City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 28, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 12 : EFFECTS OF RAISING THE PERSONAL PROPERTY TAX RATE ON VEHICLES

Councilman Macdonald asked that information be provided on the potential effects of raising the personal property tax rate on vehicles as an alternative to taxes on real property.

City staff offers the following observations:

- There is no statutory prohibition or limit on raising the tax rate on personal property (cars) and/or business tangible property.

- The Alexandria rate of $4.75 is already the highest in Northern Virginia. Fairfax City (which is the only local jurisdiction considering raising the rate to our knowledge) is only at $3.29 which is the second lowest in Northern Virginia after Manassas which is at $3.05).

- If Council decided to apply a higher personal property tax rate to cars and business tangible property then each 10 cents of an increase would add about $1.1 million with vehicles paying about 75% of that increase.

- Apartment renters are affected disproportionately by substituting a car tax increase to pay for a real estate tax rate decrease. A decrease in the real estate tax rate may not benefit all apartment renters. It depends on whether their rent is set on a market basis by landlords, or on an expense increase basis. However, all apartment renters who own cars would pay an increased personal property tax

- In Alexandria, homeowners are affected disproportionately compared to commercial entities by substituting a car tax increase for a real estate tax rate decrease. For instance, compared to Alexandria, Fairfax City has a higher percentage of residential real estate taxes paid by homeowners than personal property paid by homeowners/renters (68% real estate compared to 61% personal property) than does Alexandria's (60% real estate

compared to 75% personal property). This makes the tax shift that Fairfax City is considering have the opposite effect in Alexandria in regard to who pays the results of the tax burden shift.

- A newspaper article on the proposed Fairfax City personal property tax increase could be interpreted as indicating that a portion of the rate increase would be covered by the 70% state reimbursement. That is not true. The state law sets the state reimbursement rate at the rate each jurisdiction had in place the year before the car tax reimbursement went into effect. For Alexandria that is $4.75. As a result 100% of any personal property tax rate increase would be bourne by City taxpayers and not the state.

- Whether a personal property tax rate increase is progressive compared to the real estate tax depends on the situation. Although we have no data at this time, intuitively we believe that for homeowners in the low and moderate and perhaps beginning upper income ranges it may be true that the higher the household income, the higher the value may be of the car(s) owned. However, for the higher homeowner income brackets and those who own luxury homes, the relationship of car values to home values begins to fall off and become more random. Also, while the value of cars owned by renters and the effects of an increased car tax may have a relationship to their income, any decrease in real estate taxes may not have any relationship to rent paid (see point 3 above).