

# City of Alexandria, Virginia

## MEMORANDUM

DATE: MARCH 31, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 56: ESTIMATED LOCAL INCOME TAX REVENUE

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This memorandum is in response to Councilman Wilson's request for information regarding estimated revenue that could be generated by the City levying a local income tax as well as the procedures for doing so.

The Code of Virginia §58.1-540 allows an income tax of up to one percent in one-quarter percent increments (see attachment). The chart below shows estimated revenues that can be generated by the City levying individual and corporate income tax using the following rates: 0.25%, 0.50%, 0.75% and 1.0%. If an income tax were levied using these rates, the estimated revenues would be \$12.7 million (using the 0.25% income tax rate), \$25.3 million (using the 0.50% income tax rate), \$38.0 million (using the 0.75% income tax rate) and \$50.6 million (using the 1.0% income tax rate). These revenue estimates do not include revenues from an estate income tax since the tax is accounted for, separately, as a federal credit; also, the data for this, are not currently available to City staff. Revenues generated from the abovementioned local income tax, can be used for transportation purposes only, and may not be used to reduce other sources of transportation funding.

The Code of Virginia §58.1-549 states the local income tax must be approved by referendum and that no tax levied by a county or city under the authority of this article shall continue to be levied on or after a date five years from the effective date of the tax in such county or city. The authority to levy such a tax was given in 1989 to the Counties of Arlington, Fairfax, Loudoun, Prince William and the Cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park, Norfolk and Virginia Beach. No local jurisdiction has attempted to exercise the local income tax provision because;

- over 90% of income taxes are paid by individuals and not businesses,
- the referendum requirement,
- the restriction to transportation only,
- the five-year limit on the levy of such a tax, and
- the tax increment chosen must be applied equally to each tax bracket and cannot be progressively structured.

<b>FY2009 Local Income Tax Revenue Projection</b>				
<b>Individual Income Tax</b>				
Tax Rate	0.25%	0.50%	0.75%	1%
Estimated Revenue	\$11,656,293	\$23,312,587	\$34,968,880	\$46,625,173
<b>Corporate Income Tax</b>				
Tax Rate	0.25%	0.50%	0.75%	1%
Estimated Revenue	\$1,001,678	\$2,003,356	\$3,005,034	\$4,006,712
Total Revenue for Corporate and Individual Income	\$12,657,971	\$25,315,943	\$37,973,914	\$50,631,886

Source: Virginia Department Of Taxation FY 2007 Annual Report.

Selected provisions of the Code of Virginia §58.1-540:

- A local governing body in the State of Virginia, including the Counties of Arlington, Fairfax, Loudoun, and Prince William, and the Cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park, Norfolk, and Virginia Beach are authorized to levy a local income tax at any increment of one-quarter percent up to a maximum rate of one percent upon the Virginia taxable income for an individual, for a fiduciary of an estate or trust, and or for a corporation.
- The authority to levy a local income tax may be exercised by a county or city governing body if approved in a referendum within a county or city. If the voters by a majority vote approve the authority of the local governing body to levy a local income tax, the tax may be imposed by the adoption of an ordinance by the governing body of the county or city in accordance with general or special law, and the tax may be thereafter enacted, modified or repealed as any other tax the governing body is empowered to levy subject only to the limitations herein.

Selected provisions of the Code of Virginia §58.1-548:

- All revenues distributed to a county or a city by the State shall be applied and expended for transportation purposes, including, without limitation, construction, administration, operation, improvement, maintenance and financing of transportation facilities. The term “transportation facilities” shall include all transportation related facilities including, but not limited to, all highway systems, public transportation or mass transit systems, airports, and port facilities.
- Any county or city that levies a local income tax under this article shall not reduce the total amount of its annual general fund appropriations, exclusive of the revenues derived from the tax levied under this article, for transportation purposes below the total amount appropriated for those purposes in the fiscal year preceding the adoption of the ordinance levying the tax.
- Revenues derived by a county or city from the local income tax levied under this article shall be in addition to those allocated to the county or city from state transportation funds, which allocations shall not be reduced as a result of any revenues received hereunder.