00	3	$23.00	2
Median	$30.00	N/A	$33.00	N/A	$18.00	N/A
Average	$29.11	N/A	$30.78	N/A	$19.22	N/A

Source: Local government websites

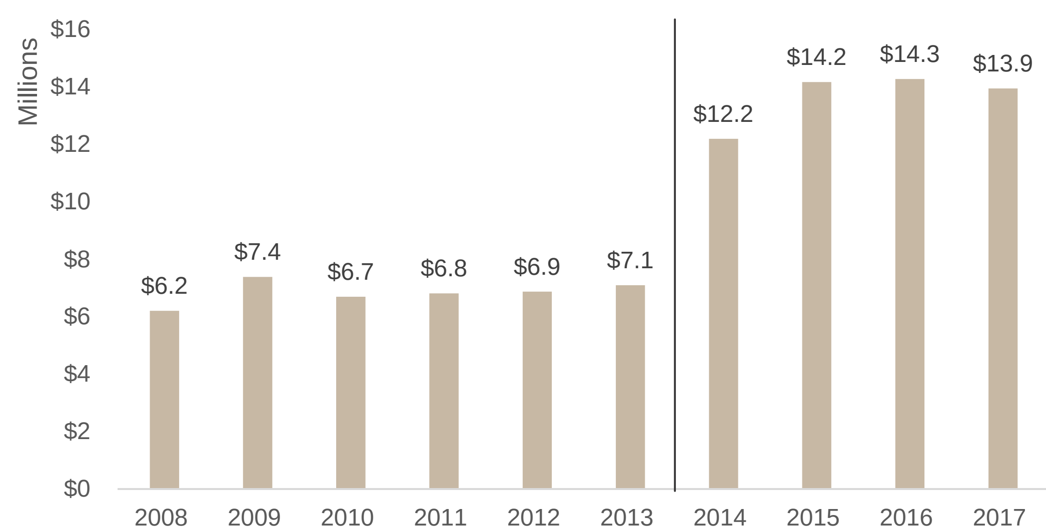
Figure 32: Automobile License Fee Rates, 2019



Source: Local government websites

While Prince William County has not increased its motor vehicle license fee rates since at least 2006, other peer municipalities have taken steps in recent years to increase the rates imposed in their jurisdictions. In 2010, for example, Fairfax County increased its automobile rate from $25 to $33 and its truck rate from $25 to $38. Additionally, in 2014, Chesterfield County increased its automobile and truck rate from $20 to $40 and its motorcycle fee from $10 to $15; as a result, revenue increased from $7.1 million in 2013 to $12.2 million in 2014 and again to $14.2 million in 2015, as shown in Figure 33. However, it is notable that Chesterfield County now has the highest automobile and truck rates among peer governments.

Figure 33: Chesterfield County Motor Vehicle License Tax Revenue, 2008-2017



Source: Virginia Auditor of Public Accounts

Some municipalities link the local rates directly to those levied at the state level. As an example, in 1992, Arlington County adopted an ordinance requiring that the County impose the same fee charged by the Commonwealth (not to exceed $33).[96]

Among major Virginia local governments, since May 2016, a City of Richmond law has required that the City's local motor vehicle license fee match the Commonwealth's fee. However, that has not occurred: the State's registration fee is at least $7.75 higher than the City's. As Richmond had nearly 130,000 cars, more than 17,000 pickup and heavy trucks and more than 3,500 motorcycles registered in the City in 2017, one analysis estimated that this discount had an impact of $1.2 million in foregone revenue.[97]

Motor Vehicle License Fee Exemptions

In 1990, the General Assembly created (and since that time has been adding to) a list of persons to whom local vehicle licenses may be issued free of charge at the issuing locality's discretion (in addition to the exemptions provided for under the Code of Virginia). Prince William County provides seven exemptions. No peer localities provide the same exemptions; Fairfax County provides five of the seven, as shown in Table 42.

Table 42: Select Motor Vehicle License Fee Exemptions, Peer Localities

	Active Duty	Disabled	Fire and Rescue	Antique Plates	Gov't Issued Plates	Medal of Honor Plates	New Vehicle Replacement
Prince William County	X	X	X	X	X	X	X
City of Alexandria	X						
Arlington County			X				
Chesterfield County			X	X			
Fairfax County	X	X	X	X	X		
Fauquier County			X				
Henrico County							
Loudoun County	X		X				
Stafford County			X				
City of Virginia Beach			X				

Note: Exemptions listed are in addition to exemptions provided under the Code of Virginia

It is notable that each of the peer municipalities provides additional exemptions not offered by Prince William County. A matrix illustrating the exemptions provided in each municipality is provided in Appendix I.

Local License Decal Requirements

Over time, localities transitioned from using supplemental license plates to windshield decals. However, the decals were frequently cited to be difficult to remove and replace. In 2006, the General Assembly approved legislation clarifying that local governments are not obligated to require the display of local license decals, unless required by ordinance. As a result, many localities have shifted away from requiring the display of decals over the past decade. Prince William County stopped requiring the display of vehicle decals in 2009, and in

[96] Arlington County Code § 27-11.1 - Code Updated 10-2014; Ord. No. 92-33, adopted July 11, 1992
[97] Richmond Free Press – City Apparently Losing Money on Vehicle Registration Fees (March 1, 2018). Accessed electronically at http://richmondfreepress.com/news/2018/mar/01/city-apparently-losing-money-vehicle-registration-/

fact, according to a July 2018 Arlington County report, only 21 localities still require the display of decals – including Arlington County and the Cities of Alexandria, Falls Church and Fairfax.[98]

Since the 1980s, Loudoun County relied on a $25 decal display requirement to determine whether residents were up-to-date on their personal property taxes. Effective July 1, 2018, the County eliminated the decal and replaced it with a flat license fee of $25.

In September 2018, the Arlington County Board voted to eliminate its decal requirement effective July 1, 2019. The County will instead rely on a license plate reading system to determine whether the owner of any given vehicle is up to date on their taxes. Vehicle owners will still need to pay the annual property tax as well as the motor vehicle license fee. The County initially purchased the license plate reader technology in 2004. County staff believe the change will "relieve an unnecessary burden on taxpayers," ending a requirement that has been in place in the County since 1949. Eliminating the decals will likely have no substantial fiscal impact and, according to the County, any change in printing or other operational expenses will likely be offset by the modest operating costs associated with the license plate reader program or decrease in fine revenue.

Vehicle Ownership Outlook

The amount of revenue generated by the local motor vehicle license fee is directly tied to the number of vehicles in that locality. Table 43 presents the percentage of households with no vehicle. In Prince William County, there are very few households (2.8 percent) with no vehicle. The only peer governments with a lower percentage are Loudoun County, where 2.4 percent of households have no vehicle, and Stafford County, where 2.1 percent of households have no vehicle.

Table 43: Percentage of Households with No Vehicle, 2016

Municipality	Households with No Vehicle	Total Households	% of Households with No Vehicle
Prince William County	3,914	138,102	2.8%
Arlington County	12,265	100,707	12.2%
City of Alexandria	6,745	68,063	9.9%
Henrico County	7,389	125,478	5.9%
Fairfax County	17,037	393,358	4.3%
City of Virginia Beach	6,617	167,509	4.0%
Fauquier County	786	23,890	3.3%
Chesterfield County	3,463	118,908	2.9%
Loudoun County	2,833	117,073	2.4%
Stafford County	910	44,311	2.1%
Virginia	**196,917**	**3,090,178**	**6.4%**

Source: U.S. Census Bureau American Community Survey 5-Year Estimates

Over time, the percentage of Prince William County households with no vehicle has declined slightly, as shown in Table 44. In its 2018 Quarter 3 Revenue and Expenditure Report, the County Finance Department noted that the number of new vehicles in the County increased by approximately 14 percent over the historical average.[99]

[98] Arlington County, Virginia – County Board Agenda Item (July 5, 2018). Accessed electronically at http://arlington.granicus.com/MetaViewer.php?view_id=2&event_id=1245&meta_id=177542
[99] Prince William County Finance Department – FY2018 3rd Quarter Revenue and Expenditures Report (May 15, 2018). Accessed electronically at

Table 44: Prince William County Percentage of Households with No Vehicle, 2010-2016

	2010	2011	2012	2013	2014	2015	2016
Households with No Vehicle	3,932	3,970	4,211	4,041	3,829	3,790	3,914
Total Households	124,879	127,170	129,643	132,442	134,737	136,794	138,102
% of Households with No Vehicle	3.1%	3.1%	3.2%	3.1%	2.8%	2.8%	2.8%

Source: U.S. Census Bureau American Community Survey 5-Year Estimates

High Level Findings

A detailed SWOT analysis of the motor vehicle license fee is provided in Appendix J.

- **The motor vehicle license fee is broadly applied in municipalities across Virginia.** With the exception of the City of Williamsburg and James City County, all of the Commonwealth's counties and cities opt to impose it.

- **The Commonwealth provides municipalities with the flexibility to set the local rate.** Cities and counties set their own local rates, provided those rates do not exceed the state rates (currently $40.75 for passenger vehicles 4,000 lbs. and less).

- **Motor vehicle license fees are generally affordable.** At $40 or less per year, motor vehicle license fees are unlikely to be cost prohibitive for taxpayers. It is notable, however, that these fees are in addition to the personal property tax imposed on vehicles normally garaged or parked in the County, which can be significantly more costly.

- **The fees are not means tested.** Vehicle owners pay a flat rate per vehicle, as opposed to imposing the fee based on the value of the vehicle. In this respect, the fees are not directly linked to ability to pay.

- **Locally-imposed motor vehicle license fees are a relatively small source of funds for local governments in the state.** In total, these fees provided $189.2 million in revenue for Virginia cities and counties in 2017, equal to 0.9 percent of total local-source revenue collected.[100]

- **The local fees generated $8.4 million in revenue for Prince William County in 2017.** This represents 0.8 percent of total local revenue. By 2023, the County estimates this fee revenue will total $9.5 million.

- **The state permits localities to use vehicle licenses as a mechanism for collecting various local taxes, fees and fines.** Prince William County withheld the issuance of a license for non-payment of taxes prior to 2009, the last year the County issued a license (decal). The County has not withheld the issuance of a license for parking tickets, as it utilizes different systems for parking violations and taxes, and those with tax liabilities are not identified in the parking violation system. The County would have to resume issuing a license in order to enforce these provisions.

- **Municipalities, including Prince William County, typically provide several exemptions to the fee.** Common exemptions include volunteer fire and rescue personnel and active duty members of the military.

---

http://www.pwcgov.org/government/dept/finance/Documents/FY%2018%203rd%20Quarter%20Revenue%20and%20Expenditure%20Report%205-15-18.pdf

[100] Virginia Auditor of Public Accounts – 2017 Comparative Report

- **Prince William County's rates are low relative to most peer municipalities.** Prince William County's rate for automobiles has long been $24; only Henrico ($20) and Stafford ($23) Counties impose lower rates. Similarly, Prince William County's rate for trucks ($24) ranks ninth of ten, higher only than Stafford County ($23); Prince William County has the lowest motorcycle rate ($12), less than half of Loudoun County ($25).

- **Municipalities do not often increase rates, and doing so may lead to voter backlash.** Among peer localities, only Fairfax and Chesterfield Counties have increased their fees in recent years. Despite being a relatively small amount of money for taxpayers on an annual basis, any increase in amount owed is likely to face scrutiny.

- **Some municipalities have opted to tie the local fees directly to the state rate.** In 1992, Arlington County adopted an ordinance requiring that the County impose the same fee charged by the Commonwealth (but stipulated that it could not exceed $33).

- **Increasing the motor vehicle license fee rate to $30 commensurate with the peer group median would generate an additional $2.2 to $2.4 million annually.** Increasing the rate to $40 (commensurate with Chesterfield County) would yield an estimated $6.0 million per year. See chapter entitled 'Alternatives to the Current Tax Structure' for additional information.

Inventory of Tax Sources Available to Virginia Counties

Introduction

As previously noted, Virginia is a Dillon's Rule state, and local governments require state authorization for taxation. The following details the tax alternatives that are provided to local governments within the Commonwealth of Virginia. These are categorized by the type of tax and includes the statutory authority and the local governments that are authorized to impose them.

Taxes on Property

Real Property Tax

Statutory Authority: § 58.1-3200
Local Governments Empowered to Levy: Counties, cities, towns and special districts

Description/Statutory Limitations: Property is restricted for local taxation only. Counties, cities, towns and special districts can levy property taxes for a variety of purposes. Counties can create sanitary districts for a variety of services and fund them through a tax on property in the districts. Counties can also levy property taxes, either countywide or in one or more magisterial districts, to pay for contracted fire protection services. The General Assembly has also authorized the creation of special transportation districts within counties or between counties. Special property taxes can be levied on business or commercial properties within those districts.

There is no Code restriction on tax rates, and rates vary widely. Taxes must be uniform on the same class of subjects, and assessments of property must be based on fair market value. Constitutional exemptions include:

- Elderly and disabled (at the locality's discretion);
- Veterans and surviving spouses;
- First responders killed in the line of duty (at the locality's discretion); and
- Nonprofit organizations (at the locality's discretion).

Statewide Statistics: The real property tax is imposed by all 95 Virginia counties and all 35 cities, as shown in Table 45. The source generated $10,518.1 million in 2017, equal to 61.6 percent of all local government tax revenue. The property tax on public service corporations is also imposed in all counties and cities; the source generated $390.9 million. In total, these two sources comprise 63.9 percent of all local tax revenue.

Table 45: Virginia Locality Property Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Real Property	35	95	$10,518,058,362	61.6%
Public Service Corp. Property	35	95	$390,940,562	2.3%
Total	**35**	**95**	**$10,908,998,924**	**63.9%**

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: Each peer locality collects real property taxes. As shown in Table 46, this revenue source generated between $108.6 million (Fauquier County) and $2,631.1 million (Fairfax County) in FY2017. Real property taxes are the primary source of revenues for Virginia local governments; among peer localities, the reliance on real property taxes as a share of local tax revenue ranges from 53.0 percent (Henrico County) to 74.2 percent (Fairfax County).

Table 46: Peer Locality Real Property Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate
Prince William County	**$641,276,000**	**$918,457,000**	**69.8%**	**$1.122**
City of Alexandria	$418,655,087	$603,522,778	69.4%	$1.130
Arlington County	$734,033,722	$1,053,009,286	69.7%	$0.990
Chesterfield County	$331,176,321	$526,045,613	63.0%	$0.960
Fairfax County	$2,631,129,395	$3,544,726,582	74.2%	$1.130
Fauquier County	$108,598,123	$155,889,412	69.7%	$1.040
Henrico County	$306,161,042	$577,598,789	53.0%	$0.800
Loudoun County	$817,644,187	$1,345,727,552	60.8%	$1.130
Stafford County	$156,909,017	$242,730,018	64.6%	$0.990
City of Virginia Beach	$535,273,931	$917,500,086	58.3%	$1.000

Source: Revenue-Virginia Auditor of Public Accounts; Rates-locality websites
** Per $100 of valuation*

Commercial and Industrial Tax

Statutory Authority: § 58.1-3221.3
Local Governments Empowered to Levy: Counties and cities that are "wholly embraced" by the Northern Virginia Transportation Authority (Arlington, Fairfax, Loudoun, Prince William and Stafford Counties; Cities of Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas and Manassas Park)

Description/Statutory Limitations: Beginning on January 1, 2008, all real property used for or zoned to permit commercial or industrial uses is declared a separate class of real property for local taxation. The governing body of these localities may, by ordinance, annually impose on commercial and industrial property a property tax at a rate not to exceed $0.125 per $100 of assessed value. All revenue generated from the additional property tax must be used for the following purpose(s):

- New road construction and associated planning, design and right-of-way acquisition;
- New public transit construction and associated planning, design and right-of-way acquisition;
- Other capital costs related to new transportation projects that add new capacity, service or access and the operating costs directly related to the foregoing; and
- The issuance costs and debt service on bonds that may be issued to support the capital costs permitted for the purposes above.

Statewide Statistics: Among the 11 localities "wholly embraced" by the Northern Virginia Transportation Authority, the C&I tax is imposed in Arlington and Fairfax Counties as well as the City of Fairfax, as shown in Table 47.

Table 47: Peer Locality C&I Tax Rates, 2017

Locality	Rate
City of Fairfax	$0.095
Arlington County	$0.125
Fairfax County	$0.125

Source: Locality budgets

Peer Government Statistics: Among peer localities, Fairfax and Arlington Counties levy a C&I tax – both at the maximum rate of $0.125 per $100 of assessed value.

Tangible Personal Property Tax

Statutory Authority: § 58.1-3501; § 58.1-3523 et seq.
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Like real property, tangible personal property is restricted for local taxation. Localities are permitted to tax the tangible personal property of businesses and individuals pursuant to the Code of Virginia, §§ 58.1-3500 through 58.1-3521. Included in this category are motor vehicles, business furniture and fixtures, farming equipment, trailers, boats, recreational vehicles and campers. Exemptions include intangible property, property on which merchants' capital is imposed and short term rentals. Rates vary widely by locality.

A recent legislative change affects the taxation of tangible personal property. House Bill 15 (Chapter 483), effective July 1, 2016, requires localities to apply the lowest tax rate applicable to any item of tangible personal property that falls under multiple classifications for purposes of the local tangible personal property tax. Under current law, localities are authorized to establish different classes of property for purposes of the tangible personal property tax and assign a different tax rate to each classification. Localities must apply the lowest rate applicable to any computer equipment and peripherals used in a data center, as well as any motor vehicle, if the property falls under multiple classifications. Current law does not specify the tax rate of other items of tangible personal property that fall under multiple classifications.

Statewide Statistics: The personal property tax is imposed by all 95 Virginia counties and all 35 cities, as shown in Table 48. The source generated $2,201.8 million in 2017, equal to 12.9 percent of all local government tax revenue.

Table 48: Virginia Locality Personal Property Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Personal Property	35	95	$2,201,812,627	12.9%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: Each peer locality collects personal property taxes. The revenue source generated between $22.3 million (Fauquier County) and $352.6 million (Fairfax County) in FY2017. Among peer localities, the reliance on personal property taxes as a share of local tax revenue ranges from 7.6 percent (Arlington County) to 21.5 percent (Loudoun County), as shown in Table 49.

Table 49: Peer Locality Personal Property Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	General Personal Property Rate*
Prince William County	**$121,052,000**	**$918,457,000**	**13.2%**	**$3.70**
City of Alexandria	$47,038,241	$603,522,778	7.8%	$5.00
Arlington County	$79,699,484	$1,053,009,286	7.6%	$5.00
Chesterfield County	$68,480,167	$526,045,613	13.0%	$3.60
Fairfax County	$352,648,367	$3,544,726,582	9.9%	$4.57
Fauquier County	$22,301,801	$155,889,412	14.3%	$4.65
Henrico County	$84,662,574	$577,598,789	14.7%	$3.50
Loudoun County	$289,155,655	$1,345,727,552	21.5%	$4.20
Stafford County	$37,315,865	$242,730,018	15.4%	$2.58
City of Virginia Beach	$94,730,722	$917,500,086	10.3%	$4.00

Source: Revenue-Virginia Auditor of Public Accounts; Rates-locality websites
** Per $100 of valuation*

Machinery and Tools Tax

Statutory Authority: § 58.1-3507
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Certain machinery and tools are segregated as tangible personal property for local taxation; the classes of machinery and tools that are segregated are those that are used for “manufacturing, mining, processing and reprocessing (excluding food processing), radio or television broadcasting, dairy and laundry or dry cleaning.” The tax rate on machinery and tools may not be higher than that imposed on other classes of tangible personal property.

Statewide Statistics: The machinery and tools tax is imposed by 91 counties (95.8 percent) and 30 cities (85.7 percent), as shown in Table 50. The source generated $206.2 million in 2017, equal to 1.2 percent of all local government tax revenue.

Table 50: Virginia Locality Machinery and Tools Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Machinery and Tools	30	91	$206,172,807	1.2%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: Virginia Beach and Stafford County do not impose the machinery and tools tax. Among peer governments collecting machinery and tools taxes, the source generated between $0.1 million (Arlington County) and $5.4 million (Chesterfield County). In each municipality, the revenue generated represents only a small portion of total local tax revenue, as illustrated in Table 51.

Table 51: Peer Locality Machinery and Tools Property Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate*
Prince William County	**$371,000**	**$918,457,000**	**0.0%**	**$2.00**
City of Alexandria	$463,840	$603,522,778	0.1%	$4.50
Arlington County	$137,490	$1,053,009,286	0.0%	$5.00
Chesterfield County	$5,372,984	$526,045,613	1.0%	$1.00
Fairfax County	$1,372,508	$3,544,726,582	0.0%	$4.57
Fauquier County	$399,499	$155,889,412	0.3%	$2.30
Henrico County	$861,904	$577,598,789	0.1%	$0.30
Loudoun County	$1,627,470	$1,345,727,552	0.1%	$2.75

Source: Revenue-Virginia Auditor of Public Accounts; Rates-locality websites
** Per $100 of valuation*

Merchants' Capital Tax

Statutory Authority: § 58.1-3509; § 58.1-3704
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Merchants' capital is defined as the inventory of stock on hand, daily rental motor vehicles and all other taxable personal property (except tangible personal property not for sale as merchandise, which is taxed as tangible personal property), excluding money on hand and on deposit. Localities may impose a local tax on merchants' capital; localities also have the option to exempt specific types of merchants from part or all of the tax. It may not be levied on any class on which BPOL tax is levied. The rate may not exceed the rate in effect on January 1, 1978.

Statewide Statistics: The Merchants' capital tax is imposed by 44 counties (46.3 percent) and 1 city (2.9 percent). Of the 44 counties, 4 use merchants' capital for retail merchants and BPOL for other businesses, while 40 counties use only merchants' capital. The source generated $14.1 million in 2017, equal to 0.1 percent of all local government tax revenue, as shown in Table 52.

Table 52: Virginia Locality Merchants' Capital Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Merchants' Capital	1	44	$14,068,377	0.1%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: Only Stafford County imposes the Merchants' Capital Tax. At a rate of $0.50 per $100 of assessed value, the County generated $1.1 million in 2017, equal to 0.5 percent of total local tax revenue, as shown in Table 53.

Table 53: Peer Locality Merchants' Capital Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate*
Stafford County	$1,112,683	$242,730,018	0.5%	$0.50

Source: Virginia Auditor of Public Accounts; Stafford County website
** Per $100 of valuation*

Taxes on Individuals and Consumers

Local Option Sales and Use Tax

Statutory Authority: § 58.1-1605; § 58.1-606
Local Governments Empowered to Levy: Counties and cities

Description/Statutory Limitations: The local option sales tax is limited to one percent of the gross sales price of an item, and all localities impose the tax. Local sales and use tax is subject to the same exemptions imposed at the state level. Towns with separate school districts receive a proportion of the county's total sales tax revenue, based on school-age population. For all other towns, one-half of the county's revenue is divided among the county and towns, based on school-age population.

Statewide Statistics: The local option sales and use tax is imposed by all 95 Virginia counties and all 35 cities. The source generated $1,188.5 million in 2017, equal to 7.0 percent of all local government tax revenue, as shown in Table 54.

Table 54: Virginia Locality Sales and Use Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Local Option Sales and Use	35	95	$1,188,472,675	7.0%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: As shown in Table 55, the local option sales tax generated between $9.2 million (Fauquier County) and $179.7 million (Fairfax County) for peer governments; the source comprised between 3.9 percent (Arlington County) and 11.2 percent (Henrico County) of total local tax revenue in 2017. Each peer government has opted to impose the local option sales and use tax at the maximum rate of 1.0 percent.

Table 55: Peer Locality Local Option Sales and Use Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate
Prince William County	**$63,022,000**	**$918,457,000**	**6.9%**	**1.0%**
City of Alexandria	$32,360,983	$603,522,778	5.4%	1.0%
Arlington County	$41,197,357	$1,053,009,286	3.9%	1.0%
Chesterfield County	$48,668,697	$526,045,613	9.3%	1.0%
Fairfax County	$179,705,810	$3,544,726,582	5.1%	1.0%
Fauquier County	$9,241,227	$155,889,412	5.9%	1.0%
Henrico County	$64,666,206	$577,598,789	11.2%	1.0%
Loudoun County	$72,469,150	$1,345,727,552	5.4%	1.0%
Stafford County	$13,641,300	$242,730,018	5.6%	1.0%
City of Virginia Beach	$62,614,614	$917,500,086	6.8%	1.0%

Source: Virginia Auditor of Public Accounts

Motor Vehicle License Tax

Statutory Authority: § 46.2-752
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Cities, counties and towns are authorized to levy a license tax on motor vehicles, trailers, and semitrailers. The tax may not be greater than the tax imposed by the state (currently $40.75 for a non-commercial passenger vehicle under 4,000 pounds and $45.75 for heavier vehicles; motorcycle fees are $28.75 with a $3 surcharge required). The Code stipulates similar guidelines for commercial vehicles, buses, trailers, and other motor vehicles.

No locality may impose a license tax on any vehicle when the owner pays a similar tax to the locality in which the vehicle is normally stored. Additionally, no locality may impose a local license tax on any vehicle that is owned by a nonresident of the locality and is used exclusively for non-business purposes. Vehicles used for state business by nonresident officials, dealer demonstration vehicles and the vehicles of common carriers are also exempt from local license taxes.

Statewide Statistics: The motor vehicle license tax is imposed by 88 counties (92.6 percent) and 32 cities (91.4 percent). As summarized in Table 56, the source generated $189.2 million in 2017, equal to 1.1 percent of all local government tax revenue. In 2016, only one county, Halifax, reported levying the maximum amount permitted.

Table 56: Virginia Locality Motor Vehicle License Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Motor Vehicle License	32	88	$189,153,581	1.1%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: As shown in Table 57, each peer government collects motor vehicle license taxes. The revenue source generated between $2.0 million (Fauquier County) and $27.0 million (Fairfax County) in FY2017. Among peer localities, the reliance on motor vehicle license taxes as a share of local tax revenue is relatively small and ranges from 0.5 percent (Arlington and Loudoun Counties) to 2.7 percent (Chesterfield County).

Table 57: Peer Locality Motor Vehicle License Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate
Prince William County	**$8,409,000**	**$918,457,000**	**0.9%**	**$24.00**
City of Alexandria	$3,661,152	$603,522,778	0.6%	$33.00
Arlington County	$5,292,865	$1,053,009,286	0.5%	$33.00
	$13,944,691	$526,045,613	2.7%	$40.00
Fairfax County	$27,038,173	$3,544,726,582	0.8%	$33.00
Fauquier County	$1,957,392	$155,889,412	1.3%	$25.00
Henrico County	$7,199,016	$577,598,789	1.2%	$20.00
Loudoun County	$7,091,920	$1,345,727,552	0.5%	$25.00
Stafford County	$2,522,370	$242,730,018	1.0%	$23.00
City of Virginia Beach	$11,189,995	$917,500,086	1.2%	$30.00

Source: Virginia Auditor of Public Accounts; locality websites

Consumer Utility Tax

Statutory Authority: §58.1-3814
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Localities may impose a tax on the consumers of the utility services provided by any water or heat, light and power company. The rate cannot exceed 20 percent of the monthly amount charged to customers and is applicable only to the first $15 of a bill (an effective cap of $3 per month).[101] Effective 2001, the rate on electricity or gas consumption is based on number of kilowatt hours or cubic feed consumed (the $3 cap remains in place). If a town imposes the tax, the county tax does not apply within the town if it (i) operates its own school system or (ii) provides police or fire services and water or sewer services.

Statewide Statistics: The Consumer Utility tax is imposed by 92 counties (96.8 percent) and all 35 cities. As shown in Table 58, the source generated $309.4 million in 2017, equal to 1.8 percent of all local government tax revenue.

Table 58: Virginia Locality Consumer Utility Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Consumer Utility	35	92	$309,426,006	1.8%

Source: Virginia Auditor of Public Accounts;

Peer Government Statistics: Each peer locality collects consumer utility taxes. The revenue source generated between $1.6 million (Fauquier County) and $45.2 million (Fairfax County) in FY2017, as displayed in Table 59. Among peer localities, the reliance on consumer utility taxes as a share of local tax revenue is relatively small and ranges from 0.5 percent (Henrico County) to 2.8 percent (Virginia Beach).

Table 59: Peer Locality Consumer Utility Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Max. Tax Per Month*
Prince William County	**$14,196,000**	**$918,457,000**	**1.5%**	**$3.00**
City of Alexandria	$12,286,676	$603,522,778	2.0%	$3.00
Arlington County	$12,195,401	$1,053,009,286	1.2%	$3.00
Chesterfield County	$8,043,759	$526,045,613	1.5%	$2.00
Fairfax County	$45,204,598	$3,544,726,582	1.3%	$4.00
Fauquier County	$1,608,950	$155,889,412	1.0%	$3.00
Henrico County**	$2,813,090	$577,598,789	0.5%	$1.00
Loudoun County	$10,829,893	$1,345,727,552	0.8%	$2.75
Stafford County	$6,119,222	$242,730,018	2.5%	$3.00
City of Virginia Beach	$25,341,725	$917,500,086	2.8%	$3.00

Source: Virginia Auditor of Public Accounts; locality websites
** For residential utility customers of electricity and natural gas*
***There is no tax imposed by Henrico County on the use of gas in residential or commercial area.*

[101] The effective cap is $3 per month except in any locality that imposed a higher maximum tax on July 1, 1972. Those localities may continue to impose the higher maximum on residential consumers at an amount no higher than the maximum tax in effect prior to January 1, 2001, as converted to kilowatt hours.

Food and Beverage (Meals) Tax

Statutory Authority: § 58.1-3833; § 58.1-3840; § 58.1-3841; § 58.1-3842
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: The meals tax is imposed as a flat percentage on the price of a meal. The tax cannot be imposed on food that meets the definition of food under the Federal Food Stamp Program, with the exception of sandwiches, salad bar items, certain prepackaged salads and non-factory sealed beverages. Cities may tax meals as part of their general taxing authority with no rate limitation. Counties are limited to a maximum rate of 4.0 percent and may levy tax only after approval in referendum, except for Arlington, Frederick, Montgomery, Roanoke and Rockbridge Counties, which may impose tax without referendum if unanimously approved by board of supervisors after a public hearing. Rappahannock County may levy a combined food and beverage and transient occupancy tax at a maximum rate of 4.0 percent on bed and breakfast establishments.

Statewide Statistics: The food and beverage tax is imposed by 49 counties (51.6 percent) and all 35 cities. The source generated $533.1 million in 2017, equal to 3.1 percent of all local government tax revenue, as shown in Table 60.

Table 60: Virginia Locality Food and Beverage Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Restaurant Meals	35	49	$533,129,222	3.1%

Source: Virginia Auditor of Public Accounts;

Peer Government Statistics: Four peer localities collect meals taxes. The revenue source generated between $8.0 million (Stafford County) and $65.2 million (Virginia Beach) in FY2017. Among peer localities, the reliance on meals taxes as a share of local tax revenue ranges from 3.1 percent (Alexandria) to 7.1 percent (Virginia Beach), as depicted in Table 61.

Table 61: Peer Locality Food and Beverage Tax Rates and Revenue, 2017

	Total Local Tax Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate
City of Alexandria	$18,878,758	$603,522,778	3.1%	4.0%
Arlington County	$39,047,018	$1,053,009,286	3.7%	4.0%
Henrico County	$28,443,883	$577,598,789	4.9%	4.0%
Stafford County	$8,022,545	$242,730,018	3.3%	4.0%
City of Virginia Beach	$65,207,699	$917,500,086	7.1%	5.5%

Source: Virginia Auditor of Public Accounts;

Cigarette/Tobacco Tax

Statutory Authority: § 58.1-3830 et seq.
Local Governments Empowered to Levy: Counties of Arlington and Fairfax, cities and towns

Description/Statutory Limitations: The tobacco tax is levied either as a flat tax or as a portion of gross receipts. Unlike the meals tax, which is added directly to the bill at the time of purchase, the cigarette tax is added to the price per pack before the consumer buys the cigarettes. Cities may tax tobacco as part of their general taxing authority with no rate limitation. Counties cannot impose cigarette taxes unless they did so prior to January 1, 1977; only Arlington and Fairfax Counties are authorized. The county limit is $0.05 per pack or the state tax, whichever is greater. The current state tax rate is $0.015 cents per cigarette, equal to $0.30 per standard pack of 20 cigarettes. If town levies tax, county tax applicable in town only if council agrees.

Statewide Statistics: The cigarette tax is imposed by 2 counties (2.1 percent) and 29 cities (82.9 percent). The source generated $63.1 million in 2017, equal to 0.4 percent of all local government tax revenue, as summarized in Table 62.

Table 62: Virginia Locality Cigarette Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Tobacco	29	2	$63,131,908	0.4%

Source: Virginia Auditor of Public Accounts;

Peer Government Statistics: Four peer localities collect tobacco taxes. The revenue source generated between $2.4 million (Arlington County) and $11.9 million (Virginia Beach) in FY2017. Among peer localities, the reliance on tobacco taxes as a share of local tax revenue is relatively small and ranges from 0.2 percent (Arlington and Fairfax Counties) to 1.3 percent (Virginia Beach), as displayed in Table 63.

Table 63: Peer Locality Tobacco Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate*
City of Alexandria	$3,021,243	$603,522,778	0.5%	$1.15
Arlington County	$2,384,533	$1,053,009,286	0.2%	$0.30
Fairfax County	$6,838,274	$3,544,726,582	0.2%	$0.30
City of Virginia Beach	$11,906,282	$917,500,086	1.3%	$0.75

Source: Virginia Auditor of Public Accounts; locality websites
** Per standard pack of 20 cigarettes*

Transient Occupancy/Lodging Tax

Statutory Authority: § 58.1-3819; § 58.1-3826; § 58.1-3840
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: The transient occupancy tax (TOT) is a flat percentage imposed on the charge for the occupancy of any room or space in hotels, motels, boarding houses, travel campgrounds and other facilities providing lodging for less than 30 days. Cities may impose a lodging tax as part of their general taxing authority with no rate limitation. Under current law, any county may impose a TOT on applicable facilities at a maximum rate of 2.0 percent upon the adoption of an ordinance. Virginia law identifies 50 counties that are authorized to impose the tax at a maximum rate of 5.0 percent, with the additional revenues designated solely for tourism, marketing of tourism or initiatives that attract travelers to the locality.

Additional counties are authorized to impose additional transient occupancy taxes, with the maximum rates provided by law. Roanoke County was given permission to levy a rate of 7.0 percent in 2012, with a portion of the revenue going to tourism advertisement. James City and York counties have 5.0 percent rates but are also allowed to charge an additional $2 per room per night. The proceeds of these additional taxes go to tourism advertising. Certain cities and towns, including Alexandria, also charge specific dollar amounts in addition to the percent rates.

Arlington County may currently levy up to 5.0 percent under certain conditions and an additional 2.0 percent for its conference center. In addition, effective July 1, 2016 and lasting until July 1, 2018, the legislature reinstated Arlington County's authority to impose an additional transient occupancy tax at a rate not to exceed 0.25 percent to promote tourism.

In 2017, a new state law (§ 15.2-983) took effect in Virginia that allows a locality to adopt an ordinance to establish a local registry of short-tern rental properties as follows:

- Registration is administrative in nature. The law does not change any existing tax or zoning requirements, condo or lease provisions, homeowner association restrictions, or other agreements or rules.
- Registration is annual and requires the operator's name and the address of each property.
- The locality may charge a reasonable fee to administer the registry, if it deems necessary.
- The locality may assess a penalty of up to $500 per violation for failure to register, and may prohibit the rental of a property that has not registered or paid registry fees or penalties. Repeated violations may result in the prohibition on rental of applicable properties.
- The state law defines "short-term rental" as "the provision of a room or space that is suitable or intended for occupancy for dwelling, sleeping or lodging purposes, for a period of fewer than 30 consecutive days, in exchange for a charge for the occupancy" and defines "operator" as "the proprietor of any dwelling, lodging or sleeping accommodations offered as a short-term rental, whether in the capacity of owner, lessee, sublessee, mortgagee in possession, licensee, or any other possessory capacity."
- The registry would not apply to real estate agents, properties represented by real estate agents, registered time-shares, or licensed lodging establishments such as hotels.

Statewide Statistics: The transient occupancy tax is imposed by 75 counties (78.9 percent) and 34 cities (97.1 percent). The source generated $217.1 million in 2017, equal to 1.3 percent of all local government tax revenue, as shown in Table 64.

Table 64: Virginia Locality Transient Occupancy Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Hotel and Motel Room	34	75	$217,083,489	1.3%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: The transient occupancy tax generated between $0.1 million (Fauquier County) and $32.8 million (Virginia Beach) for peer governments; the source comprised between 0.1 percent (Fauquier County) and 3.6 percent (Virginia Beach) of total local tax revenue in 2017. Rates range from 2.0 percent in Fauquier County to 8.0 percent in Chesterfield County, Henrico County and Virginia Beach, as displayed in Table 65.

Table 65: Peer Locality Transient Occupancy Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate
Prince William County	**$4,030,000**	**$918,457,000**	**0.4%**	**7.0%**
City of Alexandria	$13,542,901	$603,522,778	2.2%	6.5%*
Arlington County	$25,267,916	$1,053,009,286	2.4%	5.0%
Chesterfield County	$5,186,616	$526,045,613	1.0%	8.0%
Fairfax County	$22,578,980	$3,544,726,582	0.6%	6.0%
Fauquier County	$114,841	$155,889,412	0.1%	2.0%
Henrico County	$13,448,236	$577,598,789	2.3%	8.0%
Loudoun County	$6,092,608	$1,345,727,552	0.5%	7.0%
Stafford County	$1,916,103	$242,730,018	0.8%	5.0%
City of Virginia Beach	$32,805,597	$917,500,086	3.6%	8.0%**

Source: Virginia Auditor of Public Accounts; locality websites
** Alexandria charges an addition $1 per night*
*** Virginia Beach tax is normally 8.0 percent except for an additional 1.5 percent imposed in a special district (Sandbridge)*

Admissions Tax

Statutory Authority: § 58.1-3818; § 58.1-3840
Local Governments Empowered to Levy: Cities and certain counties (Fairfax, Arlington, Brunswick, Culpeper, Dinwiddie, James City, Nelson, New Kent, Prince George and Roanoke Counties); any county where there is a major league baseball stadium

Description/Statutory Limitations: Cities may tax admissions as part of their general taxing authority with no rate limitation. Counties authorized to levy the tax are limited to maximum of 10.0 percent except Roanoke County, which has general charter power. The tax in a county with a baseball stadium may be levied on admissions to the stadium only. The 10.0 percent tax may be supplemented by a 2.0 percent surcharge if the stadium has more than 40,000 seats. Nelson County may levy the tax only for admissions to spectator events. The County tax is in addition to any town tax.

Statewide Statistics: The admissions tax is imposed by 5 counties (5.3 percent) and 19 cities (54.3 percent). The source generated $21.1 million in 2017, equal to 0.1 percent of all local government tax revenue, as summarized in Table 66.

Table 66: Virginia Locality Admissions Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Admission	19	5	$21,050,453	0.1%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: Among peer governments, only the Cities of Alexandria and Virginia Beach impose admissions taxes – both at a rate of 10.0 percent. Alexandria generated $0.7 million in FY2017 (equal to 0.1 percent of total local tax revenue), and Virginia Beach generated $6.8 million (equal to 0.7 percent of total local tax revenue, as displayed in Table 67.

Table 67: Peer Locality Admissions Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Rate
City of Alexandria	$709,640	$603,522,778	0.1%	10.0%
City of Virginia Beach	$6,811,740	$917,500,086	0.7%	10.0%

Source: Virginia Auditor of Public Accounts;

Recordation and Wills Tax

Statutory Authority: § 58.1-3800; § 58.1-3805
Local Governments Empowered to Levy: Counties and cities

Description/Statutory Limitations: The recordation tax generally applies to real and personal property in connection with deeds of trust, mortgages, and leases, and to contracts involving the sale of rolling stock or equipment. Cities and counties are authorized to impose the tax in an amount equal to one-third of the state recordation tax. Currently, the state tax on the first $10 million of value is $0.25 per $100, so cities and counties can impose a maximum tax of $0.083 per $100 on the first $10 million, one-third of the state rate. Above $10 million, there is a declining scale of charges.

Local governments are not permitted to impose a levy when the state recordation tax imposed is $0.50 or more. Consequently, local governments cannot levy a tax on documents such as certain corporate charter amendments, deeds of release or deeds of partition, as the state tax imposed is already $0.50 per $100. Sections 58.1-809 and 58.1-810 also specifically exempt certain types of deed modifications from being taxed. Deeds of confirmation or correction, deeds to which the only parties are husband and wife and modifications or supplements to the original deeds are not taxed. Finally, § 58.1-811 lists a number of exemptions to the recordation tax.

State law also authorizes cities and counties to impose a tax on the probate of every will or grant of administration equal to one-third of the state tax on such probate or grant of administration. Currently, the state tax on wills and grants of administration is $0.10 per $100 or a fraction of $100 for estates valued at greater than $15,000; therefore, the maximum local rate is $0.033. A related state tax is levied in localities associated with the Northern Virginia Transportation Authority. The tax, created as part of the 2013 transportation bill, is a grantor's fee of $0.15 per $100 on the value of real property sold.

Statewide Statistics: The recordation and wills tax is imposed by 94 counties (98.9 percent) and 34 cities (97.1 percent). The source generated $127.1 million in 2017, equal to 0.7 percent of all local government tax revenue, as summarized in Table 68.

Table 68: Virginia Locality Recordation and Wills Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Recordation and Will	34	94	$127,050,614	0.7%

Source: Virginia Auditor of Public Accounts;

Peer Government Statistics: The recordation and will taxes generated between $0.1 million (Virginia Beach) and $28.8 million (Fairfax County) for peer governments; the source comprised between 0.0 percent (Virginia Beach) and 1.2 percent (Stafford County) of total local tax revenue in 2017, as depicted in Table 69.

Table 69: Peer Locality Recordation and Will Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue	Recordation/Wills Rates
Prince William County	$8,965,000	$918,457,000	1.0%	$0.083 / N/A
City of Alexandria	$5,024,141	$603,522,778	0.8%	$0.083 / N/A
Arlington County	$7,048,071	$1,053,009,286	0.7%	$0.083 / $0.033
Chesterfield County	$4,637,930	$526,045,613	0.9%	$0.083 / N/A
Fairfax County	$28,822,247	$3,544,726,582	0.8%	$0.083 / N/A
Fauquier County	$1,731,125	$155,889,412	1.1%	$0.050 / $0.033
Henrico County	$4,518,839	$577,598,789	0.8%	$0.083 / N/A
Loudoun County	$13,495,539	$1,345,727,552	1.0%	$0.083 / $0.033
Stafford County	$2,925,256	$242,730,018	1.2%	$0.083 / $0.033
City of Virginia Beach	$102,618	$917,500,086	0.0%	$0.083 / $0.033

Source: Virginia Auditor of Public Accounts;

Taxes on Businesses

BPOL Tax

Statutory Authority: § 58.1-3700 et seq.
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Counties cannot levy BPOL taxes within a town that also levies BPOL taxes, unless the town agrees. Specific tax rates apply to different types of businesses and amount due is based on the gross receipts of a business.

Statewide Statistics: The BPOL tax is imposed by 55 counties (57.9 percent) and all 35 cities. The source generated $715.0 million in 2017, equal to 4.2 percent of all local government tax revenue, as summarized in Table 70.

Table 70: Virginia Locality BPOL Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Business License	35	55	$714,956,627	4.2%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: Among peer localities, only Stafford County does not impose BPOL tax. Among peer governments, the tax generated between $1.6 million (Fauquier County) and $157.2 million (Fairfax County). The source comprised between 1.0 percent (Fauquier County) and 6.1 percent (Arlington and Henrico Counties) of total local tax revenue in 2017, as shown in Table 71.

Table 71: Peer Locality BPOL Tax Rates and Revenue, 2017*

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue
Prince William County	**$25,341,000**	**$918,457,000**	**2.8%**
City of Alexandria	$33,751,756	$603,522,778	5.6%
Arlington County	$63,837,926	$1,053,009,286	6.1%
Chesterfield County	$20,580,987	$526,045,613	3.9%
Fairfax County	$157,160,315	$3,544,726,582	4.4%
Fauquier County	$1,632,643	$155,889,412	1.0%
Henrico County	$35,432,437	$577,598,789	6.1%
Loudoun County	$35,210,681	$1,345,727,552	2.6%
City of Virginia Beach	$47,009,977	$917,500,086	5.1%

Source: Virginia Auditor of Public Accounts
** Rates not provided because rates vary by business classification*

Daily Rental Property Tax

Statutory Authority: § 58.1-3510 et seq.
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: In 2010, the General Assembly modified short-term rental property classifications and as a result, can be included in merchants' capital as a separate classification. Consequently, localities may tax this property either as merchants' capital or short-term rental property, but not as both. Whether considered under the merchants' capital tax or the short-term property tax, the category of property shall not be considered tangible personal property for purposes of taxation. For purposes of taxation under the short-term rental tax, property is classified into two types: short-term rental property and heavy equipment short term rental property. Light equipment may be taxed up to 1.0 percent of gross receipts; heavy equipment short term rental property may be taxed up to 1.5 percent of gross receipts.

Peer Government Statistics: Among peer localities, only Fauquier County does not impose the short-term daily rental tax, as shown in Table 72.

Table 72: Peer Locality Short-Term Daily Rental Tax Rate (% of Gross Receipts)

	Light Equipment	Heavy Equipment
Prince William County	**1.0%**	**1.5%**
City of Alexandria	1.0%	1.5%
Arlington County	1.0%	1.0%
Chesterfield County	1.0%	1.5%
Fairfax County	1.0%	1.0%
Henrico County	1.0%	1.0%
Loudoun County	1.0%	1.0%
Stafford County	1.0%	1.0%
City of Virginia Beach	1.0%	1.5%

Source: Weldon Cooper Center

Severance Tax

Statutory Authority: § 58.1-3712; § 58.1-3713.4
Local Governments Empowered to Levy: Counties and cities

Description/Statutory Limitations: Applies to minerals, coal, gas and oil. Limited to maximum of 1 percent of gross receipts from sale of coal mined and 2 percent of gross receipts from sales of gas produced (the additional 1 percent for gas must be paid onto local Coal and Gas Road Improvement Fund in each locality); 25 percent of revenues in counties and cities in SW Virginia paid to Virginia Coalfield Economic Development Fund.

Statewide Statistics: The coal and gas severance tax is imposed by 7 counties (7.4 percent) and 1 city (2.9 percent). The source generated $27.5 million in 2017, equal to 0.2 percent of all local government tax revenue, as summarized in Table 73.

Table 73: Virginia Locality Coal and Gas Severance Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Coal, Oil and Gas	1	7	$27,525,086	0.2%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: No peer municipalities impose coal or gas severance taxes.

Utility License Tax

Statutory Authority: § 58.1-3731
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Localities in Virginia may impose a local license tax on certain types of public service corporations: telephone and water companies (not to exceed one half of one percent of gross receipts). Prior to 2006, any locality that had in effect before January 1, 1972 a tax rate exceeding the statutory ceiling could continue to tax at the previous level but could not raise the rate. This provision changed in 2006 under the Virginia Communication Sales and Use Tax when the General Assembly eliminated the business license tax in excess of 0.5 percent. The utility license tax is reported as part of the franchise license tax; no estimates related to the revenue generated by the utility license tax are available. The franchise license tax includes the license fees of electric and water utilities as well as cable television utilities.

Statewide Statistics: A total of 132 localities reported having a utility license tax on telephone service and 37 had a tax on water service, as summarized in Table 74.

Table 74: Localities Reporting the Utility License Tax, 2016

	Cities	Counties	Towns	Total
Telephone	30	46	56	132
Water	8	22	7	37

Source: Weldon Cooper Center

Peer Government Statistics: Among peer localities, only Loudoun County does not impose the Utility License Tax. Among peer governments, most impose the tax on telephones at a rate of 0.5 percent of gross receipts; at 0.3 percent and 0.24 percent, respectively, Prince William and Fairfax Counties are the exceptions. As shown in Table 75, half of the peer governments, including Prince William County, do not impose the tax on water; among those that do, the rate imposed is the maximum 0.5 percent of gross receipts.

Table 75: Utility License Tax, 2016 (% of Gross Receipts)

	Telephone	Water
Prince William County	**0.3%**	**N/A**
City of Alexandria	0.5%	0.5%
Arlington County	0.5%	0.5%
Chesterfield County	0.5%	N/A
Fairfax County	0.24%	N/A
Fauquier County	0.5%	0.5%
Henrico County	0.5%	0.5%
Stafford County	0.5%	N/A
City of Virginia Beach	0.5%	0.5%

Source: Weldon Cooper Center
N/A=Not applicable

Alcohol License Tax

Statutory Authority: § 4.1-205; § 4.1-233
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: Localities are authorized by ordinance to collect license taxes from persons engaging in manufacturing, selling or bottling alcoholic beverages and mixed beverages. State statute provides the maximum annual local license taxes which may be collected. If a town levies the tax, the county tax is not applicable in that town. Maximum annual taxes by category are set by State law.

Statewide Statistics: All cities and most counties are "wet" (approved for liquor by the drink). Nine counties are "dry" (not approved for liquor by the drink); however, beer and wine may be served. Referendum may allow for mixed beverages in certain towns located within dry counties. The following are "dry" counties: Bland, Buchanan, Charlotte, Craig, Grayson, Highland, Lee, Patrick and Russell.

Statewide, more than 19,000 annual retail licenses were issued in 2017. Of that total, 52.4 percent were on premise, 30.3 percent were off premise and the remaining 17.4 percent were industry.

Revenue related to alcohol license taxes is not separately identified in the Virginia Auditor of Public Accounts' reports.

Peer Government Statistics: A total of 768 establishments were issued licenses in Prince William County in 2017. Of that total, 290 (37.8 percent) were issued to restaurants for the consumption of beer and wine, 176 (22.9 percent) were issued to restaurants for the sale of mixed beverages, and an additional 116 (15.1 percent) were issued to grocery and gourmet stores. Relative to peer governments, the number of licenses issued in Prince William County ranks in the middle, with Fairfax County, Virginia Beach, Loudoun County and Henrico County each issuing more licenses in 2017, as shown in Table 76.

Table 76: 2017 Establishments by License Category

	Beer/Wine Importers	Beer/Wine Wholesalers	Breweries	Carrier Licensees	Career Establishments	Clubs	Convenience Stores	Drug Stores	Gourmet/Gourmet Brew Shops	Grocery/Grocery-Gourmet Stores	Hotels/Resorts	Restaurants (Mixed Beverage)*	Restaurants (Beer and Wine)	Wineries	All Others**	Grand Total
Prince William County	12	14	9	1	2	9	37	21	43	116	8	176	290	3	27	**768**
City of Alexandria	3	1	2	1	8	6	15	13	24	29	15	138	200	0	15	**470**
Arlington County	1	2	3	4	7	6	38	22	28	40	28	221	317	0	7	**724**
Chesterfield County	4	4	2	0	4	6	118	30	41	44	5	154	231	2	15	**660**
Fairfax County	56	63	11	0	36	28	45	62	130	173	38	586	956	2	53	**2,239**
Fauquier County	3	28	4	0	3	4	29	5	17	14	4	36	57	28	22	**254**
Henrico County	12	15	6	0	13	16	144	32	40	40	21	191	303	0	36	**869**
Loudoun County	16	43	28	17	12	7	30	17	48	65	14	232	378	49	52	**1,008**
Stafford County	4	6	4	0	3	5	49	8	13	12	1	43	73	2	14	**237**
City of Virginia Beach	4	4	9	6	11	12	158	45	65	43	23	428	576	1	39	**1,424**

Source: Virginia Department of Alcoholic Beverage Control 2017 Annual Report
** The "Restaurants (Mixed Beverage)" category represents the total number of wine and beer establishments also having mixed beverage licenses. There licenses are included in the grand total column.*
*** The "All Others" category includes hospitals, fire departments, rescue squads, performing arts facilities, gift shops, food concessions, bed and breakfasts, delicatessens and distilleries. It does not include banquets.*

Bank Franchise Tax

Statutory Authority: § 58.1-1208; § 58.1-1210 (counties)
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: The bank franchise tax is also known as the bank stock tax. In Virginia, a franchise tax is imposed on the net capital of banks and trust companies. The bank franchise tax is limited to a maximum of 80 percent of the state rate ($1.00 per $100 of taxable value). Counties may only tax those banks outside town or corporate limits.

Statewide Statistics: The bank franchise tax is imposed by 68 counties (71.6 percent) and all 35 cities. As shown in Table 77, the source generated $100.6 million in 2017, equal to 0.6 percent of all local government tax revenue.

Table 77: Virginia Locality Bank Franchise Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Bank Stock	35	68	$100,633,077	0.6%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: The bank franchise tax is imposed in each peer locality, as summarized in Table 78. The source generated between $0.1 million (Fauquier County) and $21.8 million (Fairfax County) for peer governments and comprised between 0.1 percent (Fauquier County) and 3.0 percent (Henrico County) of total local tax revenue in 2017.

Table 78: Peer Locality Bank Stock Tax Rates and Revenue, 2017

	Revenue	Total Local Tax Revenue	% of Local Tax Revenue
Prince William County	**$1,834,000**	**$918,457,000**	**0.2%**
City of Alexandria	$3,391,507	$603,522,778	0.6%
Arlington County	$3,705,205	$1,053,009,286	0.4%
Chesterfield County	$2,181,534	$526,045,613	0.4%
Fairfax County	$21,760,870	$3,544,726,582	0.6%
Fauquier County	$145,363	$155,889,412	0.1%
Henrico County	$17,318,152	$577,598,789	3.0%
Loudoun County	$8,916,977	$1,345,727,552	0.7%
Stafford County	$503,926	$242,730,018	0.2%
City of Virginia Beach	$3,100,922	$917,500,086	0.3%

Source: Virginia Auditor of Public Accounts

Cable TV Franchise Tax

Statutory Authority: § 15.2-2108.1:1
Local Governments Empowered to Levy: Counties, cities and towns

Description/Statutory Limitations: In January 2007, the Virginia Communications Sales and Use Tax Act eliminated several local taxes, including the Cable Television System Franchise Tax. These taxes were replaced by the Communications Sales and Use Tax, a new state tax of 5.0 percent of the sales price of the service, which is collected by the Virginia Department of Taxation and remitted to localities as non-categorical state aid based on a percentage developed by the Auditor of Public Accounts, as displayed in Table 79.

Table 79: Schedule of Communication Service Taxes and Fees Reported by Local Governments for the Period July 1, 2005 through June 30, 2006

	Total Taxes Per Locality	Distribution Percentage
Prince William County	$20,940,850	4.64%
City of Alexandria	$11,682,956	2.59%
Arlington County	$8,123,822	1.80%
Chesterfield County	$15,738,380	3.49%
Fairfax County	$85,461,089	18.93%
Fauquier County	$3,129,441	0.69%
Henrico County	$14,213,560	3.15%
Loudoun County	$12,572,578	2.78%
Stafford County	$6,263,608	1.39%
City of Virginia Beach	$28,233,483	6.25%

Source: Virginia Auditor of Public Accounts
** Total includes local consumer utility tax on telephone service, local E-911 service tax, gross receipt tax (over 0.5 percent), local consumer utility tax on cable service, cable franchise fee and video program excise tax.*

Despite housing growth in Prince William County, these tax revenues continue to decline as landline usage decreases.

Statewide Statistics: The Franchise License Tax is imposed by 44 counties (46.3 percent) and 11 cities (31.4 percent). The source generated $12.0 million in 2017, equal to 0.1 percent of all local government tax revenue, as summarized in Table 80.

Table 80: Virginia Locality Franchise License Tax Statistics, 2017

	Cities	Counties	Local Tax Revenue	% of Total
Franchise License	11	44	$12,027,358	0.1%

Source: Virginia Auditor of Public Accounts

Peer Government Statistics: The tax still exists in localities with current contracts with cable operators. When those contracts expire, the localities will revert to the requirements of the state tax. As shown in Table 81, the tax is imposed in three peer localities, including Prince William County. The source generated between $1.2 million (Stafford County) and $3.0 million (Fairfax County) for peer governments and comprised between 0.1 percent (Fairfax County) and 0.5 percent (Stafford County) of total local tax revenue in 2017.

Table 81: Peer Locality Franchise License Tax Revenue, 2017

	Total Local Tax Revenue	Total Local Tax Revenue	% of Local Tax Revenue
Prince William County	$1,420,000	$918,457,000	0.2%
Fairfax County	$3,000,860	$3,544,726,582	0.1%
Stafford County	$1,188,764	$242,730,018	0.5%

Source: Virginia Auditor of Public Accounts

The Prince William County government has franchise agreements that license and regulate three cable television companies operating within the County: Comcast, Verizon and RCN. As part of these agreements, the companies have agreed to meet specific customer service standards for cable television services only.

Statewide Summary of County Local Tax Revenue, 2017

Table 82 summarizes, by source, the 2017 statewide county revenues discussed above.

Table 82: Sources of County Local Tax Revenue, 2017

Tax	Counties Imposing Tax	% of Counties	County Revenue	% of Local County Revenue
General Property Taxes:				
Real Property	95	100.0%	$7,683,617,993	64.4%
Personal Property	95	100.0%	$1,679,811,896	14.1%
Public Service Corporation Property	95	100.0%	$302,980,000	2.5%
Machinery and Tools Property	91	95.8%	$124,383,387	1.0%
Merchants' Capital	44	46.3%	$13,858,574	0.1%
Penalties and Interest	95	100.0%	$85,747,781	0.7%
Local Option Sales and Use	95	100.0%	$769,861,102	6.5%
Recordation and Will	94	98.9%	$104,547,131	0.9%
Consumer Utility	92	96.8%	$159,963,963	1.3%
Motor Vehicle License	88	92.6%	$129,189,890	1.1%
Hotel and Motel Room	75	78.9%	$107,647,034	0.9%
Bank Stock	68	71.6%	$65,590,625	0.6%
Business License	55	57.9%	$408,786,026	3.4%
Restaurant Meals	49	51.6%	$148,058,313	1.2%
Franchise License	44	46.3%	$10,244,803	0.1%
Tobacco	2	2.1%	$9,222,869	0.1%
Admission	5	5.3%	$244,740	0.0%
Coal, Oil and Gas	7	7.4%	$27,500,720	0.2%
Other Local Taxes	58	61.1%	$92,834,890	0.8%
Total Taxes			**$11,924,091,737**	**100.0%**

Source: Virginia Auditor of Public Accounts, 2017 Comparative Report

Alternatives to the Current Tax Structure

Introduction

This chapter presents alternatives to the current County tax structure, which are based on stakeholder interview discussions and the analysis of peer local governments. Additionally, the project team identified other revenue-neutral options that the County may consider. The revenue estimates provided are preliminary and, in many instances, based on incomplete information. Additional analysis would be required to refine the estimates.

When discussing possible local taxes, the State-local government relationship must be considered. Virginia (as with most states) operates under what is known as Dillon's Rule, where cities and counties function as political subdivisions of the State. In Virginia, imposing local taxes requires specific statutory authority, and in many cases, state statute also establishes the tax rate and base (it is notable, however, that this is not the case for the real property tax, the County's primary revenue source). In the discussion of alternatives, the ability of the County to impose a tax (and the rate as well) with or without action by the Commonwealth will be considered.

Alternatives Related to the Real Estate Tax Structure

- **Increase the County real estate tax rate.** Virginia generally imposes real estate taxes at the local level. State law provides some guidance for how local governments are to impose and collect taxes, but there are few limitations on the ability of local governments to set their own rates.

  Discussion. Property taxes can vary greatly from place to place. For example, in FY2017, the nominal tax rate per $100 of assessed value ranged from $0.42 (Highland and Mecklenburg Counties) to $1.55 (City of Manassas Park).[102] Many localities also have add-on levies that increase the overall rate. In addition to the $1.125 base rate in Prince William County, fire and rescue levies are imposed at a rate of $0.0792, and a mosquito and forest pest management levy is imposed at a rate of $0.0025.

  It is not unusual for municipalities to increase the real estate tax rate incrementally over time – and in fact, several peer governments are contemplating tax increases in their budget deliberations, as shown in Table 83. In its FY2019 budget, for example, Fairfax County advertised a real estate tax increase of 2.5 cents to $1.155 per $100 of assessed value – a measure projected to increase the average real estate tax bill by $268.

Table 83: Peer Government Base Real Estate Tax Rates

Local Government	2018 Actual	2019 Budget	Variance
Prince William County	**$1.125**	**$1.125**	**$0.000**
Fairfax County	$1.130	$1.155	$0.025
City of Alexandria	$1.130	$1.130	$0.000
Loudoun County	$1.125	$1.085	($0.040)
City of Virginia Beach	$1.003	$1.003	$0.000
Arlington County	$0.993	$0.993	$0.000
Stafford County	$0.990	$0.965	($0.025)
Fauquier County	$0.975	$0.855	($0.120)
Chesterfield County	$0.960	$0.950	($0.010)
Henrico County	$0.870	$0.870	$0.000

[102] Virginia Economic Development Partnership – Guide to Local Taxes on Business, 2016-2017. Accessed electronically at http://www.yesvirginia.org/Content/pdf/guides/Guide%20to%20Local%20Taxes%202016-2017.pdf

Estimated Fiscal Impact. The project team estimates that if the $3.70 BTP tax rate on computer equipment and peripherals was implemented in FY2019, the County would generate an additional $31 million over what would have been collected at $1.25 (approximately $16 million). Raising this amount of revenue from real estate property taxes in FY2019 would require raising the rate from $1.125 (the rate budgeted for FY2019) to $1.178 per $100 of assessed value – a 4.7 percent increase.

Table 84 illustrates the impact this rate increase would have on properties at various assessed values. At $200,000, the increase would be relatively minor ($106), though it should be noted that overall tax burden – income relative to tax liabilities – would be impacted. For real estate with an assessed value of $1,000,000, property tax bills would be expected to increase by over $530. It is notable that while Prince William County's proposed 2019 rate of $1.125 per $100 of assessed value is comparable with peer governments, at $1.178, it would become the highest rate among the group.

Table 84: Estimated Fiscal Impact of Increasing the County Real Estate Tax Rate

	$200,000	$400,000	$600,000	$800,000	$1,000,000
$1.125 per $100	$2,250	$4,500	$6,750	$9,000	$11,250
$1.178 per $100	$2,356	$4,712	$7,068	$9,424	$11,780
Estimated Increase	**$106**	**$212**	**$318**	**$424**	**$530**

Strengths	Weaknesses
- Real estate tax increases are common, as property tends to appreciate in value - Broad base, so small increases raise significant revenue	- Unpopular tax, so rate increases will also be unpopular - Would not advance the County's commercialized tax base goal - Property taxes are not necessarily equated with ability to pay
Opportunities	**Threats**
- Allows County to continue to market its low BTP rate for data centers	- May change standing with benchmarked peers

- **Impose the commercial and industrial (C&I) tax on commercial and industrial property at the maximum rate of $0.125 per $100 of assessed value.** The Code of Virginia Title 58.1, Chapter 31 (58.1-3221.3) allows certain municipalities (including Prince William County) to impose an additional tax on commercial and industrial property.

  Discussion. Beginning on January 1, 2008, in counties and cities that are "wholly embraced" by the Northern Virginia Transportation Authority, all real property used for or zoned to permit commercial or industrial uses is declared a separate class of real property for local taxation. The governing body of these localities may, by ordinance, annually impose on commercial and industrial property a property tax at a rate not to exceed $0.125 per $100 of assessed value. All revenue generated from the additional property tax must be used for the following purpose(s):

  - New road construction and associated planning, design and right-of-way acquisition;
  - New public transit construction and associated planning, design and right-of-way acquisition;
  - Other capital costs related to new transportation projects that add new capacity, service or access and the operating costs directly related to the foregoing; and

- The issuance costs and debt service on bonds that may be issued to support the capital costs permitted for the purposes above.

Among peer localities, Fairfax and Arlington Counties levy a C&I tax – both at the maximum rate of $0.125 per $100 of assessed value.

While the funds generated by this measure would need to be used in a specific manner, it is possible that instituting this additional tax could supplant general funds currently allocated for transportation-related purposes.

Estimated Fiscal Impact. In 2017, the taxable assessed value of the County's commercial and industrial property was $7.4 billion – a CAGR of 1.3 percent over 10 years and year-over-year growth of 3.2 percent.[103] In its FY2019-2023 Estimate of General Revenue, the County projects that commercial property value appreciation will be 4.6 percent in 2019 and 2.5 percent in 2020-2023. Based on these assumptions, the project team estimates that applying a tax of $0.125 per $100 of assessed value to commercial and industrial property would generate between $10 million and $11 million annually for the County, as shown in Table 85.

Table 85: Estimated Fiscal Impact of Taxing Commercial and Industrial Property, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Estimated Taxable Assessed Value ($MM)	$7,993	$8,192	$8,397	$8,607	$8,779
Estimated Revenue ($MM)	**$10.0**	**$10.2**	**$10.5**	**$10.8**	**$11.0**

Strengths	Weaknesses
- Would help the County move closer to its goal of increasing the commercial share of total property taxes - Tax is easily administered and understood - Broad base, so small rate generates significant revenue - Infrastructure improvements will benefit many of the businesses paying the tax	- It will increase business costs and be factored into location and expansion decisions - It will have a greater/disproportionate impact on capital intensive businesses - The tax is collected immediately but the infrastructure improvements will take years to materialize
Opportunities	**Threats**
- Improved infrastructure may be a marketing tool to attract certain types of businesses	- Could potentially impact business decisions

Alternatives Related to the Personal Property Tax Structure

- **Increase the County personal property tax rate.** As with real estate taxes, Virginia imposes personal property taxes at the local level. State law provides guidance as to how local governments are to impose and collect the tax, but there are few limitations on the ability of local governments to set their own personal property tax rates.

[103] Prince William County CAFR 2017. The project team used 3.2 percent growth estimate in 2018, equal to the growth in taxable assessed value observed from 2016 to 2017.

Discussion. Personal property tax rates can (and do) vary greatly from place to place. In 2017, for example, nominal general personal property taxes in peer localities ranged from $3.50 in Henrico County to $6.46 in Stafford County. Multiplying the nominal rate by the percentage of retail value and assessment ratio results in an adjusted effective tax rate, which ranged from $2.58 in Stafford County to $4.35 in Alexandria. The average adjusted effective tax rate (excluding Prince William County) is $3.38, as shown in Table 86.

Table 86: Adjusted Effective Personal Property Tax Rates (per $100 of Assessed Value)

	Nominal Rate	% of Retail Value*	Assessment Ratio	Adjusted Effective Rate	Rank (1=Lowest)
Prince William County	$3.70	87%	100%	$3.22	5
City of Alexandria	$5.00	87%	100%	$4.35	10
Arlington County	$5.00	78%	100%	$3.90	8
Chesterfield County	$3.60	78%	100%	$2.81	3
Fairfax County	$4.57	87%	100%	$3.98	9
Fauquier County	$4.65	78%	100%	$3.63	7
Henrico County	$3.50	78%	100%	$2.73	2
Loudoun County	$4.20	78%	100%	$3.28	6
Stafford County	$6.46	100%	40%	$2.58	1
City of Virginia Beach	$4.00	78%	100%	$3.12	4
Avg. (excl. Prince William County)	$4.55	82%	93%	$3.38	N/A

Estimated Fiscal Impact. Assuming Prince William County's percentage of retail value and assessment ratios remain the same as they appear in Table 86, the project team calculates that increasing the nominal personal property tax rate from $3.70 to $3.89 per $100 of assessed value would result in an effective tax rate of $3.38 (equal to the peer locality average). This nominal rate increase of 5.0 percent would generate between $9.5 million and $11.1 million annually, as shown in Table 87.

Table 87: Estimated Fiscal Impact of Increasing the County Personal Property Tax Rate, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Revenue at $3.70 per $100 of AV	$190.2	$198.3	$206.9	$214.4	$222.2
Revenue at $3.89 per $100 of AV	$199.7	$208.2	$217.2	$225.2	$233.3
Estimated Revenue	**$9.5**	**$9.9**	**$10.3**	**$10.7**	**$11.1**

Strengths	Weaknesses
- Among taxes, it has generally high collection rates, as the taxed items are tangible and often can be identified by other means - It can be argued to be a form of wealth tax, as individuals with significant assets (such as automobiles) will pay more tax	- Unpopular tax, so rate increases will also be unpopular - Would not advance the County's commercialized tax base goal - Property taxes are not necessarily equated with ability to pay

Opportunities	Threats
-	- May change standing with benchmarked peers

- **Eliminate or modify the provision of a reduction in assessed value for vehicles with high mileage.** The deduction for high mileage cannot exceed 40 percent of the normal assessed value for the vehicle. Once a vehicle is established in the County's system as having high-mileage, the reduction in assessed value will continue for as long as the resident owns the vehicle. The minimum mileage required to qualify for vehicles with a model year of 2004 and older is 165,001. The mileage threshold decreases as the model year increases; for a 2018 model year vehicle, the minimum mileage requirement is 10,001 miles or more. Only Loudoun County and the City of Alexandria were found to offer similar reductions.

  Discussion. According to the U.S. Department of Transportation's Federal Highway Administration, the average driver logs 13,476 miles annually.[104] Based on this statistic, the thresholds currently used by the County are very generous, as an "average" driver would be eligible for this relief. The County should consider increasing the threshold, or eliminating the provision completely.

  Estimated fiscal impact. The fiscal impact is likely to be minimal. According to an analysis by the County Finance Department, the impact of the high mileage deduction is just over $0.1 million per year.

Strengths	Weaknesses
- Most peer localities do not appear to offer this reduction	- Elimination likely to be unpopular with taxpayers benefitting from provision - Unlikely to have a significant fiscal impact
Opportunities	**Threats**
-	-

Alternatives Related to the BTP Tax on Computer Equipment and Peripherals

- **Increase the tax rate on computer equipment and peripherals incrementally over time.** Instead of imposing the increase effective FY2019, the $3.70 rate could be phased in over a set number of years. This approach would entail increasing the rate per $100 of assessed value from $1.25 to $3.70 over a span of three to five years.

  Discussion. In general, businesses (and most taxpayers) prefer gradual changes in tax rates or the base. This allows time to build those cost increases into the overall business plan and make gradual changes if necessary. The downside is the expected revenue will not materialize as quickly. An added benefit of this approach is that it would provide more time to assess the economic effects of the tax increase. As higher rates are phased in, presumably, it would give the County more time and flexibility to adjust if negative impacts became apparent. This would be more orderly than having to change course and roll back an enacted tax increase if unanticipated, negative economic impacts arise that have to be addressed.

---

[104] U.S. Department of Transportation Federal Highway Administration – Average Annual Miles per Driver by Age Group (last updated on March 29, 2018). Accessed electronically at https://www.fhwa.dot.gov/ohim/onh00/bar8.htm

Estimated Fiscal Impact. Based on historical data, the project team estimates that the taxable property value of computer equipment and peripherals will increase by nearly 20 percent annually over the next five years – and that with no changes to the current tax rate, BTP tax would total $33 million by 2023.[105] If the County were to increase the rate to $3.70 effective in 2019, it would result in $31 million in additional revenue in 2019, growing to $64 million by 2023. If the County chose to phase in the rate increase in over a 3-year period (2019-2021) or 5-year period (2019-2023), additional revenue generated would be increasingly significant, yet lower than if implemented with no phase in. Table 88 provides the levels of additional revenue generated by year in these phased-in approaches. However, these estimates do not include any adjustment for business behavior (for example, changes in total assessed value due to impacted businesses leaving the County).

Table 88: Estimated Fiscal Impact of Increasing the Tax Rate on Computer Equipment and Peripherals Incrementally Over Time, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Baseline $1.25 per $100 of Assessed Value					
Estimated Taxable Property Values ($MM)	$1,272	$1,524	$1,826	$2,188	$2,621
Estimated BTP Tax ($MM)	$15.9	$19.0	$22.8	$27.3	$32.8
Increasing Rate in FY2019					
Tax Per $100 of Assessed Value	$3.70	$3.70	$3.70	$3.70	$3.70
Estimated Additional Revenue ($MM)	**$31.2**	**$37.3**	**$44.7**	**$53.6**	**$64.2**
3-Year Phase In					
Tax Per $100 of Assessed Value	$2.07	$2.88	$3.70	$3.70	$3.70
Estimated Additional Revenue ($MM)	**$10.4**	**$24.9**	**$44.7**	**$53.6**	**$64.2**
5-Year Phase In					
Tax Per $100 of Assessed Value	$1.74	$2.23	$2.72	$3.21	$3.70
Estimated Additional Revenue ($MM)	**$6.2**	**$14.9**	**$26.8**	**$42.9**	**$64.2**

Strengths	Weaknesses
- Phased-in approach is less burdensome for businesses - Allows businesses to plan for tax increase - County would have more time to assess economic impact	- Would delay receipt of projected County revenue
Opportunities	**Threats**
- Rate is still competitive with most benchmarked peers	- When fully imposed, higher rate may deter potential businesses from locating in the County - Increasing the rate on computers is not the trend among peer governments - May induce some peer governments to slightly undercut the County's rates

[105] The total taxable property value of computer equipment and peripherals (and associated BTP tax revenue) has increased by a 3-year CAGR of 19.8 percent and 10-year CAGR of 18.9 percent. While the 5-year CAGR yields an increase of 29.5 percent, the most recent increase (2016 to 2017) was 12.8 percent. For this reason, the project team used a CAGR of 19.8 percent.

- **Increase the tax rate on computer equipment and peripherals in alignment with the effective personal property tax rate on vehicles when accounting for PPTRA.** As an alternative to increasing the tax rate on computer equipment and peripherals incrementally to $3.70 (or some other rate) over time, this option would entail tying the rate directly to the effective personal property tax rate for vehicles.

  Discussion. As discussed previously, the $54.3 million the County receives each year in PPTRA effectively lowers the rate taxpayers pay for their vehicles. While the nominal tax rate has remained unchanged at $3.70 in recent years, the effective tax rate is much lower – equal to $1.94 per $100 of assessed value in 2018, as shown in Table 89.

Table 89: Prince William County Effective Personal Property Tax Rate, 2014-2018 (per $100 of Assessed Value)

	2014	2015	2016	2017	2018
Nominal Tax Rate	$3.70	$3.70	$3.70	$3.70	$3.70
PPTRA Relief Percentage	51.0%	51.0%	50.0%	48.5%	47.5%
PPTRA Relief Rate	$1.89	$1.89	$1.85	$1.79	$1.76
Effective Tax Rate[106]	**$1.81**	**$1.81**	**$1.85**	**$1.91**	**$1.94**

  Aligning the BTP tax rate for computer equipment and peripherals with the effective tax rate described above may be considered equitable, and, as the new rate would be higher than the current $1.25 per $100 of assessed value, would generate additional revenue for the County. However, as with any increase, the industry may not act favorably, and due to the linkage with the PPTRA, would likely increase administrative burden for the County.

  Estimated fiscal impact. The fiscal impact of aligning the tax rate on computer equipment and peripherals with the effective personal property tax rate on vehicles when accounting for PPTRA would depend upon the PPTRA relief percentage provided on an annual basis.

Strengths	Weaknesses
- Equitable	- Increase would be relatively unpredictable, as it would be tied to the PPTRA relief percentage
Opportunities	**Threats**
- Rates likely to remain competitive with most benchmarked peers	- No peer governments current use this structure - Higher rate may deter potential businesses from locating in the County - Increasing the rate on computers is not the trend among peer governments - May induce some peer governments to slightly undercut the County's rates

- **Subject only data centers to the higher rate on computer equipment and peripherals.** Instead of increasing the rate on all computer equipment and peripherals, it would be increased only on data centers, which would not subject the non-data center business owners to the increase.

[106] The effective personal property tax rate is calculated as the nominal tax rate – (the nominal tax rate x the PPTRA relief percentage).

Discussion. There is question as to whether this option would be legally feasible, and the general consensus amongst County staff is that it is not. While Virginia Code allows for a separate designation for data centers to allow local governments to carve out lower tax rates specifically for data centers, it would not permit a higher rate for data center computer equipment and peripherals. Title 58.1, Chapter 31 (58.1-3506) Section 47B states that "If an item of personal property is included in multiple classifications under Subsection A, then the rate of tax shall be the lowest rate assigned to such classifications." Computer equipment and peripherals used in a data center would fall under both a business and a data center – and therefore, the lower rate would apply and data centers would be eligible to pay the lower $1.25 rate.

Estimated Fiscal Impact. N/A. Current Virginia Code does not permit this option. A legislative change would be required.

Strengths	Weaknesses
- Would not subject non-data center businesses to the increase	-
Opportunities	**Threats**
-	- Not legally feasible without legislative action from the Virginia General Assembly.

Additional Potential Revenue Measures Not Requiring Action by the Virginia General Assembly

- **Create a sub-classification under the BPOL Business Services Classification for data centers or "cloud computer hosting."** Under this structure, the County could increase the 0.21 rate per $100 in gross receipts specifically for data centers.

  Discussion. It appears that localities have the ability to target data centers through BPOL rather than the BTP tax. This would have the added benefit of maintaining current small business tax liabilities for computer equipment and peripherals. In this approach, the County would create a sub-classification under Business Services at a rate higher than the current $0.21 per $100, but below the statutory maximum for Cloud Computer Hosting or for data center services ($0.36 per $100).

  Estimated Fiscal Impact. While the Virginia Department of Taxation provides annual taxable sales data by County and NAICS code, Prince William County data is not provided for NAICS code 518: Internet Service Providers, Web Search Portals and Data Processing. In order to analyze the estimated fiscal impact, the project team would need to obtain detailed data regarding gross receipts of data centers by location.

Strengths	Weaknesses
- Would maintain current small business tax liabilities for computer equipment and peripherals	- Possible administrative challenges for County and businesses due to policy change
Opportunities	**Threats**
- Allows county to continue to market the low BTP rate on computers	- Competitor counties and data centers will view it as a new tax

Alternatives Related to the BPOL Tax Structure

There are changes that could be made to the current County BPOL tax structure. Based on stakeholder interview discussions and the analysis of peer local governments, the following are alternatives that the County might consider. The primary goals taken into consideration are to be small business friendly and to increase the availability of business data. The revenue estimates provided are preliminary, and additional analysis would be required to refine them.

Of course, there are proponents of eliminating the BPOL tax entirely. While the BPOL tax is a relatively small source of revenue for the County, eliminating it would put more pressure on real estate and personal property taxes. Further, for local governments where the state limits its revenue sources, it is important to diversify revenue sources. Besides the fact that over-reliance on a single tax source increases risks associated with its decline, it also puts additional pressure on that source. For example, to generate the $25.8 million in BPOL tax revenue budgeted in 2018, the real estate tax rate per $100 of assessed value would need to increase from $1.125 to $1.171.

- **Increase the current BPOL tax rates.** The Commonwealth mandates that localities levying a BPOL tax do not exceed the statutory maximum rates. Given this relatively broad guidance, Prince William County has flexibility to increase its current BPOL tax rates.

  Discussion. Prince William County imposes the maximum allowable BPOL tax rate on just one business classification, wholesale merchants. Increasing the remaining rates would raise additional revenue for the County but may also make the County less competitive relative to its peers.

  Estimated fiscal impact. At current rates, the County generated more than $25 million in BPOL tax revenue in 2017 (when the threshold was $350,000), as illustrated in Table 90. If the County had instead imposed the maximum rates allowable by statute, it would have resulted in an additional $9.0 million in revenue (assuming no change in business behavior).

Table 90: Estimated Fiscal Impact of BPOL Rate Increase

Business Classification	Current Rate	Max Rate	Revenue (at Current Rate) in $MM	Revenue (at Maximum Rate) in $MM	Variance in $MM
Builders, Developers, and Contractors	$0.13	$0.16	$4.1	$5.1	$1.0
Repair, Personal, Business and Other Services	$0.21	$0.36	$4.8	$8.2	$3.4
Professional, Real Estate, and Financial Services	$0.33	$0.58	$3.5	$6.1	$2.6
Retail Merchants	$0.17	$0.20	$11.0	$13.0	$2.0
All Other	N/A	N/A	$1.6	$1.6	$0.0
Total			**$25.1**	**$34.0**	**$9.0**

Increasing the rates would have varying impacts depending on gross receipts level and business classification (and how close to the maximum the tax rate of those classifications is). A builder, developer or contractor with gross receipts of $1 million would see a BPOL tax increase of $300 (23.1 percent); a retailer with the same gross receipts would incur the same increase (equal to 17.6 percent). Those with gross receipts of $1 million in the repair, personal, business and other services classifications would pay an additional $1,500 (71.4 percent), while those in the professional, real estate and financial services industries at the same gross receipts level would have the biggest increase – they would incur an increase of $2,500 (75.8 percent). The impact at various gross receipts levels and among business classifications is provided in Table 91.

Table 91: Impact of Imposing Maximum BPOL Tax Rates

	Builders, Developers, and Contractors			Repair, Personal, Business and Other Services			Professional, Real Estate, and Financial Services			Retail Merchants		
Gross Receipts	Old	New	Var	Old	New	Var	Old	New	Var	Old	New	Var
$500,000	$650	$800	$150	$1,050	$1,800	$750	$1,650	$2,900	$1,250	$850	$1,000	$150
$1,000,000	$1,300	$1,600	$300	$2,100	$3,600	$1,500	$3,300	$5,800	$2,500	$1,700	$2,000	$300
$5,000,000	$6,500	$8,000	$1,500	$10,500	$18,000	$7,500	$16,500	$29,000	$12,500	$8,500	$10,000	$1,500
$10,000,000	$13,000	$16,000	$3,000	$21,000	$36,000	$15,000	$33,000	$58,000	$25,000	$17,000	$20,000	$3,000
$15,000,000	$19,500	$24,000	$4,500	$31,500	$54,000	$22,500	$49,500	$87,000	$37,500	$25,500	$30,000	$4,500
$20,000,000	$26,000	$32,000	$6,000	$42,000	$72,000	$30,000	$66,000	$116,000	$50,000	$34,000	$40,000	$6,000
$25,000,000	$32,500	$40,000	$7,500	$52,500	$90,000	$37,500	$82,500	$145,000	$62,500	$42,500	$50,000	$7,500

Strengths	Weaknesses
- Increasing rates would result in additional County revenue	- Increasing rates would make County less competitive - Not common to change rates
Opportunities	**Threats**
- Because of the revenue increase, the County may choose to reduce other tax rates or provide incentives that attract additional key businesses or industries	- Other Counties may market a better tax climate - Some businesses may make location decisions based on the tax rate increases

- **Require County businesses under the threshold to pay a flat license fee.** This option could be implemented in a variety of ways, including requiring all businesses below the threshold to pay the same fee or structuring the fee to increase based on gross receipts.[107]

  Discussion. Many peer governments (Arlington, Chesterfield and Loudoun Counties, along with Virginia Beach) charge a flat fee up until a certain level of receipts, where the gross receipts rates then apply. In Arlington County, businesses with gross receipts between $10,001 and $50,000 pay a flat fee of $30, while those with gross receipts between $50,001 and $100,000 pay a flat fee of $50. Businesses with gross receipts in excess of $100,000 pay a percentage based on classification. The Code of Virginia's Uniform Ordinance provisions limit the maximum license fee amount to $50 for jurisdictions with populations over 50,000.

  Pursuing this option may be deemed a case where "the juice is not worth the squeeze." A potentially significant number of businesses with gross receipts under the threshold would now be required to pay a license fee, and while the dollar amount required may not be significant, the business community may react unfavorably to the additional cost and the paperwork/regulatory burden.[108]

[107] It should be noted that under the proposed concept, the term "fee" is not meant to indicate that the revenue raised would be used only to defray the cost of the program. The "fee" would be imposed as a flat tax.
[108] Because the County does not currently collect data for businesses under the threshold, it is no possible to know precisely how many businesses would be impacted.

The main benefit of this approach would be improved data collection, particularly for those businesses that are below the threshold and choose not to file. Access to this information can be important from a public safety and public health perspective as well as a tax compliance perspective, as these businesses may also be subject to the BTP tax. It can also be helpful for comparison with permitting requirements for certain types of businesses. While the Fire Marshal performs inspections of all business locations and shares information with first responders, the availability of this additional data through required filing may be beneficial. For example, it is helpful for first responders to know the type of business or industry that is occupying a location.

Estimated fiscal impact. To estimate the possible revenue associated with requiring businesses under the threshold to pay a flat fee, the project team based its analysis on implementing a structure where businesses with gross receipts between $0 and $300,000 would pay $30, those between $300,001 and $500,000 would pay $50, and those above $500,000 would continue to use the classification scale. According to data provided by the County, there were nearly 9,700 businesses with gross receipts of less than $500,000 in 2017 that were not subject to a BPOL tax but filed for a business license.

The County is uncertain about the number of businesses that are not subject to the BPOL tax and do not file. As a result, the project team developed broad estimates based on two scenarios: the 9,700 businesses represent a majority (75 percent) of the County businesses or the 9,700 businesses represent a minority (25 percent) of total businesses falling under the threshold. If the 9,700 filing businesses account for 75 percent of businesses under the threshold, nearly 13,000 businesses would be subject to the flat fee, generating $0.4 million. If, instead, the 9,700 filing businesses account for 25 percent of businesses under the threshold, then nearly 39,000 businesses would generate an estimated $1.3 million in revenue. The revenue generated would vary based on the amount of the fees charged and would depend upon the actual number of businesses filing, as illustrated in Table 92.

Table 92: Estimated Fiscal Impact of Imposing a License Fee

Gross Receipts Cohorts	Count	Estimated Businesses		Proposed Rate	Estimated Revenue	
		75% File	25% File		75% File	25% File
Businesses Between $0 and $300,000	8,573	11,431	34,292	$30	$342,930	$1,028,760
Businesses Between 300,001 and 500,000	1,108	1,477	4,432	$50	$73,850	$221,600
Total	**9,681**	**12,908**	**38,724**		**$416,780**	**$1,250,360**

Strengths	Weaknesses
- Would increase business data - Allowable based on County ordinance - Revenue could be reinvested into the small business community - Would address the negative issue that is inherently disadvantageous to expand operations beyond $500,000 threshold - Franchise businesses with more than one location with significant gross receipts would no longer avoid having to pay the tax at some locations due to the threshold	- Would have some level of administrative burden - Would possibly be unpopular with business community - Not a significant source of revenue

Opportunities	Threats
- Would not affect the County's position regarding economic competitiveness due to the County's $500,000 threshold	- Any increase in costs (including cost of compliance) may lead to business complaints and/or business climate concerns

- **Require all businesses to file applications for BPOL licenses regardless of total gross receipts.** This would likely require additional administrative effort, particularly around ensuring compliance and related enforcement activities. It is notable that the County does not have the data to enforce this concept under the current tax structure.

Discussion. Currently, the County assesses a late payment of 10 percent of license tax plus daily interest (calculated at a rate of 10 percent per annum) for renewal applications postmarked after the due date and for new business applications filed outside of 30 days from the business start date. A similar structure could be implemented for this alternative, where businesses that fail to file would be assessed a penalty equal to a percentage of license tax owed. The benefit would be threefold:

- Continuity: Filers would not drift in and out of the reporting system
- Discovery: Filing by all businesses would allow discovery by the County of other tax revenues
- Clarity: Most businesses are already filing, and this would avoid confusion

Additionally, this approach would benefit from the fact that fees and penalties are not unusual. However, this measure could be perceived as unfair to businesses that may not have intentionally failed to register, particularly in the first year of operation. Additionally, it would require some amount of additional administrative effort, though the County does currently have a process in place to impose penalties and interest.

As with the prior alternative, the main benefit of this approach would be improved data collection, particularly of those businesses that are below the threshold and choose not to file. Access to business information (for all businesses) is important from a public safety and public health perspective.

Estimated fiscal impact. Revenue generated would depend on the number of businesses failing to apply for a business license each year. The County does not currently track which businesses do not file that are under the threshold. This measure is unlikely to generate a meaningful amount of revenue, but could be combined with other alternatives.

Strengths	Weaknesses
- Would increase business data - Filers would not drift in and out of the reporting system - Filing by all businesses would allow discovery by the County of other tax revenue - Would avoid confusion, as most businesses are already filing	- Would require some amount of additional administrative effort - May be perceived as unfair to businesses that may not have intentionally failed to register - Would be an unreliable and likely minimal revenue source

Opportunities	Threats
- Any increase in revenue may provide opportunities to reduce other taxes/fees and/or target incentives for key industries	- Any increase in costs (including cost of compliance) may lead to business complaints and/or business climate concerns

- **Waive BPOL taxes for the first one to two years of operation for new businesses moving into the County.** This is allowable under the Code of Virginia (§ 58.1-3703(D)), which states that any county, city or town may establish by ordinance a business license incentive program for 'qualifying businesses,' defined as businesses that locate for the first time in the locality adopting the ordinance. The incentive program may include (i) an exemption, in whole or in part, of license taxes for any qualifying business; (ii) a refund or rebate, in whole or in part, of license taxes paid by a qualifying business; or (iii) other relief from license taxes for a qualifying business not prohibited by state or federal law. Any incentive established can be provided for two years from the date the business locates in the locality.

  Discussion. This might help simplify the filing process by eliminating the estimate of gross receipts. This would be a business-friendly change, as it would enable new businesses to earn revenue before the County begins collecting the tax. It might also enable the County to collect more information on new business development and would encourage the filing of BTP taxes.

  Estimated fiscal impact. The amount of revenue foregone as a result of this measure would depend on the provisions of the incentive program and the number of new businesses participating.

- **Increase the gross receipts threshold to $1.0 million while increasing the BPOL tax rates for one or multiple business classifications to be revenue neutral.** This option would effectively shift some portion of BPOL tax burden from smaller businesses to larger ones.

  Discussion. The County would have flexibility in which business classification would incur increased rates. It could choose to increase rates for all business classifications, or be more selective – for instance, increasing only the retail rate because the retail industry accounts for such a significant portion of gross receipts and BPOL tax revenue.

  Estimated fiscal impact. County data shows that businesses with gross receipts between $500,000 and $1.0 million generated approximately $1.7 million in BPOL tax revenue in 2017, as shown in Table 93. In order to be revenue-neutral, the County would need to generate this amount of revenue by increasing BPOL tax rates. If it chose to do so by increasing **retail rates only**, it would require increasing the rate from $0.17 to $0.198 per $100 of gross receipts (effectively the statutory maximum of $0.20). At this rate, Prince William County would be comparable to Alexandria, Arlington County, Henrico County and Virginia Beach – all of which impose the maximum retail rate of $0.20 per $100 of gross receipts.

  In order to arrive at this, the project team calculated that retail BPOL tax revenue would need to increase from $10.5 million to $12.2 million (to account for the $1.7 million not being collected from businesses with gross receipts between $500,000 and $1.0 million). Assuming $6.1 billion in gross retail gross receipts in 2017, the rate would need to increase to $0.198 in order to generate $12.2 million.

Table 93: Estimated Fiscal Impact of Increasing Gross Receipts Threshold

BPOL Revenue, Businesses with $0.5-$1.0 MM in Gross Receipts	BPOL Revenue, Retail Businesses with $1.0 MM+ in Gross Receipts	Calculated Retail Gross Receipts at $0.17	Additional Retail BPOL Generated at $0.198
$1,769,717	$10,451,203	$6,147,766,706	$1,769,717

The County could instead choose to increase tax rates across multiple or all business classifications while increasing the threshold to $1.0 million. Again, the project team analyzed this option assuming that $1.7 million would need to be generated in order for the impact to be revenue-neutral with the threshold increase. This option would require the rates for all major business categories to increase by 8.35 percent and would impact industries as displayed in Table 94.

Table 94: Proposed Rates to Achieve Revenue Neutrality

Business Classification	Current Rate per $100 of Gross Receipts	BPOL Revenue, Businesses with $1.0MM+ in Gross Receipts	Proposed Rate per $100 of Gross Receipts	Additional BPOL Revenue
Builders, Developers, and Contractors	$0.13	$3,700,420	$0.14	$309,053
Repair, Personal, Business and Other Services	$0.21	$4,133,638	$0.23	$345,235
Professional, Real Estate, and Financial Services	$0.33	$2,904,262	$0.36	$242,560
Retail Merchants	$0.17	$10,451,203	$0.18	$872,869
All Other	N/A	$1,540,463	N/A	$0
Total		**$22,729,986**		**$1,769,717**

Strengths	Weaknesses
- Would shift tax burden from small businesses to larger businesses - County would have flexibility - Would not require action by the General Assembly	- Once rates are at/near the statutory maximum, there is less flexibility/revenue potential for future economic downturns/needs
Opportunities	**Threats**
- Increasing threshold makes County more competitive with peer governments for smaller businesses	- Increasing BPOL rates makes County less competitive with peer governments for larger businesses

- **Impose a graduated tax rate scale.** Under this approach, marginal rates would apply to all businesses. All gross receipts at or below a certain level would be taxed at a given percentage, gross receipts above that level would be taxed at a higher percentage, and so on. This approach would theoretically take into consideration the ability to pay. This can be structured to be revenue neutral compared to existing rates.

  Discussion. Under this structure, a very low rate might be imposed on the first $500,000 of receipts, a slightly higher rate on receipts between $500,000 and $1 million, mid-range rates would apply as gross receipts increase, and the top rate would be imposed on all receipts over $10 million.

  Estimated fiscal impact. The following analysis provides one example of how this option could be structured. It is notable that the rates or thresholds could vary while still having an overall revenue-neutral impact.

  In the following example, the project team used six gross receipts brackets:

  - $0-$499,999
  - $500,000-$999,999
  - $1,000,000-$4,999,999
  - $5,000,000-$9,999,999
  - $10,000,000-$24,999,999
  - $25,000,000+

  As with the current BPOL tax structure, the rate imposed would vary based on business classification. Businesses with gross receipts below $500,000 (currently exempt from BPOL tax) would be subject to the tax at a low rate (half the current rate in the example that follows). Businesses with more than $500,000 in gross receipts would have the first $500,000 subject to the same low tax rate. The same method would apply as gross receipts increase – the gross receipts in each bracket would be subject to a tax rate that increases as gross receipts increase. This concept, which is purely hypothetical, is illustrated in Table 95.

Table 95: Illustrative Rates under Graduated Scale

Gross Receipts Brackets	Retail Merchants	Repair, Personal, Business and Other Services	Builders, Developers, Contractors	Professional Occupation, Financial and Real Estate Services
$0-$499,999	$0.05	$0.06	$0.04	$0.10
$500,000-$999,999	$0.08	$0.09	$0.06	$0.15
$1,000,000-$4,999,999	$0.19	$0.24	$0.15	$0.38
$5,000,000-$9,999,999	$0.20	$0.29	$0.16	$0.47
$10,000,000-$24,999,999	$0.20	$0.34	$0.16	$0.56
$25,000,000+	$0.20	$0.36	$0.16	$0.58
Current Rate	$0.17	$0.21	$0.13	$0.33
Maximum Rate	$0.20	$0.36	$0.16	$0.58

Based on analysis of gross receipts generated at each level by business classification, the BPOL tax revenue generated under the proposed rates would re-distribute the total tax liability as shown in Table 96:

Table 96: Estimated Tax Liability Redistribution (Amounts in Millions of Dollars)

Gross Receipts Brackets	Retail Merchants	Repair, Personal, Business and Other Services	Builders, Developers, Contractors	Professional Occupation, Financial and Real Estate Services	All Other	Total
$0-$499,999	$0.1	$0.2	$0.1	$0.1	$0.0	$0.6
$500,000-$999,999	$0.2	$0.2	$0.1	$0.2	$0.0	$0.6
$1,000,000-$4,999,999	$1.9	$1.3	$0.8	$1.3	$0.4	$5.7
$5,000,000-$9,999,999	$1.5	$1.0	$0.5	$0.8	$0.2	$4.0
$10,000,000-$24,999,999	$2.1	$1.4	$0.9	$0.6	$0.2	$5.2
$25,000,000+	$5.5	$0.8	$2.0	$0.0	$0.8	$9.0
Total	**$11.2**	**$4.8**	**$4.5**	**$3.0**	**$1.6**	**$25.1**

Because of the shifting burden, this structure would create 'winners and losers' – by business classification as well as by income cohort within each classification. Table 97 illustrates the impact (in millions of dollars) that the proposed structure would have across business classifications. Overall, the proposed structure would be revenue-neutral for those in the repair, personal, business and other services category, while retailers, and builders, developers and contractors would experience total increases of $0.2 million and $0.4 million, respectively. The professional, occupation, financial and real estate services classification would experience a reduction of $0.5 million – while across all classifications, the impact would be revenue neutral.

Table 97: Estimated Changes to Tax Liability by Business Classification (Amounts in Millions of Dollars)

BPOL Tax Structure	Retail Merchants	Repair, Personal, Business and Other Services	Builders, Developers, Contractors	Professional Occupation, Financial and Real Estate Services	All Other	Total
Current Structure	$11.0	$4.8	$4.1	$3.5	$1.6	$25.1
Proposed Structure	$11.2	$4.8	$4.5	$3.0	$1.6	$25.1
Change	**$0.2**	**$0.0**	**$0.4**	**($0.5)**	**$0.0**	**$0.0**

Table 98 illustrates the impact that the proposed structure would have on retail businesses at various levels of total gross receipts. At $250,000, a business not currently subject to the BPOL tax would have a liability of $128. At $750,000, the tax liability would decrease by $820. Businesses with $2.5 million in gross receipts would experience decreasing liabilities as well. Those retail businesses at $7.5 million would see a $505 increase in tax liability. At $15.0 million in gross receipts, a business would experience a BPOL tax increase of $2,755, while at $30.0 million, a business would incur a tax liability $7,255 higher. While this structure would have the effect of increasing the tax burden on those with the highest gross receipts, the removal of the threshold would have the effect of subjecting those businesses with the lowest gross receipts to a tax from where they are currently exempt.

Table 98: Estimated Fiscal Impact on Retail Businesses

Gross Receipts	Current Structure	Proposed Structure	Variance More/(Less)
$250,000	$0	$128	$128
$750,000	$1,275	$455	($820)
$2,500,000	$4,250	$3,505	($745)
$7,500,000	$12,750	$13,255	$505
$15,000,000	$25,500	$28,255	$2,755
$30,000,000	$51,000	$58,255	$7,255

Strengths	Weaknesses
- Places a higher burden on businesses with the most gross receipts	- Would likely get pushback from businesses that would become subject to the tax - Would have some amount of administrative costs for the County and businesses - Not a common BPOL structure
Opportunities	**Threats**
- Lower rates for lower gross receipts for small businesses may attract them	- Higher rates for higher gross receipts for larger businesses may deter them

- **Impose a graduated tax rate scale but apply the top rate to all receipts when the top gross receipts level is reached.** Under this approach (which some states use for their progressive income tax rates[109]), marginal rates would apply to all businesses with receipts that do not reach the top tax rate.

  Discussion. As with the prior alternative, a very low rate might be imposed on the first $500,000 of receipts, a slightly higher rate on receipts between $500,000 and $1 million, mid-range rates would apply as gross receipts increase, and the top rate would be imposed on all receipts over $25 million. The distinguishing characteristic of this alternative is that businesses with over $25 million in receipts would pay the top rate from the first dollar of their receipts. Businesses under the current $500,000 gross receipts threshold would become subject to the tax (though at a low rate), as the threshold would be eliminated.

  It is notable that no Virginia municipalities use this approach, and prior Virginia court decisions do not clearly prohibit or allow it. While the law allows for different treatments of subclassifications, the guidance requires that reasonable municipal policy exist to justify the classifications. A Virginia Attorney General opinion (1984-1985 Op. Va. Attorney General 351,352) states:

  > *"Although a locality has the legal authority to subclassify and exempt businesses from the gross receipts license tax, such discrimination in favor of a certain class must not be arbitrary. Discrimination must be based upon a reasonable distinction in municipal policy. Historically, local governments have been accorded wide latitude in making taxing classifications which in their judgment produce reasonable systems of taxation. Kahn v. Shevin, 416 U.S. 351, 355 (1974); Southern Railway v. Commonwealth, 211 Va. 210, 219, 176 S.E.2d 578, 584 (1970).*

[109] According to the Tax Foundation, as of March 2018, the States of New York, Nebraska and Arkansas have "tax benefit recapture," where many high-income taxpayers pay their top tax rate on all income, not just on amounts above the benefit threshold.

Determination by a court of whether a classification creates an arbitrary separation requires a case-by-case analysis which depends upon the purpose and subject of the particular ordinance creating the class and the circumstances and conditions surrounding its passage. See Allied Stores v. Bowers, 358 U.S. 522, 528 (1958); Mandell v. Haddon, 202 Va. 979, 989, 121 S.E.2d 516, 524 (1961); Langston v. City of Danville, supra. The governing body must consider the facts and determine that reasonable municipal policy justifies action favoring one subclassification of business over another."

No Virginia guidance exists related to the validity of a subclassification based on a dollar threshold. Should the County wish to explore this approach, it would be advisable to consult the County Attorney, and possibly seek an Attorney General's Opinion.

Estimated fiscal impact. The following analysis provides one example of how this option could be structured. It is notable that the rates or thresholds could vary while still having an overall revenue-neutral impact. As with the prior example, the project team used six gross receipts brackets:

- $0-$499,999
- $500,000-$999,999
- $1,000,000-$4,999,999
- $5,000,000-$9,999,999
- $10,000,000-$24,999,999
- $25,000,000+

As with the current structure, the tax rate imposed would vary based on business classification. Businesses with gross receipts below $500,000, currently exempt from BPOL tax, would become subject to it at a low rate (half the current rate in the example that follows). Businesses with more than $500,000 in gross receipts would have the first $500,000 subject to the same low tax rate. The same principal would apply as gross receipts increase – the gross receipts in each bracket would be subject to a tax rate that increases as gross receipts increase. Businesses with gross receipts of $25,000,000 and greater would have their total gross receipts subject to the highest rate. This concept is demonstrated in Table 99.

Table 99: Illustrative Rates under Graduated Scale with Rate Recapture

Gross Receipts Brackets	Retail Merchants	Repair, Personal, Business and Other Services	Builders, Developers, Contractors	Professional Occupation, Financial and Real Estate Services
$0-$499,999	$0.09	$0.11	$0.07	$0.17
$500,000-$999,999	$0.13	$0.15	$0.11	$0.21
$1,000,000-$4,999,999*	$0.17	$0.21	$0.13	$0.33
$5,000,000-$9,999,999	$0.18	$0.22	$0.14	$0.35
$10,000,000-$24,999,999	$0.19	$0.24	$0.15	$0.38
$25,000,000+**	$0.20	$0.36	$0.16	$0.58

** Current rate*
*** Statutory maximum rate*

Based on analysis of gross receipts generated at each level by business classification, the BPOL tax revenue generated under the proposed rates would re-distribute the total tax liability as shown in Table 100:

Table 100: Estimated Tax Liability Redistribution (Amounts in Millions of Dollars)

Gross Receipts Brackets	Retail Merchants	Repair, Personal, Business and Other Services	Builders, Developers, Contractors	Professional Occupation, Financial and Real Estate Services	All Other	Total
$0-$499,999	$0.2	$0.4	$0.2	$0.2	$0.0	$1.0
$500,000-$999,999	$0.3	$0.3	$0.2	$0.2	$0.0	$1.0
$1,000,000-$4,999,999*	$2.0	$1.4	$0.9	$1.4	$0.4	$6.0
$5,000,000-$9,999,999	$1.4	$0.9	$0.5	$0.7	$0.2	$3.6
$10,000,000-$24,999,999	$2.0	$1.1	$0.8	$0.5	$0.2	$4.6
$25,000,000+**	$5.5	$0.9	$1.7	$0.0	$0.8	$8.8
Total	**$11.4**	**$4.8**	**$4.3**	**$3.0**	**$1.6**	**$25.1**

** Current rate*
*** Statutory maximum rate*

Because of the shifting burden, this structure would create ‘winners and losers’ – by business classification as well as by income cohort within each classification. Table 101 illustrates the impact (in millions of dollars) that the proposed structure would have across business classification. Overall, the proposed structure would be revenue-neutral for those in the repair, personal, business and other services category, while retailers and builders, developers and contractors would experience total increases of $0.4 million and $0.2 million, respectively. The professional, occupation, financial and real estate services classification would experience a reduction of $0.5 million – and across all classifications, the impact would be revenue neutral.

Table 101: Estimated Changes to Tax Liability by Business Classification (Amounts in Millions of Dollars)

BPOL Tax Structure	Retail Merchants	Repair, Personal, Business and Other Services	Builders, Developers, Contractors	Professional Occupation, Financial and Real Estate Services	All Other	Total
Current Structure	$11.0	$4.8	$4.1	$3.5	$1.6	$25.1
Proposed Structure	$11.4	$4.8	$4.3	$3.0	$1.6	$25.1
Change	**$0.4**	**$0.0**	**$0.2**	**($0.5)**	**$0.0**	**$0.0**

Table 102 illustrates the impact that the proposed structure would have on retail businesses with various levels of total gross receipts. At $250,000, a business not currently subject to the BPOL tax would have a liability of $213. At $750,000, the tax’ liability would decrease by $500 – and businesses with $2.5 million and $7.5 million would experience decreasing liabilities as well. At $15.0 million in gross receipts, a business would experience a BPOL tax increase of $1,200, while at $30.0 million, a business would incur a $9,000 greater tax liability. While this structure would have the effect of increasing the tax burden on those with the highest gross receipts (presumed to be those with the ability to pay), the removal of the threshold would have the effect of subjecting those businesses with the lowest gross receipts to a tax where they are currently exempt.

Table 102: Estimated Fiscal Impact on Retail Businesses

Gross Receipts	Current Structure	Proposed Structure	Variance More/(Less)
$250,000	$0	$213	$213
$750,000	$1,275	$760	($515)
$2,500,000	$4,250	$3,645	($605)
$7,500,000	$12,750	$12,443	($307)
$15,000,000	$25,500	$26,722	$1,222
$30,000,000	$51,000	$60,000	$9,000

Strengths	Weaknesses
- Places a higher burden on businesses with the most gross receipts	- Would likely get pushback from businesses that would become subject to the tax - Would have some amount of administrative costs for the County and businesses - Not a common BPOL structure
Opportunities	**Threats**
- Lower rates for lower gross receipts for small businesses may attract them	- Higher rates for higher gross receipts for larger businesses may deter them

- **Eliminate the BPOL tax for retailers and impose a merchants' capital tax.** Under this approach, Prince William County would no longer collect the BPOL tax from retailers. Instead, it would impose a merchants' capital tax on those businesses. Non-retail businesses would still be subject to the BPOL tax.

  Discussion. Virginia municipalities have the option of imposing either the BPOL tax or a merchants' capital tax. According to the Code of Virginia, no locality may impose a merchants' capital tax if it also imposes a BPOL tax on retail merchants. A few counties (Amherst, Southampton and Sussex) impose both of the taxes but do not impose the BPOL tax on retailers.

  In Prince William County, the retail industry is the most significant contributor to BPOL tax revenue – accounting for approximately $11 million of the $25 million in total BPOL tax revenue in 2017. This is significantly less than the amounts generated by those counties imposing both a BPOL tax and merchants' capital tax, though it is notable that Prince William County's population and number of retail trade establishments are substantially higher than those counties, as depicted in Table 103.

Table 103: Counties Imposing BPOL and Merchants' Capital Taxes

County	Merchants' Capital Tax Revenue, 2017*	Effective Tax Rate per $100**	Population***	Number of Retail Trade Establishments* ***
Amherst	$291,429	$0.79	31,594	89
Southampton	$307,774	$0.50	17,750	24
Sussex	$73,197	$1.00	11,373	43
Average	**$224,133**	**$0.76**	**20,239**	**52**
Prince William	N/A	N/A	463,023	1,078

** Per Virginia Auditor of Public Accounts – Comparative Report*
*** Weldon Cooper Center*
**** U.S. Census Bureau American Community Survey*
***** U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages*

Estimated fiscal impact. The amount of revenue generated by a merchants' capital tax would depend both on the base where the tax was imposed and the tax rate on the taxed capital. Among the counties imposing both the BPOL and merchants' capital taxes, the average taxable base per capita is $1,760. When applied to Prince William County's population, the County's taxable base would be an estimated $815 million. Applying the average effective tax rate of $0.76 per $100, the estimated merchants' capital tax revenue for the County would be $6.2 million, based on the following formula:

Average taxable base per capita x County population / $100 x average effective tax rate = Estimated Revenue
$1,760 x 463,023 / $100 x $0.76 = $6,219,497

Alternatively, the average taxable base per retail trade establishment is just over $1 million. Applying that figure to the more than 1,000 retail establishments in the County would generate a taxable base of $1.1 billion and resulting revenue of $8.6 million. This is arrived at through the following formula:

Average taxable base per retail trade establishment x County retail trade establishments / $100 x Average effective tax rate = Estimated Revenue
$1,049,833 x 1,078 / $100 x $0.76 = $8,638,800

The actual revenue generated would depend on the actual taxable base and rate. While it is possible that the County would generate more merchants' capital tax revenue than the other governments previously discussed, additional analysis would be required in order to develop a refined estimate for the County.

Strengths	Weaknesses
- Would diversify the County revenue structure	- Likely to generate significantly less revenue than BPOL tax - Not imposed in most geographically or demographically similar municipalities
Opportunities	**Threats**
- TBD	- TBD

Other Tax and Revenue Alternatives

- **Impose a meals tax.** Virginia counties are authorized to levy a food and beverage tax at a rate of up to 4.0 percent with the approval of voters by referendum.[110]

  Discussion. Five peer governments (Alexandria, Arlington County, Henrico County, Stafford County, and Virginia Beach) levy a meals tax. While Virginia Beach levies a 5.5 percent tax, each of the other peer governments impose a 4.0 percent tax. In recent years, meals tax referenda have been defeated in Chesterfield and Fairfax Counties – in 2013 and 2016, respectively – while Henrico County was able to pass its measure in 2013. In 2017, the Prince William County Finance Department estimated that a meals tax would generate $20 million a year in additional revenue.

  In November 2016, Fairfax County voters rejected a meals tax that was introduced to reduce reliance on real estate taxes; at 4.0 percent, the tax was expected to generate up to $99 million annually. Fairfax County's referendum marked the 60th time since 2000 that a Virginia county attempted to levy a tax on prepared foods – and the 47th time that voters rejected the levy.

  Opponents of meals taxes argue that the tax disproportionately impacts lower- and middle-income families and has a negative effect on tourism. On the other hand, food consumed away from home is not considered a necessity, and, according to the BLS's Consumer Expenditure Survey, at lower income levels, a larger share of food is consumed at home. At higher income levels, a larger share of income goes for food consumed away from home.[111] It can also be argued that non-residents use County services (use of roads, public safety protection, etc.), and this tax is one way to ensure that they pay for some of the services they are consuming.

  Estimated Fiscal Impact. To analyze potential meals tax revenue, the project team used annual taxable sales data provided by the Virginia Department of Taxation. This data is broken down by County and NAICS[112] business classification. In 2013, Prince William County's taxable sales for businesses categorized as "Food Services and Drinking Places" totaled $551 million; that total grew to $671 million by 2017. While the 5-year CAGR is 5.0 percent, trend analysis suggests that increases are slowing; the 3-year CAGR is 4.6 percent, and the 2016-2017 increase was 2.5 percent. Using the 2.5 percent growth rate, taxable sales are projected to grow to $780 million by 2023, as shown in Table 104. A 4.0 percent meals tax commensurate with the peer governments would yield approximately $30 million annually. It is notable that a share of the tax burden would be exported to non-residents. As noted previously, while the County experiences a net out-migration of 80,000 commuters, there are an estimated 70,000 non-residents that travel into the County for work and would be subject to the tax if dining out while there.

---

[110] Five counties (Arlington, Frederick, Montgomery, Roanoke and Rockbridge) have been statutorily exempted from the referendum requirement and can adopt meals taxes by ordinance. Additionally, it should be noted the county meals taxes only apply within the boundaries of towns contingent upon the approval of the town's governing body, and are not levied within the boundaries of any town which imposes its own meals tax.

[111] Bureau of Labor Statistics, Consumer Expenditure Survey, 2016, accessed electronically at https://www.bls.gov/cex/2016/combined/income.pdf

[112] The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing and publishing statistical data related to the U.S. business economy.

Table 104: Estimated Fiscal Impact of Imposing a Meals Tax, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Estimated Taxable Sales ($MM)	$705.6	$723.5	$741.8	$760.7	$780.0
Estimated Meals Tax Revenue ($MM)	**$28.2**	**$28.9**	**$29.7**	**$30.4**	**$31.2**

Strengths	Weaknesses
- A share of the tax burden is exported to non-residents - Diversifies the tax base - Consumption taxes are generally more accepted than wealth or income taxes - Requires no state action	- May be regressive - Targets a specific industry/activity rather than being a broad-based tax
Opportunities	**Threats**
- In use in several peer governments	- Politically unpopular - Would require voter referendum - Low referendum passage rates across the Commonwealth - May result in some cross-border competition

- **Implement an admissions/amusement tax.** An admissions tax could be applied to the price of admissions for performances, entertainment, spectator events, festivals, sporting events and other activities for which admissions are charged.

  Discussion. Cities and towns have the authority to levy an admissions tax under the "general taxing powers" found in their charters. Counties are required to receive permission from the Commonwealth to levy an admissions tax at a rate not to exceed 10 percent, and Prince William County would need approval by the General Assembly. In 2017, the County Finance Department estimated that a 5 percent tax would generate $1.3 million a year, and a 10 percent tax would generate $2.6 million.

  Two peer governments (Virginia Beach and Alexandria) impose an admissions tax – both at 10 percent of the admission purchase price.[113] The County could consider instituting a tax on admissions to Jiffy Lube Live and other large entertainment facilities**.** Virginia Beach's admissions tax revenue is dedicated solely to tourism investment, and Alexandria budgeted less than $1 million in admissions tax revenue for FY2018.

  Estimated Fiscal Impact. To analyze potential revenue, the project team used annual taxable sales data provided by the Virginia Department of Taxation; this data is broken down by County and NAICS[114] business classification. In 2013, Prince William County's taxable sales for businesses categorized as "Amusement, Gambling and Recreation Industries" and "Performing Arts, Spectator Sports and Related Industries" totaled $18.3 million; that total grew to $22.2 million by 2017. Recent annual increases have ranged from 0.3 percent in 2017 to 12.4 percent a year prior, so the project team used a general inflationary rate of 2.0 percent. As a result, taxable sales in this category are projected to reach $25 million by 2023, as shown in Table 105. Assuming all taxable sales would be subject to the admissions tax, the County could generate an estimated $2.0-$2.5 million annually by imposing a 10 percent tax

[113] Virginia Beach imposes a 10 percent admissions tax on concert events and a 5 percent tax on participatory sporting events. In Alexandria, the tax cannot exceed $0.50 per person.
[114] The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing and publishing statistical data related to the U.S. business economy.

rate (in alignment with Virginia Beach and Alexandria). Because of the likelihood that not all taxable sales described above would be subject to the tax, the estimate is discounted by 15 percent.

Table 105: Estimated Fiscal Impact of Imposing an Admissions Tax, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Estimated Taxable Sales ($MM)	$23.1	$23.6	$24.0	$24.5	$25.0
Estimated Admissions Tax Revenue ($MM)	$2.3	$2.4	$2.4	$2.5	$2.5
Discounted Estimated Revenue ($MM)	**$2.0**	**$2.0**	**$2.0**	**$2.1**	**$2.1**

Strengths	Weaknesses
- Tax can be applied to narrow or broad ranges of venues and types of events - Requires no state action	- Not a significant source of potential revenue
Opportunities	**Threats**
- Should the County seek to increase shows/admissions subject to the tax, it could increase revenue	- Should other event venues seek to market them as less expensive, it could reduce offerings at County venues.

- **Increase transient occupancy tax collections from Airbnb and VRBO.** According to the Code of Virginia Title 58.1, Chapter 31 (58.1-3819), any county can, through ordinance, levy a transient occupancy tax (TOT) on hotels, motels, boarding houses, travel campgrounds and other facilities offering guest rooms rented out for continuous occupancy for fewer than 30 days. The rate cannot exceed five percent, and any excess over two percent must be designated and spent solely for tourism and travel. Under the Code of Virginia Title 58.1, Chapter 31 (58.1-1742), an additional State TOT is imposed in certain localities in Northern Virginia. The County currently collects TOT at a rate of 7.0 percent of the total charge for lodging or space furnished to a transient.

  Discussion. Over the last decade, short-term rental websites like Airbnb, HomeAway and VRBO have become an increasingly popular accommodation option – and Virginia is no exception. In August 2017, the state was home to nearly 10,400 Airbnb listings, led regionally by Northern Virginia, with nearly 4,000.[115] Now, several localities are pursuing zoning rules and other regulations to apply to these services that already apply to traditional hotel rooms – such as the collection of hotel taxes.

  In 2017, a new Virginia law (§ 15.2-983) allows a locality to adopt an ordinance to establish a local registry of short-tern rental properties:

  - Registration is administrative in nature. The law does not change any existing tax or zoning requirements, condo or lease provisions, homeowner association restrictions, or other agreements or rules.
  - Registration is annual and requires the operator's name and the address of each property.
  - The locality may charge a reasonable fee to administer the registry.
  - The locality may assess a penalty of up to $500 per violation for failure to register, and may prohibit the rental of a property that has not registered or paid registry fees or penalties. Repeated violations may result in the prohibition of rental of applicable properties.

[115] Old Dominion University Strome College of Business Center for Economic Analysis and Policy – 2017 State of the Commonwealth Report. Accessed electronically at http://www.ceapodu.com/wp-content/uploads/2017/11/SOC-2017-FINAL.pdf

- The state law defines “short-term rental” as “the provision of a room or space that is suitable or intended for occupancy for dwelling, sleeping or lodging purposes, for a period of fewer than 30 consecutive days, in exchange for a charge for the occupancy” and defines “operator” as “the proprietor of any dwelling, lodging or sleeping accommodations offered as a short-term rental, whether in the capacity of owner, lessee, sublessee, mortgagee in possession, licensee, or any other possessory capacity.”
- The registry would not apply to real estate agents, properties represented by real estate agents, registered time-shares, or licensed lodging establishments, such as hotels.

Several local governments – including Arlington County – are taking steps to encourage compliance with the new law. In December 2016 and January 2017, Arlington County adopted new zoning ordinance regulations that define a short term residential rental as a new home occupation called ‘accessory homestay’ and created standards for use. Renters must apply for accessary homestay permits, which are currently offered for no fee. Additionally, those earning income from short term lodging must collect TOT from renters – and those earning $10,000 or more annually from rental income must obtain a business license.[116]

In Alexandria, beginning January 1, 2018, every short-term residential rental property must be registered with the Department of Finance within 30 days of the property being offered for rental. Registration, while free, is required annually for each property. Failure to register a property within the 30 day timeframe results in a penalty of $500 and may result in rental restrictions.[117] In April 2018, Alexandria became the first locality in Virginia to enter into a voluntary collection agreement with Airbnb to collect the TOT from rentals and remit those payments to the City. In addition to ensuring collection, the agreement is expected to significantly reduce the workload for rental owners and City staff and simplify the reporting and payment process for most home-sharing residents.

Effective July 1, 2018, Loudoun County residents opting to rent their residences must register online with the County; while registration is free, failure to register may result in a fine of $500 per violation.[118]

On October 1, 2018, Fairfax County will implement rules that permit owners and renters to rent their primary residence for up to 60 nights per calendar year in exchange for a $200 permit valid for two years. The County, which has approximately 1,500 active online rentals, estimates that the new rules will generate $400,000 annually; of that, $250,000 will go to the County’s general fund, while the remainder will be used to support tourism and regional transportation.[119]

Estimated Fiscal Impact. For Prince William County, this would likely generate less than $1 million annually. As a way of gauging potential impact, the County can look to other peer governments taking action in this area. For stays in Alexandria (which has 75,000 housing units, as compared to Prince William County’s more than 140,000), Airbnb collects a 6.5 percent transient lodging tax plus $1 per room per night.[120] City officials estimate that the local portion of the tax collected could bring in approximately $100,000 in the coming year. It is possible that this amount might be doubled to account for other rentals through VRBO and HomeAway.

[116] Arlington County – Accessory Homestay Rentals at https://taxes.arlingtonva.us/accessory-homestay-rentals/
[117] For additional information, see Alexandria’s short term rental registry at https://www.alexandriava.gov/finance/info/default.aspx?id=99926
[118] For additional information, see Loudoun County – Short Term Residential Rentals at https://www.loudoun.gov/ShortTermRentals
[119] For additional information, see Fairfax County – Short Term Lodging in Fairfax County at https://www.fairfaxcounty.gov/planning-zoning/zoning/short-term-property-rentals
[120] City of Alexandria Finance Department – Transient Lodging Tax. Accessed electronically at https://www.alexandriava.gov/finance/info/default.aspx?id=2944

Another way to estimate possible revenue associated with this source is to analyze market data. Table 106 displays the number of active rentals in Prince William County, along with the average daily rate and average occupancy rate by municipality within the County.[121] Using this information, the project team estimated that rentals generate approximately $3.2 million in taxable revenue annually. Applying the TOT rate of 7.0 percent would generate an estimated $225,000 annually. Assuming a non-compliance rate of 25 percent, yearly revenue would be approximately $170,000 per year.

Table 106: Estimated Fiscal Impact of Increasing TOT Collections from Short Term Rental Websites

Municipality	Active Rentals	Average Daily Rate	Average Occupancy Rate	Taxable Revenue	TOT Revenue
Haymarket	15	$89	28%	$136,437	$9,551
Dumfries	18	$96	69%	$435,197	$30,464
Occoquan	6	$100	88%	$192,720	$13,490
Gainesville	10	$230	16%	$134,320	$9,402
Bristow	8	$61	42%	$74,810	$5,237
Woodbridge	104	$134	44%	$2,238,122	$156,669
Total	**161**	**$118**	**48%**	**$3,211,606**	**$224,812**
25% Non-Compliance Adjustment					**$168,609**

Strengths	Weaknesses
- Broadens the base of an existing tax - Levels the playing field between similar taxpayers (horizontal equity)	- Difficult to ensure compliance - Not common among peer governments
Opportunities	**Threats**
-	- Administrative burden may deter some from getting into/staying in the business

- **Implement short term rental software to aid in ensuring compliance with a short term rental ordinance.** As Airbnb and other online vacation rental companies – and ordinances to regulate them – have increased in popularity, many localities are turning to software systems to aid in their regulatory efforts.

  Discussion. Montgomery County, Maryland's new Short Term Rental (STR) Ordinance went into effect on July 1, 2018. It requires owners of short-term rentals to register their rental properties and comply with rules identified in the new ordinance at a cost of $150 annually. The license, which is issued upon registration, does not apply to properties in Gaithersburg, Rockville and other municipalities in the County with their own regulations.

  The County adopted a software service to manage the compliance by short-term rentals in light of the new ordinance. The software service provides a cloud-based solution for managing short term rental discovery, permitting and tax compliance and enables the County to locate and identify each short term rental by address and owner's name. The service also enables each short term rental owner to register

[121] Source: Airdna Market Minder. Accessed electronically at https://www.airdna.co/market-data. It is notable that no information was found for Quantico, though information was available for several other communities.

their property online and allows the County to generate and track letters of non-compliance to property owners who have failed to comply with the established ordinances.

The software identifies addresses and owners of short term rentals advertising on dozens of platforms, such as Airbnb, HomeAway and Craigslist, as well as those registered through the online portal. The software should increase short term rental-related tax revenues while decreasing short term rental related problems

Currently, Prince William County finds it difficult to identify rentals, manage the registration process, ensure compliance and enforce its regulations. This approach would assist with identification and management, and possibly with some of the compliance effort. If the County determined that the price, implementation timeline and effort were acceptable, the County might use it to bolster the compliance and enforcement functions. Although the exact size of the short-term rental market in the County is not known, the market in the County is likely smaller than localities in closer proximity to Washington, DC. The County would need to determine whether imposing and enforcing collections would drive customers to more convenient locations outside of the County. However, the short-term rental tax is similar to the meals tax in that non-residents will bear the burden – and in fact, to an even higher degree.

Estimated Fiscal Impact. Currently, this is likely to amount to less than $1.0 million annually. Use of short term rental software is a relatively new phenomenon, and few localities have documented revenue increases associated with the use of the software. Of course, implementation costs would have to be considered. In the long run, however, as this method for renting becomes more commonplace, it is likely that the amount of revenue will increase (as will compliance rates).

- **Increase motor vehicle registration fees.** Section 46.752 of the Code of Virginia authorizes the County to levy a vehicle registration fee. The amount of the fee cannot be greater than the annual fee imposed by the Commonwealth on motor vehicles (presently $40.75).[122] The current County fee is $24 per year for each passenger car and truck normally garaged or parked in the County.

  Discussion. The County's fee for passenger cars and trucks is low relative to peer governments; the median (excluding Prince William County) is $30; the average is $29. Chesterfield County charges the highest fee, at $40, while Henrico County's rate is the lowest, at $20.

  Estimated Fiscal Impact. The project team used the County Finance Department's motor vehicle license fee revenue estimates for FY2019-FY2023 as a baseline for proposed increases.[123] As shown in Table 107, an increase to $30 (25 percent) commensurate with the median would generate an additional $2.2-2.4 million annually, while increasing the rate to $40 (commensurate with Chesterfield County) would yield an estimated $5.9-6.4 million per year. The County's baseline revenue estimates are inclusive of motorcycles (which are assessed a $12 fee), but motorcycles represent a very small percentage of total fee revenue (15,000 units as compared to 260,000 automobiles and 181,000 trucks) and do not significantly impact the project team's revenue estimates.

[122] The fee is $40.75 for passenger vehicles 4,000 lbs. or less; the fee is $45.75 for vehicles between 4,001 and 6,500 lbs.
[123] Prince William County Finance Department – Estimate of General Revenue, Proposed FY2019-2023

Table 107: Estimated Fiscal Impact of Increasing Motor Vehicle Registration Fees, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Baseline Revenue Estimate ($MM)	$8.9	$9.0	$9.2	$9.4	$9.5
Additional Revenue, $30 Fee ($MM)	**$2.2**	**$2.3**	**$2.3**	**$2.4**	**$2.4**
Additional Revenue, $40 Fee ($MM)	**$5.9**	**$6.0**	**$6.1**	**$6.3**	**$6.4**

Strengths	Weaknesses
- Existing fee so no new administrative costs - Is a form of user fee - County has the authority to raise the fee	- Somewhat regressive - May be perceived as reducing state car tax relief
Opportunities	**Threats**
- Relatively low compared to the benchmarked peers	- Possible voter backlash

Additional Potential Revenue Measures Requiring Action by the Virginia General Assembly

- **Institute a Tax on Sugared Beverages.** "Soda taxes" are typically applied on sugar-sweetened beverages and are meant to both improve health and raise revenue. The tax is usually applied per ounce of product and ranges from one to two cents per ounce.

  Discussion. Perhaps the most interesting "new" tax is one that is now in place in a number of major local governments, including the City/County of Philadelphia; San Francisco and Oakland, California; Boulder, Colorado; and Seattle, Washington.

  Sugar-sweetened beverages (SSBs) are the largest contributor to added sugar in the U.S. diet. While added sugar is often primarily associated with obesity, other negative associated effects include type 2 diabetes, cardiovascular disease, dental issues and osteoporosis.[124]

  Strong arguments can be made in favor of the tax. While there is still debate about its health effects, recent studies suggest that the tax has reduced consumption of sugary beverages in jurisdictions that have imposed the tax. For example, a study done in Berkeley, California, where a one cent per ounce tax is in place, found that after one year sales of sugary drinks fell almost 10 percent, while sales of water and other unsweetened beverages rose over the same period.[125]

  At the same time, there has been strong resistance from the soda industry, and there is at least local evidence in some places of job losses associated with the changes in economic activity.[126] Even in this area, there is counter-evidence that suggests that the job losses are mitigated by increases in jobs in

---

[124] Some form of sugar tax on beverages or other items have been tried in the past, including the federal government as a way to help fund World War I and several states. They were generally rescinded because of industry and consumer pressure. However, some examples of the tax still exist, for example the State of Arkansas has this type of tax still in place. For examples of some of the difficulties with implementing and enforcing this type of excise tax, see "Overreaching on Obesity: Governments Consider New Taxes on Soda and Candy," Tax Foundation, October 2011, No. 196. Accessed electronically at https://files.taxfoundation.org/legacy/docs/sr196.pdf

[125] "Larry D. Silver, Shu Wen Ng et al, "Changes in prices, consumer spending, and beverage consumption one year after a tax on sugar-sweetened beverages in Berkeley, California: a before-and-after study," (April 18, 2017). Accessed electronically at http://journals.plos.org/plosmedicine/article/file?id=10.1371/journal.pmed.1002283&type=printable

[126] Pepsi to lay off 80 to 100, blames soda tax," March 1, 2017, accessed electronically at http://www.philly.com/philly/news/politics/Pepsi-announces-80-100-layoffs-blames-soda-tax.html

other parts of the local economy.[127] One major county (Cook County, Illinois) has rescinded its SSB tax based on industry/taxpayer resistance.

Because Virginia is a Dillon's Rule state, localities may only impose the taxes allowed by state law. Additionally, counties in Virginia are further limited by state law and restricted on what they may tax – counties may not impose taxes unless state law specifically allows it. No Virginia County currently has the authority under state law to impose a tax on SSBs. Specific legislation would have to be enacted by the Virginia General Assembly to allow this.

Estimated Fiscal Impact. The University of Connecticut's Rudd Center for Policy and Obesity has developed a revenue calculator for sugary drink taxes. According to their calculator, the Commonwealth of Virginia could raise more than $230 million annually by instituting a 1.0 cent per ounce tax on carbonated soft drinks; that total would increase to nearly $300 million if the rate were 1.5 cents per ounce. Two methods for scaling this to Prince William County would be to use the County's share of the State's total taxable sales (5.3 percent) or share of Virginia's population (5.5 percent). If 5.3 percent is applied to the State's estimated revenue figures, it would yield revenue for Prince William County of between $12 million and $16 million annually, depending on the rate, as shown in Table 108. Even if this amount were discounted to take into consideration border competition issues, this option would still yield significant potential revenue.

Table 108: Estimated Fiscal Impact of Imposing a Tax on Sugared Beverages, FY2019-FY2023

	FY2019	FY2020	FY2021	FY2022	FY2023
Additional Revenue, 1 Cent/Ounce ($MM)	**$12.6**	**$12.5**	**$12.5**	**$12.5**	**$12.4**
Additional Revenue, 1.5 Cents/Ounce ($MM)	**$15.8**	**$15.8**	**$15.8**	**$15.7**	**$15.7**

Strengths	Weaknesses
- Large base of consumption - Can be argued as a health-related effort - Could be targeted for existing health spending - Portion of tax burden exported to non-residents	- Would require Legislative authority - Considered regressive
Opportunities	**Threats**
- If it reduces consumption (evidence that it can), it may improve health outcomes/reduce some spending	- Industry is aggressively opposing the taxes and also seeking their repeal where they exist

- **Institute a cigarette tax.** The Code of Virginia Title 58 Chapter 31 (58.1-3831) gives specific localities the authority to levy a cigarette tax not to exceed 5 cents per pack or the amount levied by the State (currently 30 cents per pack), whichever is greater.

  Discussion. The County is unable to levy the tax without authorization from the State. While four of nine peer governments currently impose cigarette taxes, two are cities (Virginia Beach and Alexandria), and the two counties (Fairfax and Arlington) have specific approval from the State to impose the tax. The Northern Virginia Cigarette Tax Board (NVCTB) collects and enforces cigarette taxes for Northern Virginia municipalities, including Alexandria and Fairfax County.

[127] Lisa M. Powell and Mathew L. Maclejewski, "Taxes and Sugar-Sweetened Beverages," Journal of the American Medical Association, January 16, 2018, Volume 319, Number 3, p.229. Accessed electronically at https://jamanetwork.com/journals/jama/fullarticle/2669736

Estimated Fiscal Impact. Taxes are currently imposed on cigarettes by half of the localities in the peer government group, with a median rate of $0.53 per pack and average of $0.63. Using the smoking rates and population data below, it is estimated that Prince William County has nearly 48,000 smokers. The project team used the per-pack tax rates and estimated revenue to generate a proxy of 250 packs consumed per smoker per year, as shown in Table 109 and Table 110.

Table 109: Peer Locality Smoking Statistics

	Adult Smoking Rate[128]	Population 18+[129]	Local Rate per Pack	Estimated Revenue
Prince William County	**15%**	**319,367**	**N/A**	**N/A**
Virginia Beach	16%	346,945	$0.75	$11,906,906
Fairfax County	11%	861,183	$0.30	$7,000,000
Alexandria	15%	124,161	$1.15	$2,885,000
Arlington County	12%	187,545	$0.30	$2,250,000

Table 110: Peer Locality Smoking Estimates

	Estimated Number of Smokers[130]	Estimated Packs Consumed[131]	Estimated Packs per Smoker[132]
Prince William County	**47,905**	**11,979,405**	**250**
Virginia Beach	55,511	15,875,875	286
Fairfax County	94,730	23,333,333	246
Alexandria	18,624	2,508,696	135
Arlington County	22,505	7,500,000	333

As demonstrated in Table 111, if the County imposed a tax at $0.30 (in alignment with Fairfax and Arlington Counties), it would generate an estimated $3.6 million annually.

Table 111: Estimated Fiscal Impact of Imposing a Cigarette Tax

	$0.30 per Pack
Estimated cigarette tax revenue	$3,593,822

A 2013 study by the County Finance Department estimated that implementing a cigarette tax at $0.30 would generate approximately $3.0 million annually.

[128] University of Wisconsin Population Health Institute – County Health Rankings and Roadmaps, 2017. Accessed electronically at http://www.countyhealthrankings.org/app/virginia/2018/rankings/prince-william/county/outcomes/overall/snapshot
[129] U.S. Census Bureau American Community Survey 2016 5-Year Population Estimates
[130] Calculated as population 18 and older x adult smoking rate
[131] Calculated as estimated revenue / local rate per pack; Prince William County calculated based on assumed packs per smoker
[132] Calculated as estimated packs consumed / estimated number of smokers; Prince William County is the average of the 4 peer governments (250)

Strengths	Weaknesses
- 'Sin tax' that can cover some of the County costs from consumption - Declining base means revenues will likely decline in the future - Exports a share of the tax burden - Relatively easy administration and collection	- Would require state authorization - Targets a specific industry
Opportunities	**Threats**
- If it triggers additional declines in consumption, there may be positive health outcomes and reduced County costs over time - Cigarette demand is somewhat elastic - Politically more palatable than other taxes, as smokers are a minority of the population	- The tobacco industry will fight any additional taxes in the Commonwealth - Virginia is a tobacco growing state - Generally seen as a regressive tax - Other governments have begun to see forecast declines in cigarette tax revenues as a result of tax increases leading to higher prices

- **Impose taxes on Vape and E-Cigarettes.** This would be a tax based on sales or use of e-cigarettes and vapor products. The tax could be applied at the point of sale, or could be applied to the gross value of the taxed sales.

  Discussion. Vapor products, also known as electronic cigarettes, have grown steadily in popularity over the past 10 years – due in part to their reputation as a less harmful alternative to traditional cigarettes. According to the CDC, as of 2014, there were more than 9 million e-cigarette users in the U.S.[133] As of January 1, 2018, eight states and the District of Columbia levy a statewide excise tax on vapor, and three states (Maryland, Illinois and Alaska) are home to localities that have started to apply excise taxes to the products.[134]

  Montgomery County, Maryland imposes a 30 percent excise tax on every person who supplies an electronic cigarette product to a dealer in the County or supplies and services a vending machine with an electronic cigarette product. FY2017 collections were just under $350,000.[135] Cook County, Illinois projects that it will collect $7.5 million in FY2018 by taxing tobacco products other than cigarettes, including liquid nicotine and "roll your own" tobacco on a per-ounce basis.[136] In 2015, Juneau, Alaska began including e-cigarettes in the definition of "other tobacco products" which are taxed at 45 percent of retail value.

  The Virginia Legislature has introduced several bills in recent years to enact a vape tax, though none have advanced:

  - 2015: HB 1310 would have imposed a state tax of **$0.40 per mL** on electronic products and authorize cities and towns and certain counties to impose a tax on vapor products. Any local government imposing a vapor products tax would be required to use the revenues for making grant payments to or funding in support of center-based pre-kindergarten programs or

[133] Centers for Disease Control and Prevention – Electronic Cigarette Use Among Adults: United States, 2014. Accessed electronically at https://www.cdc.gov/nchs/data/databriefs/db217.pdf
[134] Tax Foundation – Vapor Taxes by State, 2018 (March 28, 2018). Accessed electronically at https://taxfoundation.org/vapor-taxes-2018/
[135] Montgomery County, Maryland Department of Finance – FY2017 Third Quarterly Revenue Update. Accessed electronically at http://www.montgomerycountymd.gov/Finance/Resources/Files/data/economic/ThirdQuarterRevenueUpdate_FY17.pdf
[136] Cook County, Illinois FY2018 Revenue Estimates. Accessed electronically at https://www.cookcountyil.gov/sites/default/files/18-v1_rev_estimate_l_0.pdf

preschool programs designated for child development and kindergarten preparation. The bill was left in the Committee on Finance.[137]

- 2016: HB 627 would have imposed a state tax of **15 percent of the manufacturer's sale price** of vapor products and authorized cities and towns and certain counties to impose a tax. The bill was stricken from the docket by the Committee on Finance.

- 2017: HB 2056 would have imposed a state tax of **$0.05 per mL** of vapor product and **10 percent of the retail price** for e-cigarettes or similar products or devices and authorized cities and towns and certain counties to impose a tax. The bill was stricken from the docket by the Committee on Finance.

As with a tax on sugary beverages, counties may not impose a tax on e-cigarettes unless state law allows it – and no Virginia County currently has the authority to impose such a tax. Legislation would have to be enacted by the Virginia Assembly to allow this.

Estimated Fiscal Impact. Revenue would likely be negligible and would depend on the level of the tax and the sales activity occurring within the County. The number and values of vaporizer sales within Prince William County are not known at this time. Cook County, Illinois, which has a significantly larger population than Prince William County (5.2 million people in 2017), projects that it will collect $7.5 million in FY2018, while Montgomery County, Maryland (which has a population roughly twice the size of Prince William County at 1.1 million) generates $350,000 annually.

Strengths	Weaknesses
- Consumption tax on an emerging product - Likely to grow in the future - Can be argued as a 'sin tax' like the tax on cigarettes	- Would require Virginia legislative approval - Current use is limited, and revenues would be as well
Opportunities	**Threats**
-	- Cross-border competition - Online availability of products - Industry is aggressively opposing the taxes

- **Impose a Ride-Sharing Tax on Uber and Lyft.** As ride-hailing services become a major force across the country, some localities (all currently outside of Virginia) have begun imposing ride-sharing taxes on Uber and Lyft. The tax is typically imposed as a percent tax per ride.

Discussion. In February 2018, the State Senate Finance Committee voted 9-7 to eliminate a proposed statewide tax on ride services such as Uber and Lyft that would have generated an estimated $21 million for transit systems in the State.

Despite this, many local and state governments are exploring ways to capture revenue from the growing ride-sharing industry. For example, a 1.4 percent tax on ride-hailing trips in Philadelphia is expected to raise $2.6 million in FY2018 for the City's public schools. The tax also is expected to generate more than $500,000 for enforcement and regulation of the ride-hailing industry itself. Chicago now collects a

[137] Virginia Legislative Information System – HB 1310: Taxes on electronic cigarettes and other vapor products. Accessed electronically at https://lis.virginia.gov/cgi-bin/legp604.exe?151+sum+HB1310

15 cent fee on Uber, Lyft, and other ride-hailing services that is helping to pay for track, signal and electric upgrades to make the city's trains run faster and smoother.[138]

In South Carolina, a 1.0 percent ride-hailing fee has yielded more than $1 million in additional revenue for municipalities and counties. The Commonwealth of Massachusetts began collecting 20 cents for every ride-hailing trip in February 2018 – earmarking the revenue to improve roads and bridges, fill a state transportation fund and help the taxi industry adapt with new technologies and job training. In April 2018, New York became the most recent state to collect ride-sharing taxes when it began imposing a congestion surcharge of $2.75 on all Uber, Lyft and other ride-hailing services south of 96th street in Manhattan (taxi fares in the same zone are subject to a surcharge of $2.50). The surcharges will generate an estimated $415 million annually for repairs and upgrades to New York City subways.[139]

Estimated Fiscal Impact. Revenue would depend on the rate imposed, but the measure would likely generate less than $1 million annually for the County. Even large cities (such as Philadelphia) are expecting to generate relatively minor amounts of revenue from its ride-sharing tax.

Strengths	Weaknesses
- Broadens the base of an existing tax - Levels the playing field between similar taxpayers (horizontal equity)	- Requires state action - Unpopular with ride-sharing industry
Opportunities	**Threats**
-	- Not legally feasible without legislative action from the Virginia General Assembly.

- **Remote seller nexus.** On June 21, 2018, the U.S. Supreme Court (SCOTUS) provided sales tax dependent state and local governments a significant potential additional revenue source, as it overturned two long-standing sales tax precedents that had limited the ability of governments to compel the collection of sales taxes from sellers without a physical presence in their state.

  Discussion. In South Dakota v. Wayfair (Wayfair), the SCOTUS overturned prior case law dealing with catalogue and phone sales (National Bellas Hess v. Illinois Department of Revenue, 386 U.S. 753, 1967) and Internet sales (Quill v. North Dakota, 504 U.S. 298, 1992) and ruled that states (and, by extension, local governments) have the ability to compel (at least some) sellers without a physical presence in their state to collect and remit sales tax from customers.

  At issue was a new form of nexus established by a number of states (first by South Dakota and Alabama). This interpretation identifies nexus when a business attains a certain dollar amount of sales (and/or number of transactions) into a state. In the case of South Dakota, the statute identifies sales of over $100,000 a year or 200 transactions as meeting the test. In those cases, sellers must collect and remit the sales tax to the state.

  Some states already have similar laws or will move quickly to enact laws resembling South Dakota's to collect sales tax on internet purchases (in fact, some already have since the decision was announced). Other states would need to make significant changes to their sales tax system to be able to collection,

---

[138] The New York Times – When Calling an Uber Can Pay Off for Cities and States (February 18, 2018). Accessed electronically at https://www.nytimes.com/2018/02/18/nyregion/uber-lyft-public-transit-congestion-tax.html
[139] Syracuse – NY State Budget Passes: A Look at Key Items in $168.3 Billion Spending Plan (March 31, 2018). Accessed electronically at http://www.syracuse.com/state/index.ssf/2018/03/ny_state_budget_passes_a_look_at_key_items_in_1683_billion_spending_plan.html

particularly large states that have resisted joining other states in adopting more uniform, simplified sales tax laws.

In reviewing the current Commonwealth of Virginia sales and use tax statute, the Commonwealth has not defined economic nexus as a basis for compelling collection of sales and use tax by out-of-state sellers.[140] It is notable that the Commonwealth has provided for imposition of the collection burden on sellers should there be federal legislation authorizing the collection, but it does not apply to a federal SCOTUS ruling. As a result, it will require state legislative action for additional collection of sales tax under an economic nexus standard.

Estimated Fiscal Impact. The Government Accountability Office (GAO) estimates uncollected e-commerce revenue nationwide to be about $8-$13 billion, equal to 2-4 percent of total 2016 state and local government general sales and gross receipts tax revenues.[141] The revenue would likely grow faster than most other revenue sources due to the strong growth of the e-commerce sector. Using the 2-4 percent estimate as a basis, Prince William County would generate between $1.3 million and $3.0 million annually, as demonstrated in Table 112.

Table 112: Estimated Fiscal Impact of Changes to Remote Seller Nexus, FY2019-FY2023 (Amounts in Millions of Dollars)

	FY2019	FY2020	FY2021	FY2022	FY2023
Estimated Sales Tax Revenue	$66.2	$68.2	$70.2	$72.3	$74.5
Sales Tax Revenue Increase at 2.0%	**$1.3**	**$1.4**	**$1.4**	**$1.4**	**$1.5**
Sales Tax Revenue Increase at 4.0%	**$2.6**	**$2.7**	**$2.8**	**$2.9**	**$3.0**

Strengths	Weaknesses
- Ensures that sales tax as a broad-based consumption tax is taxing consumption regardless of how it is purchased - Aligns with horizontal equity – sellers are treated equally regardless of how they sell products - Maintains the revenue base	- Will create new tax/reporting requirements for some vendors who have not been subject to tax - Will require significant new resource demand (although this is likely to be on state government)
Opportunities	**Threats**
- May provide opportunities for main street businesses because of evened playing field	- Increased costs for state government administration may mean they seek to apply an administrative feel to local sales tax collections - State may view the increased local government revenue as a reason to reduce other local government payments

[140] § 58.1-612. Tax collectible from dealers; "dealer" defined; jurisdiction, accessed electronically at https://law.lis.virginia.gov/vacode/title58.1/chapter6/section58.1-612/
[141] U.S. GAO – Sales Taxes: States Could Gain Revenue from Expanded Authority, but Businesses are Likely to Experience Compliance Costs (November 2017). Accessed electronically at https://www.gao.gov/assets/690/688437.pdf

Summary and Observations

Introduction

In identifying key issues, the project team is relying on what are considered ‘best practices’ related to taxation in general. There are a number of important considerations when constructing and assessing the efficacy of a tax structure. These are generally focused on issues of *fairness, neutrality, stability and ease of administration.* The following discusses these key considerations.

Fairness
A good tax system should distribute the tax burden across taxpayers in a manner that is consistent with the accepted norms of fairness and equity. These norms typically define fairness according to the relationship between the amount of taxes paid (or borne) by taxpayers and their respective abilities to pay the tax, or to the benefits received by them from government programs. The norms of fairness are generally considered to be:

- **Vertical Equity.** Where the amount of tax paid by taxpayers with different income levels reflects their respective abilities to pay the tax. Specifically, taxes paid as a percentage of income should not unduly burden taxpayers with limited ability to pay the tax. Some view this principle as satisfied by a proportional tax burden, where taxes paid are the same percentage of income for taxpayers at all income levels. Others believe that the principle requires that taxes paid as a percentage of income should be higher for taxpayers with more income than those with less income (a progressive tax burden).

- **Horizontal Equity.** Where taxpayers with similar abilities to pay a tax should pay comparable amounts of the tax. This is often applied to businesses with similar levels of income that have widely differing tax liabilities. The principle would also suggest that government not levy taxes that have arbitrary and peculiar distributions of tax burdens across taxpayers.

Neutrality
A good tax system should have revenue sources which do not unduly influence or distort economic decisions by consumers or businesses except for targeted development or redevelopment. Distortions cause a measurable loss in the economic value of production and consumption, which increases the tax burden on the resident taxpayers.

Stability
A good tax system is expected to generate sufficient revenue to pay for established public services without the need for continuous or drastic changes in tax rates or in the tax base. Stability also reflects a structure that can withstand economic and other shocks without encountering dramatic swings in revenue collections.

Simplicity/Ease of Administration
Individuals should be able to readily understand and comply with their obligations as a taxpayer. The rules, record-keeping and computation requirements should be simple enough that the tax system can be administered at low cost by the tax collection agency without imposing an undue compliance burden on the taxpayer.

Tax Policy Interrelationships
While the general principles of taxation are logical – and mostly non-controversial – it should be accepted that these general tax principles will sometimes conflict, and it will be necessary to weigh the costs and benefits of adhering to the principles. For example, a broad sales tax that taxes goods and services that are perceived to be necessary (rather than optional) purchases will promote revenue sufficiency and stability but have a negative impact on vertical equity. As another example, some taxes exhibit a trade-off between revenue sufficiency and

volatility or stability. Over the years, the personal income tax has exhibited significant volatility based on the business cycle and other variables. At the same time, in strong growth periods they have out-performed other revenue sources in terms of levels of growth and ability to "bounce back" to prior levels.

These trade-offs suggest the need for the use of several forms of taxation to off-set specific impacts or defects in a particular tax. This type of complementary approach is considered a taxation "best practice." Often this approach means a combination of taxes on different types of economic activity or outcomes. Taxes generally are imposed on wealth (such as a property tax), income (such as an income tax) or consumption (such as a general sales or excise tax). This type of balanced structure, in tax parlance, is sometimes referred to as a 'three legged stool.'

The project team has used these principles and how they interact in practice in shaping its approaches and observations.

General Tax Administration Issues

In general, the County has established an effective mix of taxes, and they are competently administered. The project team believes that in general, the County is aligned with best practices in this area. Key observations include:

1. **Maintain the use of all revenue sources allowed by the Commonwealth.** Given Virginia's role as a Dillon's Rule state, the County is best served by maintaining whatever tax revenue capacity granted to it by the Commonwealth. The project team would not recommend abolishing any existing County tax.

2. **Revenue diversification is a worthy goal.** A very large percentage of the County's revenue comes from real and personal property taxes. Seeking ways to broaden the County's revenue mix can help to balance out the concerns of over-use of property tax.

3. **A flat license fee for all businesses has value regardless of its revenue impact.** There is value to maintaining information flow with all existing County businesses. While the revenue associated with this measure is not significant, it also familiarizes businesses with payment responsibilities to the County. Eventually, some of these businesses will grow and become subject to greater tax requirements, and this regular interaction with the County is useful in that case.

Real Estate Tax Key Issues

Real property is restricted for local taxation only, and localities are provided with a fair amount of latitude in imposing real property taxes. There is no Code restriction on tax rates, and as a result, rates vary widely from municipality to municipality. The personal property tax is historically a stable revenue source because property values generally change slowly and because the tax is difficult to evade.

However, there is no perfect tax, and the real estate tax is no exception. For example, ability to pay can be an issue – particularly for property-rich, cash-poor taxpayers, such as the elderly. Additionally, the fact that property taxes are generally due in large lump sums (typically once or twice per year) can create both animosity among taxpayers and cash flow issues.

Nonetheless, real estate taxes are an extremely significant source of revenue for Virginia localities, including Prince William County. At nearly 70 percent, the County's reliance on the source is comparable to that of peer localities. However, Prince William County's real estate tax base, which is more than 83 percent residential, is more heavily reliant upon non-commercial sources than peer localities.

Revenue diversification is key for local governments, as it enables them to remain strong in times of economic downturn. Heavily reliant upon real estate taxes, Prince William County's total taxable assessed value decrease significantly as a result of the Great Recession – and still has not fully recovered.

It is common for localities to modify the real estate tax rate each year, and the County has the ability to increase the rate as needed in order to provide services to taxpayers. However, as with any tax increase, doing so is generally unpopular, despite being necessary.

Other opportunities exist in addition to rate increases. For the past ten years, counties and cities that are "wholly embraced" by the Northern Virginia Transportation Authority have been authorized to impose an additional tax on commercial and industrial property due to the separate classification of all real property used for or zoned to permit commercial or industrial uses. These localities may, by ordinance, tax commercial and industrial properties at a maximum rate of $0.125 per $100 of assessed value; all revenue generated must be used for transportation-related purposes outlined in statute.

Real Estate Tax Observations

1. **Consider taxing commercial and industrial property.** While not intended to generate a significant amount of revenue, imposing a real property tax on commercial and industrial property would help the County in its goal of expanding the commercial tax base. While the funds generated by this measure would need to be used for specific transportation-related purposes, it is possible that instituting this additional tax could supplant general funds currently allocated for transportation-related purposes.

Personal Property Tax Key Issues

As with the real estate tax, the personal property tax is designated for local taxation only, and localities are granted the latitude to establish the tax rates, set assessment ratios and select valuation methods. The source has long been a key source of revenue for Virginia's localities. All counties and cities collect the tax, and the most common classification of personal property subject to taxation is automobiles.

However, because many U.S. states do not levy a personal property tax, many residents (particularly those new to Virginia) may not be aware that the tax exists. And of course, because the tax is very visible, being paid once or twice a year in relatively large sums, taxpayers tend to dislike the tax.

The County generally has high collection rates, and supplements police enforcement and compliance actions with both an anonymous hotline and online system for reporting possible offenders. This practice is common among peer localities.

One relatively unique provision in Prince William County is the provision of a reduction in assessed value for vehicles deemed to have high mileage. The deduction for high mileage cannot exceed 40 percent of the normal assessed value for the vehicle. Once a vehicle is established in the County's system as having high-mileage, the reduction in assessed value will continue for as long as the resident owns the vehicle. The minimum mileage required to qualify for vehicles with a model year of 2004 and older is 165,001. The mileage threshold decreases as the model year increases; for a 2018 model year vehicle, the minimum mileage requirement is 10,001 miles or more. Only Loudoun County and the City of Alexandria were found to offer similar reductions and in fact, the

Arlington County Commissioner of Revenue notes on its website that “excess mileage alone is not a sufficient reason” for an assessment reduction.

Personal Property Tax Observations

1. **Consider eliminating or modifying the provision of a reduction in assessed value for vehicles with high mileage.** The minimum mileage requirement for a 2018 model year vehicle is 10,001 miles. According to the U.S. Department of Transportation’s Federal Highway Administration, the average driver logs 13,476 miles annually.[142] Based on this statistic, the thresholds currently used by the County are very generous, as an “average” driver would be eligible for this relief. While the fiscal impact of the provision is minimal, the County should consider increasing the threshold, or eliminating the provision completely.

BTP Tax on Computer Equipment and Peripherals Key Issues

Personal property taxes are the second largest source of County revenue. The BTP tax is an important component of personal property taxes, comprising 30.4 percent of those revenues, for a total of $30.8 million in FY2017. Taxes on computer equipment and peripherals represent the fastest growing BTP tax class, both in terms of dollar value and share of total BTP taxes. In tax year 2007, computer equipment and peripheral revenue totaled $2.2 million, equal to 11.4 percent of BTP taxes. By 2017, revenue had increased to $11.1 million (28.6 percent).

In this respect, the County decision to reduce the BTP tax rate on computer equipment and peripherals from $3.70 to $1.25 per $100 of assessed value may be deemed a success. Business taxes are but one factor to be considered by businesses in locating and maintaining a business. For the data center industry, however, it is important to note that they are a computer-intensive industry that regularly refreshes its equipment. For many manufacturing processes, heavy machinery and equipment may be replaced every 10 (or more) years, while the data center industry is likely to replace its equipment in half that time (or less).

This ability to quickly refresh its primary business equipment – and options such as cloud-based servers located outside the County – suggest that the industry is relatively mobile. At the same time, there are a number of data centers in the County and in close proximity, and business often value this ‘clustering’ effect, which can give them access to suppliers and other vendors as well as workforce.

There is a case that can be made, however, that continuing to provide a very low BTP tax rate for computer equipment and peripherals (at least compared to other County businesses) amounts to an ongoing subsidy for the industry that runs contrary to effective tax policy. Local government incentives are a fact of life throughout the region (and across the country), but most commentators suggest that the cost effective approach is to provide incentives that establish a specific business or industry, which then allows pay-back of the incentives (in terms of additional economic activity and/or tax payments) over time. In this case, however, the incentive is ongoing, and this industry’s share of taxes paid (compared to other key County businesses and industries) will always be on the low end of the scale.

The County still benefits from the tax revenue paid by this industry, even at the lower rate. If the cost benefit analysis provided by the Northern Virginia Technology Council is accurate, then even at lower tax rates, data centers are likely a good deal for the County. It is also important to note that this is a fairly mobile industry,

[142] U.S. Department of Transportation Federal Highway Administration – Average Annual Miles per Driver by Age Group (last updated on March 29, 2018). Accessed electronically at https://www.fhwa.dot.gov/ohim/onh00/bar8.htm

where the investment in buildings is relatively small, and the equipment contained in the buildings is regularly refreshed and can be located elsewhere without major business disruption. There are also concerns that the industry itself is changing – with cloud computing (where servers are virtual and located anywhere in the world) becoming a bigger share of the market. In these instances, increases (particularly large increases in a short period of time) may make those choices more clear to businesses. If businesses choose to locate elsewhere (or not locate in the County in the first place), the increased tax revenue from a rate increase may shrink over time as the base erodes.

The issues to be weighed in this instance are not simple; there are equity issues related to tax rates. There is, on the other hand, the return on investment from an industry that the County has targeted – successfully – for growth. Beyond this basic tension, there are other factors that should also come into consideration. First, there is no doubt that the proposed (nearly) tripling of the rate all at once would be noticed by the industry – both those currently in the County and those considering locations. It is quite possible that this would factor into new location decisions. While the County may not see an immediate change in business concentration, it is likely that this would be a factor over time.

In this case, it may be a more prudent course for the County to raise the tax in increments, over time. This will allow it to consider the ramifications – both of existing businesses staying in the County and others locating there. This may provide useful information for the County to consider as it determines the 'just right' level of this tax and the industry in question.

There are also alternative revenue sources that might be considered, and many are analyzed in the report. Of course, there is no perfect tax, and all will have consequences and some forms of negative impact on economic activity that impact on (at least some) businesses and consumers. It is also notable that the Commonwealth limits the revenue alternatives available to local governments. This is not unique to Virginia, but it is a fact that must be considered – the County is not its own master as it relates to many taxing sources.

By far the largest source of revenue for the County (and for local governments in general) is real property taxes. In this case, it appears that at least one justification for this increase is to maintain or reduce real property tax rates. While this is a laudable goal (revenue diversification is generally considered a best practice), in this case, the actual reduction in the rate is small – and may not actually reduce property taxes for residential taxpayers, as property values are generally appreciating. In this case, other revenue alternatives that are available to the County would likely be a better way to reduce real property tax rate.

BTP Tax Observations

1. **An abrupt change in the BTP tax related to computer equipment and peripherals will be likely to have a significant impact on the industry that will be a net-negative to the County.** Should the County wish to bring its BTP tax rate more in line with its other rates on personal property, it should do so in a phased approach over multiple years.

2. **Should the County wish to enact this approach, it should also plan to do regular studies on tax impact.** These assessments should be conducted both on existing and start-up data centers within the County and in relationship to its standing with its peer local governments in Virginia.

3. **The County should also consider its own cost-benefit analysis of the data center industry.** There is at least some divergence in views on what the industry contributes (in terms of economic impact) to the County versus the industry resource requirements. An in-depth analysis might provide better data for tax policy decision-making.

4. **The County should consider conducting a depreciation study specific to each type of property to analyze its existing depreciation schedule that is inclusive of all computer equipment and peripherals.** The County business community has expressed concern that the current schedule may not be depreciating property fast enough to keep up with the market. A study of the various peer government depreciation schedules and possible changes to Prince William County's schedule would provide information for decision-making.

County BPOL Tax Key Issues

The BPOL tax is a long-used tax in Virginia, and it has been beneficial to local governments in a variety of ways. The businesses community is generally aware of its existence, and its impact is built into market decision-making. Due to its history, compliance rates tend to be high, and because the tax is tied to gross receipts, it is generally a stable revenue source for the County. Despite increasing the gross receipts threshold at which tax is owed, collections have generally increased over time, growing by $3.0 million (13.6 percent) between 2007 and 2017. Additionally, the tax is relatively easy for the County to administer, as taxpayers file just once per year.

However, the BPOL tax is sometimes perceived as unfair and/or inequitable. Because it is tied to gross receipts, it is imposed even on businesses not generating a profit. Gross receipts taxes have greater impact on high-volume industries and those with lower profit margins. Due to varying approaches to taxation across municipalities, businesses in the same industry with the same gross receipts may have different tax liabilities from one local government to another.

The County has enacted a series of increases to the gross receipts threshold in recent years in order to relieve small businesses of the burden. However, it is unclear whether increasing the threshold has made a meaningful impact on business activity within the County.

While the Commonwealth has a role in providing a structure for uniform application of BPOL tax among cities and counties, local governments have a fair amount of flexibility when imposing the BPOL tax. Through ordinance, counties and cities may set the tax rate levels lower than those allowed by state law, or select classifications to tax or not tax. Local governments may also establish sub-classifications and provide for different rates or exemptions, may establish graduated tax rates so that the rate increases or decreases with volume, and may establish a threshold amount of gross receipts below which no tax will be imposed.

Within these guidelines, the County has several options to consider on imposition of the BPOL tax. For instance, the County's tax rates by business classification are generally below the statutory maximums; the only exception is for wholesale merchants. While increasing the rates to those allowed by statute would generate an estimated $9.0 million annually, it may also make Prince William County less competitive relative to its peers. As with the BTP tax, if would be wise for the County to increase the tax in increments over time.

Increasing revenue is not the only consideration in changing County practices. Requiring all County businesses under the gross receipts threshold to file for a license, for example, would have the effect of improving data collection, particularly for those businesses that are below the threshold and choose not to file. This option has its own challenges, as it is likely to require administrative effort for County and businesses and may be unpopular in the small business community. It is notable, though, that a number of peer municipalities have a similar arrangement in place.

Other possible changes to the current BPOL structure could be revenue neutral from the County's perspective and would shift the tax burden to those more able to afford it. Options include increasing the gross receipts threshold beyond $500,000 while also increasing the tax rate for one or multiple business classifications or imposing a graduated tax rate scale, by which marginal rates would apply to all businesses. Because of the shifting burden, both of these alternatives would create 'winner and losers' by business classification and/or by income cohort within a given classification.

County BPOL Tax Observations

1. **While a case can be made for the increases in the threshold requirements for paying the tax, the data around resulting changes in business activity is inconclusive.** While there may be longer-term issues associated with the threshold increase that are not yet apparent in the data, the project team believes the County should monitor how these changes are impacting on its revenue stream and business activity before considering additional changes to the threshold levels. A key consideration in estimating tax revenue is to establish a baseline, and it is difficult to do so when the tax base is continually changing.

2. **The overall rates of the BPOL compared to the benchmark local governments suggests that should the County decide to increase the threshold over time, it should also consider raising the rates on some of the classifications.** As previously noted, maintaining a reasonable BPOL tax base is important to the overall revenue diversification, given the heavy reliance on property taxes.

3. **A graduated rate structure for high-revenue businesses is worth considering and can be either a method to raise revenue or a source for other tax structure changes (either reducing property tax rates or raising the BPOL threshold in the future).** Most of the major payers of BPOL taxes are retail locations that are not likely to leave the County based on this tax issue – they are located there because their customer base is nearby.

4. **The County might consider waiving BPOL taxes for the first one to two years of operation for new businesses moving into the County.** This might help simplify the filing process by eliminating the estimate of gross receipts. This would be a business-friendly change, as it would enable new businesses to earn revenue before the County begins collecting the tax. It might also enable the County to collect more information on new business development and would encourage the filing of BTP taxes.

Sales and Use Tax Key Issues

Virginia provides little discretion related to sales and use tax for local governments. There is a single, uniform rate, and that rate is applied across the entirety of eligible Virginia local governments. As a result, any policy changes would require significant time and effort.

That said, there are certainly opportunities to do so. Virginia is in the minority of states that has not chosen to adopt a new 'economic nexus' standard that the US Supreme Court upheld as constitutional in 2018's South Dakota v. Wayfair case. Enacting this type of standard would likely increase County sales and use tax revenues – a recent GAO report suggests by somewhere between two and four percent.

Likewise, Virginia taxes hardly any services. This is a new 'battleground' for states to maintain the sales and use tax revenue base. The State should move to include more consumer services in its sales tax base, as most other states are now doing.

Sales and Use Tax Observations

1. **Expand the state sales tax base to include additional services.** This would ensure that the state/local government's largest consumption-based tax is adequately reflecting the 'new economy's' consumption. In addition to being a revenue sufficiency issue, this is also a horizontal equity issue.

2. **By State statute, require the collection of sales tax by out-of-state sellers to Virginia residents.** The Supreme Court has now determined this to be constitutional, and nearly half the states with sales taxes have already enacted enabling legislation. This is important for sales tax compliance and to ensure strong collection rates.

Motor Vehicle License Fee Key Issues

Motor vehicle license fees are broadly applied in municipalities across Virginia. With the exception of a few localities, all of the Commonwealth's counties and cities impose them. As with other taxes, cities and counties are provided with the flexibility to set their own rates, provided those rates do not exceed the state rates. The County has not increased its rates, which are low relative to its peers, in many years.

Motor Vehicle License Fee Observations

1. **Consider tying the County's motor vehicle license fees to state rates by ordinance.** This alternative would remove the need to set the rates, as they would be tied directly to the state's rates. This would ensure maximum revenue is achieved from the source without a heavy administrative burden and would have the added benefit of increased revenue source diversification.

Other Tax Source Key Issues

A key consideration for other tax sources is to diversify the revenue base. The County has a less diversified base than its peers. At the same time, the Commonwealth has not given the County a lot of alternatives. Given that fact, it makes sense to at least make an effort to enact a tax with the potential to raise a significant amount of new revenue.

Other Tax Source Observations

1. **Consider placing a meals tax in front of voters.** As already noted, the County has a revenue structure that is more reliant on the real property tax than any of its peer local governments. This suggests that alternatives should be explored to reduce that reliance. Among the alternatives, the meals tax has the advantage of being in place in some comparable local governments, and an argument can be made that a fair amount of its revenue will be exported to non-county taxpayers. It also taxes something that is not considered a necessity, and a type of purchase that is consumed more by higher income households than those with lower income. While meals tax referenda have been voted down more often than not, there has also been a reasonably large number of approvals.

2. **Require short term rental permits – even free of charge – in order to increase the quality and available of short term rental activity in the County.** If the County eventually decides to adopt an ordinance related to short term rental regulation, it will be well prepared to ensure compliance.

Conclusion

The goals of this study are two-fold. First, it provides a detailed foundation of information and analysis to understand and compare the current County tax structure to those of its peers. Second, it provides a discussion of the strengths, weaknesses, opportunities and threats associated with the existing tax structure and alternatives to it. Throughout, the study seeks to assess how the current or revised structures would align with the County's strategic goals and objectives as well as established principles of a sound tax system.

This study also provides several possible alternative revenue sources that can assist the County in its strategic goal of developing a 'robust economy.' The study seeks to provide key observations and alternatives, so as to not 'paint policymakers into a corner' should those alternatives prove unfeasible for political and/or policy reasons. Many of the alternatives discussed may require concerted efforts from leadership at both the Virginia state and local government level that has to be sustained over time. Significantly 'moving the dial' on taxes will take more than a single event or alternative that provides a neat and tidy solution.

Appendices

Appendix A1: Key Economic and Demographic Indicators, Peer Governments

	Prince William County	Alexandria	Arlington County	Chesterfield County	Fairfax County	Fauquier County	Henrico County	Loudoun County	Stafford County	Virginia Beach
Economic Indicators										
Median Household Income	$98,546	$89,200	$108,706	$73,869	$114,329	$91,221	$63,699	$125,672	$97,528	$67,719
Mean Household Income	$114,994	$119,162	$140,662	$91,567	$145,636	$115,520	$86,708	$146,719	$114,982	$85,960
Individual Poverty Level	7.0%	9.8%	8.7%	7.4%	6.0%	6.0%	10.6%	4.0%	5.1%	8.2%
% of Population w/ BA or Higher	39.5%	62.1%	73.7%	37.7%	60.3%	33.5%	40.8%	58.8%	37.3%	34.2%
Unemployment Rate	5.4%	4.0%	3.4%	6.4%	4.7%	4.0%	6.3%	3.9%	4.9%	5.8%
Geographic and Demographic Indicators										
Population	443,630	151,473	226,092	331,839	1,132,887	68,025	321,921	362,435	139,548	449,733
Population Change Since 2010	16.9%	13.3%	14.5%	7.5%	8.0%	5.4%	7.3%	24.3%	12.0%	3.2%
Median Resident Age	34.4	36.2	34.1	38.6	37.6	41.6	38.1	35.5	35	35.4
Land Area (square miles)	336	15	26	423	391	647.45	234	516	269	249
Population Density (residents per square mile)	1,319	10,078	8,706	784	2,898	105	1,377	703	519	1,806
Housing and Mortgage Characteristics										
Median Home Value	$345,900	$520,700	$623,300	$218,700	$516,800	$363,800	$216,400	$462,100	$314,800	$262,200
Total Housing Units	144,314	75,087	110,763	126,532	411,072	26,241	135,137	122,490	46,427	182,016
Median Real Estate Taxes Paid	$3,584	$4,883	$5,436	$1,894	$5,067	$2,985	$1,768	$5,126	$2,573	$2,281
Median Owner Costs as % of MHI	20.9%	20.0%	18.8%	18.7%	19.2%	20.4%	19.0%	20.7%	19.2%	22.1%

Appendix A2: Employment by Industry, Peer Governments

Industry	Prince William County	Alexandria	Arlington County	Chesterfield County	Fairfax County	Fauquier County	Henrico County	Loudoun County	Stafford County	Virginia Beach
Retail Trade	19,954	6,568	7,755	17,570	48,355	17,307	21,462	14,535	4,414	21,053
Educational Services	17,090	4,584	9,389	10,636	51,572	13,466	10,559	14,741	4,196	17,224
Construction	12,180	2,271	2,039	9,046	22,494	6,958	8,268	13,473	2,353	9,372
Accommodation and Food Services	11,464	6,744	13,387	9,881	36,631	12,711	13,888	11,599	3,138	20,464
Health Care and Social Assistance	10,826	5,313	8,563	12,913	50,429	22,178	25,410	9,866	3,218	22,336
Professional, Scientific, and Technical Services	8,198	17,921	36,876	7,416	166,225	13,157	15,940	18,041	2,930	13,692
Administration & Support, Waste Management and Remediation	6,070	4,850	10,732	10,259	36,211	11,624	17,337	10,262	1,381	10,807
Other Services (excluding Public Administration)	3,631	10,095	10,679	4,239	19,971	5,336	5,766	4,809	1,402	5,618
Public Administration	3,430	13,143	10,024	4,562	15,430	7,661	4,494	4,248	809	4,941
Wholesale Trade	3,103	1,823	1,375	6,003	15,736	6,562	9,205	3,799	1,988	4,638
Arts, Entertainment, and Recreation	2,489	984	2,369	2,260	5,917	2,854	1,776	2,563	587	2,765
Transportation and Warehousing	1,942	1,684	8,156	8,022	7,718	4,337	3,042	11,589	832	1,986
Finance and Insurance	1,838	2,855	6,368	4,581	21,214	12,915	19,892	3,028	4,057	8,497
Manufacturing	1,794	1,318	717	8,160	5,982	6,195	6,454	6,912	725	5,554
Information	1,775	1,413	5,131	2,125	23,194	2,768	3,667	7,134	307	3,471
Real Estate and Rental and Leasing	1,470	1,765	2,945	1,285	9,049	2,396	3,830	1,616	295	4,390
Management of Companies and Enterprises	935	915	2,955	1,352	23,074	6,552	8,003	1,308	75	3,207
Utilities	642	291	510	1,106	1,899	706	567	404	259	1,279
Agriculture, Forestry, Fishing and Hunting	74	4	1	31	49	161	62	424	13	74
Mining, Quarrying, and Oil and Gas Extraction	59	0	5	38	197	77	8	176	42	12
Total	**108,964**	**84,541**	**139,976**	**121,485**	**561,347**	**155,921**	**179,630**	**140,527**	**33,021**	**161,380**

Source: U.S. Census Bureau OnTheMap, 2015

Appendix B: County Real Estate Tax SWOT Analysis

	Helpful	*Harmful*
	Strengths	**Weaknesses**
Internal	▪ **Property taxes are more stable and reliable than any other tax:** Property values are typically less susceptible to short-term economic fluctuations than other major revenue sources. ▪ **Property taxes experience high collection rates:** Property taxes can be secured by the property (via liens) and are difficult to evade, as property is fixed. ▪ **Real estate tax systems are more open and visible than those for other taxes.** Real property owners can examine their assessments and those of comparable properties and have the opportunity to appeal the assessment. ▪ **Localities are provided with flexibility:** Localities are responsible for determining the rates with very few restrictions by the Commonwealth and may also choose to provide tax relief.	▪ **May be unpopular among taxpayers:** As with all property taxes, real estate taxes are visible and paid in large sums. ▪ **Ability to pay can be an issue, particularly for property-rich, cash-poor taxpayers:** This creates political pressure for local governments to provide forms of property tax relief. ▪ **Property taxes are regressive by nature:** In general, higher-income households pay a smaller percentage of their income as real estate taxes compared to lower-income households. ▪ **Differences in assessment methodology from locality to locality can lead to differing liabilities:** This is particularly true for commercial activity. ▪ **The property tax process is often seen as overly complex:** Taxes are assessed on a county basis but paid in a taxing jurisdiction (school district, etc.) basis; the array of local property taxing jurisdictions can create disconnects between services and funding. ▪ **The County has a high reliance on real estate taxes:** The tax is the most significant source of revenue for Prince William County and peer localities.
	Opportunities	**Threats**
External	▪ **Competitive rates can be an advantage:** If rates are low relative to comparable jurisdictions, taxpayers may be more likely to locate in the County. ▪ **Tools exist that may help ameliorate tax burden:** Many jurisdictions offer tax abatements and TIFs to spur economic development.	▪ **Uncompetitive rates may be a disadvantage:** If rates are high relative to comparable jurisdictions, taxpayers may be less likely to locate in the County.

Appendix C: Personal Property Tax/Business Tangible Property Tax SWOT Analysis

	Helpful	***Harmful***
	Strengths	**Weaknesses**
Internal	▪ **Broadly applied:** All cities and counties in Virginia collect tangible personal property tax. ▪ **Deeply-rooted and well-known:** Tangible personal property tax has been administered at the local level in Virginia since 1926. ▪ **High collection rates:** The current personal property tax collection rate for FY2017 was 96.1 percent. ▪ **Competitive rates:** Both the business tangible property rate and computer equipment rates are competitive relative to peer governments.	▪ **May be unpopular among taxpayers:** As with all property taxes, personal property taxes are visible and paid in large sums. ▪ **Computer rate may impact business decisions:** Tax rates may be directly correlated with business decisions, particularly businesses with many computers. ▪ **Data issues exist:** It is not possible to know the locations of all equipment subject to taxation due largely to the format of the County's filing forms. ▪ **From a policy perspective, it is difficult to "tax the cloud":** As the economy shifts from one that relies on goods to one that relies on services, governments may find it challenging to capture revenue from constantly evolving technologies.
	Opportunities	**Threats**
External	▪ **County can market itself competitively:** County's current and proposed rates are within the range of peer governments. ▪ **An increase in rate would aid in shift from residential to commercial tax base:** While the shift is typically achieved by broadening the commercial base, a rate increase would also increase the overall commercial percentage.	▪ **Increasing computer rate may impact businesses considering location in the County:** Businesses currently evaluating a move to the County may be dissuaded by a rate increase. ▪ **While rates are competitive, County does not offer lowest rates:** It is possible that business may choose to locate in a county with lower rates. ▪ **Business perception of tax policy environment may shift:** Businesses may perceive rate increase as an abrupt change in tax policy. ▪ **Rate increases may lead to evasion:** If rate increases significantly, businesses may be more likely to search for ways avoid it.

Appendix D: Peer Government Technology Zones

	Arlington	Chesterfield	Stafford
Business Type	Primary function in the creation, design and/or research and development of technology hardware or software	Office, commercial or industrial businesses locating or expanding in a zone	Includes, but is not limited to, research, development, manufacture, or associated training of: biotechnology, chemicals, computer hardware, computer security, computer software, data centers, energy, environmental, homeland security, manufacturing equipment, advanced materials, medical, finance related companies, pharmaceuticals, photonics, subassemblies and components, test and measurement, telecommunications or transportation.
Business Qualification	Have moved to Arlington within the last 18 months or be an existing Arlington company that has increased its employee base by 25% or more within the past 12 months	Varies by incentive (see incentive section)	Existing businesses must add a minimum of 10 full time employees whose combined average salary is at least 100% of the average annual wage countywide; in addition, the firm must increase capital investment by at least $500,000. New businesses must create a minimum of 20 full time positions whose combined average salary is at least 100% of the average annual wage countywide; in addition, the firm must increase capital investment by at least $1,000,000.
Incentives	- 50% reduction in BPOL tax rate for up to 10 years; offset rate decreases as the number of employees increases	- BPOL - companies new to zone: 100% exemption for 5 years; companies relocating to zone: partial exemption for 5 years - Machinery and Tools - new companies classified as manufacturers: 5-year, 100% rebate; existing companies with a qualifying plant expansion: minimum investment of $50,000 or an increase of 15% in assessed value from previous year, whichever is greater - Utilities - a one-time fee credit towards the capital recovery cost equivalent to a 5/8 inch meter - Planning and Building - fee waivers for land disturbance, site plan, sign permits and building permits	- A waiver of certain fees associated with new construction, including, but not limited to building permit, plan review and land disturbance fees, based upon the level of employment and capital investment generated by the business - Tangible personal property tax rebate: years 1-2: 70%; years 3-4: 50%; year 5: 30%

Source: Virginia Allies Technology Zone Write-Up

Appendix E: Business Indicators, 2008-2017

Selected Indicators

Resident Population

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*	CAGR 2008-2011	CAGR 2012-2017
Prince William County	364,734	379,166	406,110	419,006	430,289	438,580	446,094	451,721	455,210	463,023	4.7%	4.9%
Stafford County	121,736	124,166	129,745	132,133	134,352	136,788	139,992	142,003	144,361	146,649	2.8%	3.8%
Virginia	7,769,089	7,882,590	8,024,617	8,096,604	8,185,867	8,260,405	8,326,289	8,382,993	8,411,808	8,470,020	1.4%	1.7%

Source: U.S. Census Bureau American Community Survey - Total Population

New Startup Firms

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR 2008-2011	CAGR 2012-2017
Prince William County	351	272	306	356	367	292	408	369	292	232	0.5%	-7.9%
Stafford County	493	465	379	438	519	404	546	590	483	426	-3.9%	-2.9%
Virginia	11,115	9,431	10,469	11,036	12,563	10,319	14,557	14,069	14,912	13,692	-0.2%	4.3%

Source: Virginia LMI

Total Number of Jobs

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR 2008-2011	CAGR 2012-2017
Prince William County	80,668	78,340	79,223	82,745	87,287	90,109	92,798	95,920	99,515	100,384	0.9%	4.5%
Stafford County	26,896	26,348	26,647	27,614	27,856	29,125	30,000	30,812	31,686	32,123	0.9%	3.6%
Virginia	2,990,921	2,862,778	2,849,874	2,889,435	2,927,218	2,951,428	2,969,283	3,043,782	3,095,185	3,140,629	-1.1%	1.0%

Source: U.S. Bureau of Labor Statistics

Taxable Sales (in Billions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR 2008-2011	CAGR 2012-2017
Prince William County	$4.2	$4.1	$4.4	$4.5	$4.9	$5.0	$5.1	$5.3	$5.4	$5.5	2.8%	5.9%
Stafford County	$0.9	$0.9	$0.9	$0.9	$1.0	$1.0	$1.0	$1.1	$1.1	$1.2	3.3%	6.2%
Virginia	$90.1	$85.9	$86.4	$89.1	$93.3	$94.6	$96.2	$100.2	$101.7	$103.7	-0.4%	2.9%

Source: Virginia Department of Taxation

Gross Receipts Threshold

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prince William County	$100,000	$100,000	$100,000	$100,000	$200,000	$250,000	$250,000	$250,000	$300,000	$350,000

Source: Prince William County Finance Department

Analysis of Selected Indicators

New Startup Firms per 10,000 Residents

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR 2008-2011	CAGR 2012-2017
Prince William County	9.6	7.2	7.5	8.5	8.5	6.7	9.1	8.2	6.4	5.0	-4.1%	-12.2%
Stafford County	40.5	37.4	29.2	33.1	38.6	29.5	39.0	41.5	33.5	29.0	-6.5%	-6.4%
Virginia	14.3	12.0	13.0	13.6	15.3	12.5	17.5	16.8	17.7	16.2	-1.6%	2.5%

Jobs per 10,000 Residents

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR 2008-2011	CAGR 2012-2017
Prince William County	2,212	2,066	1,951	1,975	2,029	2,055	2,080	2,123	2,186	2,168	-3.7%	-0.4%
Stafford County	2,209	2,122	2,054	2,090	2,073	2,129	2,143	2,170	2,195	2,190	-1.8%	-0.2%
Virginia	3,850	3,632	3,551	3,569	3,576	3,573	3,566	3,631	3,680	3,708	-2.5%	-0.7%

Taxable Sales per 10,000 Residents (in Billions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR 2008-2011	CAGR 2012-2017
Prince William County	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.12	$0.12	$0.12	-1.8%	1.0%
Stafford County	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.08	$0.08	$0.08	0.5%	2.4%
Virginia	$0.12	$0.11	$0.11	$0.11	$0.11	$0.11	$0.12	$0.12	$0.12	$0.12	-1.7%	1.1%

Annual Change in New Startup Firms

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	AVG 2009-2011	AVG 2012-2017
Prince William County	N/A	-22.5%	12.5%	16.3%	3.1%	-20.4%	39.7%	-9.6%	-20.9%	-20.5%	2.1%	-4.8%
Stafford County	N/A	-5.7%	-18.5%	15.6%	18.5%	-22.2%	35.1%	8.1%	-18.1%	-11.8%	-2.9%	1.6%
Virginia	N/A	-15.2%	11.0%	5.4%	13.8%	-17.9%	41.1%	-3.4%	6.0%	-8.2%	0.4%	5.3%

Annual Change in Total Number of Jobs

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	AVG 2009-2011	AVG 2012-2017
Prince William County	N/A	-2.9%	1.1%	4.4%	5.5%	3.2%	3.0%	3.4%	3.7%	0.9%	0.9%	3.3%
Stafford County	N/A	-2.0%	1.1%	3.6%	0.9%	4.6%	3.0%	2.7%	2.8%	1.4%	0.9%	2.6%
Virginia	N/A	-4.3%	-0.5%	1.4%	1.3%	0.8%	0.6%	2.5%	1.7%	1.5%	-1.1%	1.4%

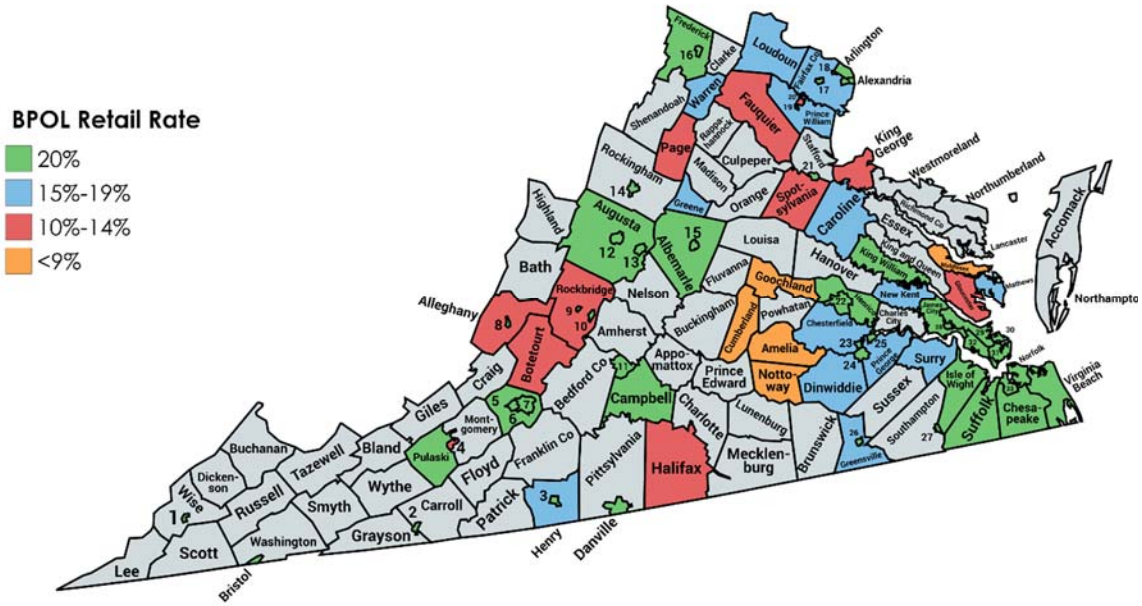
Annual Change in Taxable Sales

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	AVG 2009-2011	AVG 2012-2017
Prince William County	N/A	-1.0%	5.9%	3.7%	8.1%	2.7%	1.9%	3.1%	2.8%	2.4%	2.9%	3.5%
Stafford County	N/A	2.1%	5.6%	2.2%	6.0%	1.6%	2.0%	5.0%	3.8%	2.6%	3.3%	3.5%
Virginia	N/A	-4.7%	0.6%	3.1%	4.8%	1.4%	1.7%	4.1%	1.5%	2.0%	-0.3%	2.6%

Note: In the preceding table, the gray cells are meant to illustrate the progression of gross receipts threshold increases in Prince William County.

** 2017 population estimate per U.S. Census Bureau American Community Survey - Annual Estimates of the Resident Population as of July 1, 2017.*

Appendix F: Retail BPOL Tax Rate by Local Government, CY2017 or FY2018



Source: Virginia Economic Development Partnership Guide to Local Taxes on Business, 2016-2017

Appendix G: BPOL SWOT Analysis

	Helpful	*Harmful*
	Strengths	**Weaknesses**
Internal	▪ **BPOL widely used among Virginia counties and cities:** 42 of 95 counties (44 percent) and all 38 independent cities collect BPOL. ▪ **Deeply-rooted and well known:** The BPOL has already been built into marketplace decisions. ▪ **Stable revenue source:** Because it is tied to gross receipts, tax revenue is generally predictable. ▪ **Municipalities granted flexibility:** Municipalities set the rates, so long as they do not exceed statutory maximums. ▪ **Broad-based:** Applies to most classifications of business. ▪ **Simple for County to administer:** Taxpayers file once annually using a basic form. ▪ **Small business friendly:** County's $500,000 threshold is small business friendly ▪ **High Compliance:** Expedited tax lien process results in high compliance. ▪ **Enhances revenue diversification:** Lowers reliance on property taxes.	▪ **Perception of unfairness:** As with other gross receipts taxes, BPOL not necessarily correlated with profitability. ▪ **Inherent pyramiding issues:** Gross receipts taxes generally tax all transactions, including intermediate business-to-business purchases of supplies, raw materials and equipment. As a result, gross receipts taxes create an extra layer of taxation at each stage of production that sales and other taxes do not. ▪ **Lack of data:** Not requiring businesses below the threshold to file leads to a lack of data for those businesses and data informing business profitability.
	Opportunities	**Threats**
External	▪ **County not at thresholds:** County not currently at statutory maximums (outside of wholesale). ▪ **Marketable:** County can market itself using its relatively low rates.	▪ **State oversight:** County does not control tax; state mandates exemptions, rate caps and basis of tax (e.g. gross receipts). ▪ **Subject to business decisions:** Revenues contingent upon businesses moving to or remaining in the County. ▪ **Imposed on per-location basis:** Per-location provision potentially enables franchisees to avoid tax.

Appendix H: Collection of Sales and Use Tax by Out-of-State Sellers SWOT Analysis

	Helpful	***Harmful***
	Strengths	**Weaknesses**
Internal	▪ **Recent court decisions have paved the way for collection:** For decades, two key rulings have made it impossible for state and local governments to compel many retailers to collect sales tax on their behalf; earlier this year, the Supreme Court upheld South Dakota’s economic nexus law, thereby enabling states to begin collection. ▪ **Collection would create economic activity in an equitable manner:** All retailers will compete under the same sales tax rules, whether they sell merchandise online, in-store or both. ▪ **Collection would capitalize on current trends:** Many studies have found that higher-income individuals are spending more money online. ▪ **Collection would broaden the tax base:** This effort would combat base erosion as the trends of greater consumption of services and declining sales as a percent of personal income continue.	▪ **Administratively burdensome:** Ensuring collection and compliance would require additional employment – though the burden would primarily be at the State level. ▪ **Taxpayers may perceive taxation as an increase and/or unfair:** For the County, this is not as big an issue. ▪ **Requires legislative action:** The Commonwealth has not defined economic nexus as a basis for compelling collection of sales and use tax by out-of-state sellers.
	Opportunities	**Threats**
External	▪ **States are moving toward this model:** A total of 31 states currently have some form of requirements for the collection of sales tax by remote sellers. ▪ **Increased sales and use tax revenues could enable lower sales tax rates:** The County and/or state could reduce the sales and use tax rates. ▪ **Increased sales and use tax revenues could enable lower rates:** The County could reduce its real estate tax rate and/or other rates.	▪ **None**

Appendix I: Motor Vehicle License/Registration Fee Exemptions

	Active Duty	Disabled	Fire and Rescue	Antique Plates	Government Issued Plates	Medal of Honor Plates	New Vehicle Replacing a Vehicle Already Paid For	Disabled Veterans	Active Duty Spouse	Police	Spouse of Government Official	Essential Municipal Vehicles	Active Duty Spouse	National Guard	Leased Vehicles	Ambulances/EMTs	Snow Removal/Sanding	Tow trucks	Responding Physicians	US Mail	Emergency Deliveries (oil, medicine, food, etc)	Chaplain	Diplomats	Spouse/Immediate Family of Diplomats	65 and Older	Vehicle Used in a Trade or Business	Leased Vehicles	Vehicles Owners who Already Pay Taxes out of County/City/State	Hearses and Vehicles in Funeral Procession	Van Used for Van Pools	Certain Specialty Vehicles	Total
Prince William County	X	X	X	X	X	X	X																									7
City of Alexandria	X							X	X		X			X									X	X		X	X	X				10
Arlington County			X							X		x				X	X	X	X	X	X								X			10
Chesterfield County			X	X				X		X												X										5
Fairfax County	X	X	X	X	X			X		X													X							X		9
Fauquier County			X							X															X						X	4
Henrico County														X*																		1
Loudoun County	X		X							X						X																4
Stafford County			X																													1
City of Virginia Beach			X							X		X				X	X	X	X	X	X								X			10
Total	4	2	8	3	2	1	1	3	1	6	1	2	0	2	0	3	2	2	2	2	2	1	2	1	1	1	1	1	2	1	1	61

** One half tax prescribed for USNG plates*

Note: exemptions are those in addition to the exemptions provided for under the Code of VA

Appendix J: Motor Vehicle License Fee SWOT Analysis

	Helpful	*Harmful*
	Strengths	**Weaknesses**
Internal	▪ **Broadly applied:** With few exceptions, all cities and counties in Virginia collect motor vehicle license fees. ▪ **Generally affordable:** Rate is low and unlikely to be a burden on taxpayers. ▪ **Competitive rates:** Prince William County rates are competitive relative to peer governments. ▪ **Municipalities granted flexibility:** Municipalities set the rates, so long as they do not exceed state rates.	▪ **Not means tested:** Imposed as a flat rate as opposed to being linked to vehicle value (ability to pay).
	Opportunities	**Threats**
External	▪ **County not at threshold:** Prince William County is not currently at the state rate and therefore could increase it if desired. ▪ **County could link directly to state rate:** Prince William County could, through ordinance, tie its local rate to the state rate, eliminating the need for Board action to increase rate.	▪ **Rate increase could result in voter backlash:** Despite being a small fee, an increase may be unpopular among residents.