City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 31, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF COUNCIL

FROM: JAMES K. HARTMAN, CITY MANAGER

SUBJECT: BUDGET MEMO # **55** : PAYDAY LENDING TAXATION

This budget memo responds to Councilman Justin Wilson's request (Attached) for information regarding the possibility of creating a sub-classification for payday and car title lenders within the Financial Services category for the Business License Tax (BPOL).

In 2002, the General Assembly enacted the Payday Loan Act allowing certain lenders to make loans at an effective annual interest rate as high as 391 percent annually. According to a study conducted by the Center for Responsible Lending, the average borrower will pay $793 for a $325 loan. In Virginia, payday lending averages eight loans annually per borrower and predatory payday lending costs Virginia families approximately $160 million in fees and interest annually.

On November 19, 2007, City Council adopted Resolution 2253 expressing its concerns about the interest rates charged by payday lenders and the detrimental effects these loans may have on City residents. In the 2007 Legislative Package, the City asked its delegates to support legislation prohibiting payday lending. In the 2008 Legislative Package, the City asked that they support legislation that either prohibits payday lending or caps interest rates at 36 percent. Both Maryland and the District of Columbia have outlawed usurious interest rates for payday loans.

Currently, car title and payday lending falls under the Financial Services category for BPOL, which is taxed at a rate of $0.35 per $100 of gross receipts. There are two car title lenders and four payday lenders currently licensed in the City. Virginia law authorizes the City to create sub-classifications within the Financial Services category and set different rates for each sub-classification, as long as the rate does not exceed $0.58 per $100 of gross receipts.

Establishing a Payday/Car Title Lender subcategory within the Financial Services category for BPOL and setting a tax rate of $0.58 per $100 of gross receipts for that subcategory would generate about $13,000 in additional tax revenue annually (mostly from car title lenders). All other financial services companies would have their BPOL rates remain at $0.35 per $100 of gross receipts. Councilman Wilson has recommended that this $13,000 in added revenue be dedicated for consumer financial literacy education.

If Council wishes to proceed with advertising this ordinance, a directive to staff to proceed would be necessary.

Attachment: Memo from Councilman Wilson, Payday Lending Taxation, March 20, 2008

cc: Laura B. Triggs, Director of Finance
Debbie Kidd, Division Chief, Revenue Administration