

**REPORT OF THE
JOINT SUBCOMMITTEE STUDYING**

The Tangible Personal Property Tax

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



Senate Document No. 21

**COMMONWEALTH OF VIRGINIA
RICHMOND
1987**

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SENATE JOINT RESOLUTION NO. 28

Establishing a joint subcommittee of the Senate and House Finance Committees to study the tangible personal property tax.

Agreed to by the Senate, March 3, 1986

Agreed to by the House of Delegates, February 27, 1986

WHEREAS, tangible personal property taxes and collections have increased dramatically over the past decade; and

WHEREAS, the tangible personal property tax is the second largest source of local tax revenue, surpassing even the sales and use tax; and

WHEREAS, it is necessary to pay the local tangible personal property tax in either one lump sum or in two semi-annual payments; and

WHEREAS, unlike the real property tax, the tangible personal property tax must be paid without escrowing monthly payments to meet the annual or semi-annual tax payment; and

WHEREAS, it is important for a locality to have a balanced tax structure which does not unduly rely on property taxes or any other tax; and

WHEREAS, localities need alternative sources of revenue and flexibility to help alleviate the tax burden on property; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That a joint subcommittee be established to study alternatives which should be available to localities to reduce the dependence on the tangible personal property tax and to study the feasibility of the current method of paying the tangible personal property tax.

The joint subcommittee shall consist of seven members who shall be appointed in the following manner: three members of the Senate Finance Committee appointed by the Senate Committee on Privileges and Elections; and four members of the House Finance Committee appointed by the Speaker.

The joint subcommittee shall complete its work prior to November 15, 1986.

The costs of this study, including direct and indirect costs, are estimated to be \$15,700.

I. INTRODUCTION

The 1986 General Assembly established this joint subcommittee pursuant to Senate Joint Resolution No. 28 to study the following aspects of the tangible personal property tax:

- (1) Methods used to value tangible personal property;
- (2) Tax rates levied on tangible personal property;
- (3) Proration of the tangible personal property tax;
- (4) Costs of administering the tangible personal property tax; and
- (5) The tangible personal property tax in surrounding states and the effect upon Virginia tax revenues.

This subcommittee held three meetings in 1986 and received information from the Department of Taxation, the Commissioners of the Revenue Association and several private industries concerned about the tangible personal property tax in the Commonwealth.

II. THE TANGIBLE PERSONAL PROPERTY TAX: AN OVERVIEW

A. TANGIBLE PERSONAL PROPERTY IS SEGREGATED EXCLUSIVELY FOR LOCAL TAXATION. Tangible personal property is segregated exclusively for local taxation pursuant to Article X, Section 4 of the Virginia Constitution and § 58.1-3500 of the Code of Virginia. Two requirements must be satisfied in order for a locality to tax personal property:

- (1) The property must be classified as tangible personal property in § 58.1-3503 of the Code of Virginia; and
- (2) The property must be present in the taxing locality on January 1 of any year, or must be normally garaged, docked or parked in the locality.

Tangible personal property is taxed for the full year provided it is present in a locality on January 1. If the taxing jurisdiction prorates the tangible personal property tax, the property is taxed only for the portion of the year that it has situs in the locality. Taxes collected from tangible personal property in Virginia localities comprise 13.4% of all local revenues (\$423,088,766); consequently, localities are highly dependent upon the personal property tax. For example, in 1984, Fairfax County alone collected \$95,986,833 from the tangible personal property tax. (See Table II).

TABLE I

MAJOR SOURCES OF LOCAL REVENUE FROM OWN SOURCES,
VIRGINIA CITIES AND COUNTIES, 1984

<u>Source</u>	<u>Amount</u>	<u>Percent</u>
Real Estate Tax	\$1,413,092,177	44.8%
Tangible Personal Property Tax	423,088,766	13.4%
Local Sales and Use Tax	312,282,592	9.9%
Consumer Utility Tax	180,107,216	5.7%
Public Service Corporations	96,260,001	3.1%
Other Property Taxes	78,444,939	2.5%
Miscellaneous	647,374,430	20.5%
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Total Local Revenue	\$3,150,650,121	100.0%

TABLE II
TANGIBLE PERSONAL PROPERTY TAX COLLECTIONS,
VIRGINIA CITIES AND COUNTIES, 1984

<u>COUNTY</u>	<u>AMOUNT</u>	<u>COUNTY</u>	<u>AMOUNT</u>
Accomack	\$ 2,197,815	Albemarle	\$ 4,740,832
Alleghany	669,890	Amelia	419,148
Amherst	881,838	Appomattox	400,284
Arlington	20,841,205	Augusta	2,023,780
Bath	309,028	Bedford	1,203,629
Bland	117,132	Botetourt	1,084,265
Brunswick	968,239	Buchanan	1,400,435
Buckingham	386,609	Campbell	2,191,744
Caroline	624,678	Carroll	672,827
Charles City	418,171	Charlotte	234,594
Chesterfield	13,525,551	Clarke	811,896
Craig	90,888	Culpeper	1,297,281
Cumberland	364,572	Dickinson	380,440
Dinwiddie	1,695,142	Essex	652,010
Fairfax	95,986,833	Fauquier	3,505,537
Floyd	228,084	Fluvanna	526,919
Franklin	859,659	Frederick	2,582,887
Giles	783,605	Gloucester	1,171,443
Goochland	967,790	Grayson	158,017
Greene	448,214	Greensville	773,831
Halifax	695,904	Hanover	5,463,568
Henrico	23,790,815	Henry	1,644,592
Highland	108,961	Isle of Wight	1,896,672
James City	1,829,086	King George	555,063
King & Queen	136,501	King William	554,708
Lancaster	561,424	Lee	250,655
Loudoun	6,671,453	Louisa	422,893
Lunenburg	352,917	Madison	429,818
Mathews	442,429	Mecklenburg	693,847
Middlesex	553,914	Montgomery	1,656,846

<u>COUNTY</u>	<u>AMOUNT</u>
Nelson	548,481
Northampton	695,454
Nottoway	567,972
Page	509,568
Pittsylvania	1,428,745
Prince Edward	554,142
Prince William	13,538,562
Rappahannock	154,246
Roanoke	5,564,957
Rockingham	2,265,380
Scott	163,961
Smyth	442,519
Spotsylvania	1,469,969
Surry	1,014,860
Tazewell	2,185,516
Washington	758,520
Wise	871,204
York	2,493,494
TOTAL	\$268,128,848

<u>COUNTY</u>	<u>AMOUNT</u>
New Kent	683,068
Northumberland	431,018
Orange	1,288,077
Patrick	553,657
Powhatan	344,413
Prince George	1,163,493
Pulaski	910,958
Richmond	498,122
Rockbridge	1,000,236
Russell	475,708
Shenandoah	1,213,877
Southampton	1,450,789
Stafford	2,775,143
Sussex	670,343
Warren	1,014,193
Westmoreland	578,641
Wythe	540,751

<u>CITY</u>	<u>AMOUNT</u>
Alexandria	\$16,313,102
Bristol	467,609
Charlottesville	2,465,916
Clifton Forge	192,453
Covington	338,951
Emporia	370,901
Falls Church	1,472,377
Fredericksburg	1,430,805
Hampton	10,130,324
Hopewell	1,097,514
Lynchburg	1,628,514
Manassas Park	314,555
Newport News	11,858,853
Norton	178,074
Poquoson	749,719
Radford	362,820
Roanoke	6,452,139
South Boston	280,459
Suffolk	2,138,454
Waynesboro	914,615
Winchester	1,749,604
TOTAL CITIES	\$154,959,918
GRAND TOTAL	<u>\$423,088,766</u>

<u>CITY</u>	<u>AMOUNT</u>
Bedford	\$ 166,269
Buena Vista	279,388
Chesapeake	8,090,131
Colonial Heights	1,131,189
Danville	2,238,223
Fairfax	2,164,051
Franklin	441,665
Galax	193,050
Harrisonburg	903,571
Lexington	479,517
Manassas	1,321,443
Martinsville	572,655
Norfolk	18,303,924
Petersburg	1,506,786
Portsmouth	7,980,885
Richmond	18,547,825
Salem	1,026,008
Staunton	915,574
Virginia Beach	26,997,261
Williamsburg	792,744

B. TANGIBLE PERSONAL PROPERTY IS DIVIDED INTO EIGHTEEN DIFFERENT CLASSES AND EACH CLASS MUST BE VALUED ACCORDING TO A DIFFERENT METHOD.

§ 58.1-3503 of the Code of Virginia divides tangible personal property into eighteen separate classes and allows each class to be valued according to a different method. The result of this system is that the administration of the tangible personal property tax is an expensive and time-consuming process for most localities in Virginia.

§ 58.1-3503 of the Code of Virginia requires Commissioners of the Revenue to value automobiles according to a recognized pricing guide; however, if an automobile is not listed in the guide, then it can be valued according to a percentage of original cost. A Commissioner of the Revenue can use two recognized pricing guides to value automobiles: (1) The National Automobile Dealers Association Pricing Guide (NADA), or (2) The Red Book, National Market Reports, Official Used Car Valuations. The two books are very similar and it makes little difference which pricing guide a Commissioner of the Revenue chooses to use. A Commissioner must levy the tax on one of the following three possible value bases:

- (1) Loan value
- (2) Retail value
- (3) Wholesale value

The results of a 1985 survey indicate that the majority of the localities (approximately 101) value automobiles according to the NADA pricing guide, and use the loan value as the base for levying the tax. Loan value is the lowest value listed in the guide. The sources of assessments and the value bases used by each locality are listed in Table III. The highest value in the guide is the retail value, and this basis is used by approximately 57 localities. Only 48 localities in Virginia use wholesale value which is the middle value listed in the NADA pricing guide. As illustrated in Table III, the majority of the localities in the Commonwealth levy the personal property tax on motor vehicles using 100% of the assessed value listed in the NADA pricing guide; however, this practice is not uniform throughout the Commonwealth. If localities are allowed to assess motor vehicles at less than 100% of the value listed in the pricing guide, are they complying with § 58.1-3503, which requires that the methods of valuing property must reasonably determine actual fair market value? Do the terms "actual fair market value" mean that personal property, like real property should be assessed at 100% of fair market value?

§ 58.1-3506(B) authorizes local governing bodies to establish tax rates for tangible personal property. According to a 1985 survey, the tax rates on motor vehicles range from a high of \$16.50 per \$100 of assessed value in Greene County, to a low rate of 60¢ per \$100 of assessed value in Smyth County. (See Table IV for a summary of the tax rates of the localities.)

§ 58.1-3511 provides that the situs for the assessment and taxation of motor vehicles shall be the locality where the vehicle is normally garaged or parked. Generally, the situs of motor vehicles is easily determined by using information furnished by the Department of Motor Vehicles. For the most part, the Department of Motor Vehicles has furnished the Commissioners of the Revenue with accurate information, and been very cooperative in assisting the localities in the administration of the tax on motor vehicles. Commissioners of the Revenue who administer the tax in transient communities and college communities have the most difficulty in properly taxing motor vehicles. In Northern Virginia, Commissioners often discover that vehicles with Virginia license plates escape taxation by establishing that the vehicles are normally garaged in Maryland or the District of Columbia. Consequently, the taxpayer escapes the personal property tax altogether because neither Maryland or D.C. taxes personal property. In college communities, many vehicles are licensed out of state. Even though the Commissioner of the Revenue can prove the vehicle is normally parked in the locality and subject to taxation, the Commissioner of the Revenue cannot locate the owner because DMV has no record of the vehicle, and often the university refuses to reveal the identity of the owner.

TABLE III
TANGIBLE PERSONAL PROPERTY TAX
MOTOR VEHICLES ONLY
VIRGINIA CITIES AND COUNTIES, 1985

NOTES: Key to Abbreviations:

NADA National Automobile Dealers' Association Official Used Car Guide,
Eastern Regional Division
Red Book National Market Reports, Official Used Car Valuations
TV Trade-In Value (wholesale value)
LV Loan Value (finance value)
RV Retail Value

RATIO LOCALITY	SOURCE OF ASSESSMENT/VALUE	ASSESSMENT (percent)
<u>Cities</u>		
Alexandria	NADA/TV	100%
Bedford	NADA/RV	100
Bristol	NADA/LV	30
Buena Vista	NADA/TV	100
Charlottesville	NADA/LV	100
Chesapeake	NADA/LV	100
Clifton Forge	NADA/LV	100
Colonial Heights	NADA/LV	100
Covington	Red Book/RV	50
Danville	NADA/TV	100
Emporia	Red Book/LV	100
Fairfax	NADA/TV	100
Falls Church	NADA/TV	100
Franklin	Red Book/RV	100
Fredericksburg	NADA/RV	90
Galax	NADA/RV	15
Hampton	NADA/LV	100
Harrisonburg	NADA/TV	100
Hopewell	NADA/RV	50

RATIO LOCALITY	SOURCE OF ASSESSMENT/VALUE	ASSESSMENT (percent)
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Cities

Lexington	NADA/TV	100%
Lynchburg	NADA/RV	70
Manassas	NADA/LV	100
Manassas Park	NADA/TV	100
Martinsville	NADA/LV	55
Newport News	NADA/LV	100
Norfolk	NADA/LV	100
Norton	NADA/RV	33.3
Petersburg	NADA/LV	100
Poquoson	NADA/LV	100
Portsmouth	NADA/LV	100
Radford	Red Book/RV	50
Richmond	NADA/TV	100
Roanoke	Red Book/LV	100
Salem	NADA/LV	100
South Boston	NADA/LV	100
Staunton	NADA/RV	40
Suffolk	Red Book/RV	50
Virginia Beach	NADA/RV	50
Waynesboro	NADA/RV	50
Williamsburg	NADA/LV	100
Winchester	NADA/TV	100

RATIO LOCALITY	SOURCE OF ASSESSMENT/VALUE	ASSESSMENT (percent)
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Counties

Accomack	NADA/LV	100%
Albemarle	NADA/LV	100
Alleghany	NADA/RV	35
Amelia	NADA/LV	100
Amherst	Red Book/RV	30
Appomattox	NADA/RV	50
Arlington	NADA/LV	100
Augusta	NADA/RV	40
Bath	NADA/TV	30
Bedford	NADA/RV	20
Bland	NADA/LV	10
Botetourt	NADA/RV	30
Brunswick	NADA/LV	70
Buchanan	NADA/LV	100
Buckingham	NADA/LV	100
Campbell	Red Book/RV	50
Caroline	NADA/RV	40
Carroll	NADA/RV	30
Charles City	NADA/LV	100
Charlotte	NADA/RV	33.3
Chesterfield	NADA/LV	100
Clarke	Red Book/TV	100
Craig	NADA/RV	25
Culpeper	NADA/TV	40
Cumberland	NADA/RV	18
Dickenson	NADA/TV	10
Dinwiddie	NADA/LV	100
Essex	NADA/LV	100
Fairfax	NADA/TV	100
Fauquier	NADA/TV	100

RATIO LOCALITY	SOURCE OF ASSESSMENT/VALUE	ASSESSMENT (percent)
<u>Counties</u>		
Floyd	NADA/LV	100%
Fluvanna	NADA/TV	100
Franklin	NADA/LV	20
Frederick	Red Book/TV	100
Giles	NADA/RV	25
Gloucester	NADA/RV	50
Goochland	Red Book/LV	100
Grayson	Red Book/TV	10
Greene	NADA/RV	20
Greensville	Red Book/LV	100
Halifax	NADA/RV	20
Hanover	NADA/LV	100
Henrico	NADA/LV	100
Henry	NADA/LV	18
Highland	NADA/RV	30
Isle of Wight	NADA/LV	100
James City	NADA/LV	90
King & Queen	Red Book/RV	100
King George	NADA/TV	100
King William	Red Book/LV	100
Lancaster	NADA/RV	40
Lee	NADA/TV	100
Loudoun	NADA/LV	70
Louisa	NADA/TV	40
Lunenburg	NADA/RV	25
Madison	NADA/RV	20
Mathews	NADA/RV	50
Mecklenburg	NADA/LV	30
Middlesex	NADA/RV	35
Montgomery	NADA/LV	20
Nelson	Red Book/RV	100
New Kent	NADA/TV	100
Northampton	NADA/LV	100

RATIO LOCALITY	SOURCE OF ASSESSMENT/VALUE	ASSESSMENT (percent)
<u>Counties</u>		
Northumberland	NADA/RV	40%
Nottoway	NADA/LV	60
Orange	NADA/RV	40
Page	NADA/LV	100
Patrick	Red Book/RV	30
Pittsylvania	NADA/TV	30
Powhatan	NADA/LV	100
Prince Edward	NADA/LV	50
Prince George	NADA/LV	100
Prince William	NADA/TV	100
Pulaski	NADA/TV	25
Rappahannock	NADA/LV	25
Richmond	NADA/LV	100
Roanoke	NADA/LV	100
Rockbridge	NADA/LV	100
Rockingham	NADA/LV	100
Russell	NADA/LV	100
Scott	NADA/LV	100
Shenandoah	NADA/TV	100
Smyth	NADA/RV	100
Southampton	Red Book/LV	100
Spotsylvania	NADA/RV	50
Stafford	NADA/RV	40
Surry	NADA/LV	100
Sussex	NADA/LV	100
Tazewell	NADA/LV	100
Warren	NADA*/TV	100
Washington	NADA/LV	100
Westmoreland	NADA/LV	100
Wise	NADA/TV	20
Wythe	NADA/RV	100
York	NADA/LV	100

Source: Published by Institute of Government, University of Virginia, Tax Rates in Virginia's Cities, Counties, and Selected Towns: 1985, by Albert W. Spengler.

Table IV shows that several localities assess tangible personal property at less than 100% of the value listed in the recognized pricing guide. Staff conducted a telephone survey of these localities to determine if there was a significant reason for assessing tangible personal property at less than 100% of the value listed in the pricing guides. All of the localities surveyed agreed that there was no significant reason except tradition for assessing the property according to an assessment ratio. Additionally, the Commissioners of the Revenue of the localities surveyed supported a requirement that tangible personal property be assessed at 100% of the fair market value for two reasons:

- (1) A 100% requirement would result in uniformity in methods of assessing tangible personal property.
- (2) Fair market value will be defined consistently at 100% for assessments of real property and tangible personal property.

The only change which localities would have to make in response to a 100% requirement is that local governing bodies would probably reduce the tax rates. As shown by Table 3, the tax rates of localities using assessment ratios are often substantially above \$5.00 per one hundred dollars of assessed value. A 100% requirement may require additional legislation to restrict localities from increasing tax rates by using the same language used in the 1976 legislation requiring real property to be assessed at 100% of the fair market value.

TABLE IV
LOCALITIES ASSESSING MOTOR VEHICLES AT
SUBSTANTIALLY LESS THAN 100% OF THE FAIR MARKET VALUE

<u>LOCALITY</u>	<u>ASSESSMENT</u>	<u>VALUE</u>	<u>RATE</u>
<u>City:</u>			
BRISTOL	30%	LV	\$5.00
COVINGTON	50%	RV	4.56
GALAX	15%	RV	7.07
HOPEWELL	50%	RV	4.40
RADFORD	50%	RV	2.80
STAUNTON	40%	RV	4.00
WAYNESBORO	50%	RV	5.00
<u>County:</u>			
ALLEGHANY	35%	RV	5.95
AMHERST	30%	RV	5.00
AUGUSTA	40%	RV	3.10
BATH	30%	TV	3.50
BEDFORD	20%	RV	4.40
BLAND	10%	LV	7.30
BOTETOURT	30%	RV	6.00
CARROLL	30%	RV	3.00
CUMBERLAND	18%	RV	5.20
DICKENSON	10%	TV	14.00

<u>LOCALITY</u>	<u>ASSESSMENT</u>	<u>VALUE</u>	<u>RATE</u>
FRANKLIN	20%	LV	6.00
GILES	25%	RV	7.00
GRAYSON	10%	TV	\$6.30
HENRY	18%	LV	9.24
LUNENBURG	25%	RV	7.00
MADISON	20%	RV	6.50
MECKLENBURG	30%	LV	3.25
MIDDLESEX	35%	RV	3.00
MONTGOMERY	20%	LV	7.57
NORTHUMBERLAND	40%	RV	3.00
NOTTOWAY	60%	LV	4.25
ORANGE	40%	RV	5.50
PATRICK	30%	RV	4.00
PITTSYLVANIA	30%	TV	4.25
PULASKI	25%	TV	4.80
RAPPAHANOCK	25%	LV	5.60
SPOTSYLVANIA	50%	RV	2.50
STAFFORD	40%	RV	4.99
WISE	20%	TV	4.60

T A B L E V

T A N G I B L E P E R S O N A L P R O P E R T Y T A X R A T E S, T A X Y E A R 1 9 8 5
(Per \$100 of Assessed Value)

<u>COUNTY</u>	<u>AMOUNT</u>	<u>COUNTY</u>	<u>AMOUNT</u>
Accomack	\$3.25	Albemarle	\$4.50
Alleghany	5.95	Amelia	2.40
Amherst	5.00	Appomattox	3.50
Arlington	4.65	Augusta	3.10
Bath	3.50	Bedford	4.40
Bland	7.30	Botetourt	6.00
Brunswick	4.60	Buchanan	1.95
Buckingham	2.70	Campbell	3.15
Caroline	4.00	Carroll	3.00
Charles City	3.78	Charlotte	3.20
Chesterfield	3.60	Clarke	4.00
Craig	5.50	Culpeper	5.00
Cumberland	5.20	Dickenson	14.00
Dinwiddie	5.20	Essex	3.50
Fairfax	4.80	Fauquier	3.45
Floyd	1.25	Fluvanna	3.70
Franklin	6.00	Frederick	4.35
Giles	7.00	Gloucester	3.25
Goochland	4.00	Grayson	6.30
Greene	16.50	Greensville	4.50
Halifax	4.45	Hanover	3.64
Henrico	3.80	Henry	9.24
Highland	4.00	Isle of Wight	4.50
James City	4.00	King George	2.90
King & Queen	.79	King William	4.20
Lancaster	3.80	Lee	1.25
Loudoun	4.50	Louisa	3.40
Lunenburg	7.00	Madison	6.50
Mathews	3.25	Mecklenburg	3.25
Middlesex	3.00	Montgomery	7.57

<u>COUNTY</u>	<u>AMOUNT</u>
Nelson	2.50
Northampton	2.50
Nottoway	4.25
Page	1.50
Pittsylvania	4.25
Prince Edward	4.90
Prince William	4.00
Rappahannock	5.60
Roanoke	3.50
Rockingham	2.15
Scott	.72
Smyth	.60
Spotsylvania	2.50
Surry	3.50
Tazewell	2.00
Washington	1.12
Wise	4.60
York	4.50

<u>COUNTY</u>	<u>AMOUNT</u>
New Kent	3.00
Northumberland	3.00
Orange	5.50
Patrick	4.00
Powhatan	2.00
Prince George	3.50
Pulaski	4.80
Richmond	3.50
Rockbridge	4.50
Russell	.65
Shenandoah	1.84
Southampton	4.00
Stafford	4.99
Sussex	4.25
Warren	2.40
Westmoreland	1.50
Wythe	1.00

<u>CITY</u>	<u>AMOUNT</u>
Alexandria	\$4.90
Bristol	5.00
Charlottesville	4.39
Clifton Forge	3.35
Covington	4.56
Emporia	5.00
Falls Church	5.50
Fredericksburg	3.40
Hampton	4.75
Hopewell	4.40
Lynchburg	3.00
Manassas Park	3.50
Newport News	4.50
Norton	5.50
Poquoson	4.50
Radford	2.80
Roanoke	3.60
South Boston	2.50
Suffolk	4.55
Waynesboro	5.00
Winchester	3.50

<u>CITY</u>	<u>AMOUNT</u>
Bedford	\$1.50
Buena Vista	3.85
Chesapeake	4.00
Colonial Heights	3.50
Danville	3.00
Fairfax	2.99
Franklin	3.30
Galax	7.07
Harrisonburg	1.50
Lexington	5.50
Manassas	3.05
Martinsville	2.25
Norfolk	4.00
Petersburg	3.10
Portsmouth	4.35
Richmond	3.59
Salem	3.25
Staunton	4.00
Virginia Beach	6.00
Williamsburg	3.50

**C. BUSINESS PERSONAL PROPERTY ASSESSMENTS MAY BE INACCURATE
BECAUSE ORIGINAL COST IS ALMOST IMPOSSIBLE TO DETERMINE.**

All tangible personal property employed in a trade or business must be valued by means of a percentage of original cost. Commissioners of the Revenue agree that business personal property is extremely difficult to value for the following reasons:

- (1) Commissioners of the Revenue often lack experience and training in assessing values of business personal property.
- (2) The original cost of business personal property is almost impossible to determine, and the Commissioners of the Revenue must take into consideration other factors to make an accurate assessment of the property.
- (3) Commissioners of the Revenue have no way to verify the property claimed by the business because most localities do not require an itemized list of the business property to be attached to the tax form.

The results of a telephone survey to Commissioners of the Revenue of certain localities show that there is a lack of uniformity in the Commonwealth in regard to the percentage of original cost which localities use to assess business property. Some localities assess business personal property according to a declining scale from 60% of original cost to 20% of original cost for five years (Arlington, Fairfax, Greensville). Charlottesville and Manassas depreciate original cost for seven years. Other localities assess business personal property using a flat percentage of original cost regardless of the age of the property (Essex, Norfolk, Waynesboro). The assessment practices relating to business personal property, therefore, raise two questions:

1. Do the different methods of assessing business personal property accurately reflect the fair market value requirement of Section 58.1-3506 of the Code of Virginia?
2. Is the present system completely fair to the taxpayer with business property in several jurisdictions, who has the same property valued according to different methods depending on where the property is located?

TABLE VI
BUSINESS PERSONAL PROPERTY ASSESSMENT METHODS
IN CERTAIN LOCALITIES

<u>LOCALITY</u>	<u>ASSESSMENT METHOD</u>
ARLINGTON	Begins at 60% of original cost and declines each year for 5 years to 20% of original cost
BRISTOL	10% of original cost or 25% of book value, whichever amount is greater
CHARLOTTESVILLE	Begins at 25% of original cost and declines each year for 7 years to 10% of original cost
ESSEX	10% of original cost
FAIRFAX	Begins at 60% of original cost and declines 10% each year for 5 years to 20% of original cost
GREENSVILLE	Begins at 50% of original cost and declines 10% each year for 5 years to 20% of original cost
MANASSAS	Begins at 70% of original cost and declines each year for 7 years to 10% of original cost
NORFOLK	40% of original cost
ROANOKE	Begins at 60% of original cost and declines 10% each year for 5 years to 20% of original cost
SPOTSYLVANIA	Begins at 60% of original cost and declines each year for 5 years to 20% of original cost
VIRGINIA BEACH	100% of current value
WAYNESBORO	40% of book value (original cost less depreciation)

D. THE MAJORITY OF LOCALITIES VALUE BOATS ACCORDING TO A RECOGNIZED PRICING GUIDE BASED ON THE LOW VALUE LISTED IN THE GUIDE.

Commissioners of the Revenue must determine whether a boat weighs more or less than five tons in order to select the proper method for valuing the boat. § 58.1-3506(11) requires boats under five tons to be valued according to a recognized pricing guide or a percentage of original cost. § 58.1-3506(12) requires boats over five tons to be valued according to a percentage of original cost. There are three recognized pricing guides which Commissioners of the Revenue may use to value boats:

- (1) The BUC pricing guide
- (2) ABOS pricing guide
- (3) NADA pricing guide

The majority of localities in the Tidewater region use the ABOS book to assess boats. The ABOS book contains a high, low and middle value. The BUC book contains only a high and low value; however, BUC provides a more detailed description of the various boats.

The Tidewater region contains the largest number of boats; therefore, this report will focus on the problems of assessing boats in that region only. Approximately nine localities in the Tidewater area assess boats under five tons by the ABOS boat book and use the low retail value listed in the guide. About five localities assess boats under five tons according to the BUC boat book, but also use the low value.

In Tidewater, there is great disparity in the boat tax rates levied by the different localities. § 58.1-3506 of the Code of Virginia authorizes localities to tax pleasure boats at a rate different from other tangible personal property. In Portsmouth, pleasure craft are taxed at a rate of 50¢ per \$100 in value which is the lowest rate in the Tidewater area. Surrounding localities such as Norfolk, Chesapeake, Newport News and Virginia Beach have substantially reduced their tax rates for 1987 to make the tax rates more uniform in the Tidewater area. (See Table V for Tax Rates on Boats in Tidewater.)

Commissioners of the Revenue also experience problems in determining the situs of boats. § 58.1-3511 of the Code of Virginia establishes that the situs for the assessment and taxation of boats is the locality where the boat is normally docked. The current system for keeping track of boats tends to be inadequate in furnishing commissioners of the revenue with accurate information about the situs of boats. § 62.1-170 of the Code of Virginia provides that boat registrations are valid for three years. If a boat changes ownership before the three year period expires the registration of a former owner will still be valid. If the former owner does not report the sale of the boat to the Commission of Game and Inland Fisheries then the information on the Commission's list will be inaccurate, and the situs of the boat will often be impossible to determine. This

is mainly a problem in Tidewater for localities that have authority to prorate the tangible personal property tax. Prorating localities assess property on a monthly basis and must have accurate records to do so. One alternative would be to require the Commission of Game and Inland Fisheries to furnish a monthly or quarterly list of boat registrations to the Commissioners of the Revenue of prorating localities. Portsmouth has attempted to deal with the situs problem by requiring a decal on all boats docked in its locality to ensure the property is subject to taxation.

TABLE VII
TANGIBLE PERSONAL PROPERTY TAX RATES --
BOATS LESS THAN FIVE TONS
TIDEWATER REGION ONLY, 1986

<u>LOCALITY</u>	<u>SOURCE OF ASSESSED VALUE</u>	<u>TAX RATE (PER \$100)</u>
Accomack	NADA Boat Book	3.25
Chesapeake	ABOS	4.00 4.08 in Mosquito District
Essex	BUC	3.50
Franklin	ABOS	6.50
Gloucester	30% of original cost	3.25
Hampton	ABOS	1986 rate--4.75
Isle of Wight	ABOS	4.50 1987 -- 4.65
James City	ABOS	4.00
King William	75% of original cost	4.20
Lancaster	BUC	3.80
Mathews	BUC--average between high and low value	3.25
Newport News	ABOS	current--4.50 7/86 -- 1.00
Northumberland	50% of original cost	3.00
Norfolk	ABOS	1986 -- 4.00 1987 -- 1.00

**TANGIBLE PERSONAL PROPERTY TAX RATES --
BOATS LESS THAN FIVE TONS
TIDEWATER REGION ONLY, 1986**

<u>LOCALITY</u>	<u>SOURCE OF ASSESSED VALUE</u>	<u>TAX RATE (PER \$100)</u>
Northampton	NADA	2.50
Portsmouth	BUC - low retail value	.50 for pleasure craft 4.35 for commercial craft
Poquoson	ABOS	4.50
Southampton	specific dollar amount based on the size of boat	4.00
Virginia Beach	ABOS	1986* -- 4.00 1987* -- 1.50
Westmoreland	BUC	1.50 for pleasure and commercial
Williamsburg	ABOS	3.50

***Most localities use the low values listed in ABOS and BUC**

E. THE MAJORITY OF LOCALITIES USE AN ANNUAL PAYMENT SCHEDULE OF DECEMBER 5TH FOR COLLECTING THE TANGIBLE PERSONAL PROPERTY TAX.

§ 58.1-3916 authorizes the governing bodies to allow for annual or biannual payments of the personal property tax. Additionally, if a locality had a different payment schedule prior to January 1, 1984, the locality can continue to use that payment schedule. The results of a 1986 survey show that almost all localities in Virginia use an annual date of December 5th for paying the tangible personal property tax. The following six localities use a biannual payment schedule: Newport News, Hampton, Greene County, South Boston, Fredericksburg and Danville. Portsmouth is the only locality which requires payments on a quarterly basis. The reason for using a biannual schedule is to alleviate the taxpayer's burden of having to make a lump sum payment at one time. The majority of Commissioners of the Revenue prefer to remain on an annual payment schedule for the tangible personal property tax because this schedule makes the administration of the tangible personal property much easier.

F. TWELVE LOCALITIES IN VIRGINIA PRORATE THE TANGIBLE PERSONAL PROPERTY TAX.

§ 58.1-3516 of the Code of Virginia authorizes certain localities to prorate the tangible personal property tax. Prorating jurisdictions assess property for the portion of the tax year that the property has situs in the jurisdiction. Twelve localities in Virginia prorate the tangible personal property tax. These localities are mainly located in the Tidewater and Northern Virginia regions. These regions are the largest and most transient communities in Virginia. In Tidewater the following localities prorate the tangible personal property tax:

- Chesapeake
- James City
- Newport News
- Norfolk
- Portsmouth
- Hampton
- Virginia Beach

In Northern Virginia the following localities prorate the tangible personal property tax:

- Alexandria
- Arlington
- Falls Church
- Fairfax County

Lynchburg is the only locality outside Tidewater and Northern Virginia that prorates the tangible personal property tax. Although § 58.1-3516 authorizes more than eleven specific localities to prorate the tangible personal property tax, only three of those localities (Falls Church, James City and Lynchburg) adopted proration ordinances.

The Commissioners of the Revenue of the above localities contend that proration is most equitable to taxpayers in transient communities because taxpayers are only taxed for the period in which the property has situs there. Additionally, proration enables localities to generate revenues which they otherwise would not obtain. Table VIII shows that the tax collections of Virginia's prorating localities are much higher than the nonprorating localities; however, it is also very expensive to administer the tangible personal property tax in prorating localities (see Table VII). The cost of administering proration is high because a locality must hire additional staff members, and install a computer system in order to effectively administer the tangible personal property tax. In small, nontransient communities proration is less desirable because most localities lack the economic resources to adequately administer the tangible personal property tax.

In most localities, proration is being administered inconsistently. § 58.1-3516 authorizes specific localities to prorate motor vehicles, trailers and boats. The results of a recent survey of the prorating localities indicates that localities are prorating only certain types of property. In Tidewater, Virginia Beach, Chesapeake and James City, motor vehicles and trailers only are prorated. Norfolk prorates motor vehicles only; and Hampton, Newport News and Portsmouth prorate motor vehicles, trailers and boats. In Northern Virginia, Arlington and Alexandria prorate motor vehicles, trailers and boats; however, Falls Church and Fairfax County prorate motor vehicles only.

TABLE VII

COST TO ADMINISTER THE TANGIBLE PERSONAL PROPERTY TAX
IN VIRGINIA'S PRORATING LOCALITIES

<u>LOCALITY</u>	<u>AMOUNT</u>
ALEXANDRIA	\$300,000
ARLINGTON	UNKNOWN*
CHESAPEAKE	UNKNOWN*
FAIRFAX COUNTY	UNKNOWN*
FALLS CHURCH	\$ 50,000
HAMPTON	100,000
JAMES CITY	130,000
LYNCHBURG	15,349
NEWPORT NEWS	260,000
NORFOLK	180,000
PORTSMOUTH	25,000
VIRGINIA BEACH	UNKNOWN*

*Locality was unable to submit a reasonable estimate of cost

TABLE VIII

TAX COLLECTIONS OF VIRGINIA'S PRORATING LOCALITIES

<u>LOCALITY</u>	<u>AMOUNT</u>
ALEXANDRIA	\$16,313,102
ARLINGTON	20,841,205
CHESAPEAKE	8,090,131
FAIRFAX COUNTY	95,986,833
FALLS CHURCH	1,472,377
HAMPTON	10,130,324
JAMES CITY	1,829,086
LYNCHBURG	1,628,514
NEWPORT NEWS	11,858,853
NORFOLK	18,303,924
PORTSMOUTH	7,980,885
VIRGINIA BEACH	26,997,261

III. FINDINGS

1. The tangible personal property tax is administered by localities as follows:
 - a. Commissioners of the revenue assess the value of tangible personal property subject to taxation;
 - b. The local governing body sets the tax rate levied on the property, and
 - c. The Treasurers of the locality collect the tax due on the personal property.
2. Many localities in the Commonwealth value motor vehicles at less than 100% of the assessed value listed in a recognized pricing guide, and this method of valuing property may not necessarily reflect actual fair market value as required by § 58.1-3503 of the Code of Virginia.
3. Twelve localities in the Commonwealth prorate the tangible personal property tax, but often localities administer the proration statute inconsistently. The revenues generated from the tangible personal property tax are substantially higher in prorating jurisdictions, even though the administrative costs of proration are expensive.
4. Proration is extremely difficult to apply to the taxation of boats because the present three-year registration requirement tends to be inadequate in assisting Commissioners in tracking the situs of boats in the Commonwealth.
5. Surrounding states such as North Carolina and South Carolina impose a sales tax cap of \$300 on sales of motor vehicles, trucks and boats; Maryland and Delaware do not impose a tangible personal property tax; therefore, some Virginians may be encouraged to minimize their tax liability by purchasing property in North Carolina and transporting it to Maryland to be garaged or docked on January 1, thereby escaping taxable situs in Virginia.
6. Daily rental equipment property is subject to the tangible personal property tax, the business license tax, and the sales and use tax. Some alternative method of taxing daily rental equipment should be devised to subject the property to more equitable taxation in the Commonwealth.

The following is a list of possible alternatives to resolve problems of Commissioners of the Revenue in administering the tangible personal property tax in Virginia which this subcommittee examined:

- (1) Require that tangible personal property, like real estate, be assessed at 100% of fair market value.
- (2) Require personal property tax assessors to meet specific qualifications similar to those required for real estate tax assessors. (§§ 58.1-3275 and 58.1-3276 of the Code of Virginia.)
- (3) Require localities which elect to prorate to apply proration consistently to motor vehicles, trailers and boats.
- (4) Require businesses to file an itemized list of business property with the Commissioners of the Revenue.
- (5) Provide an alternative method for assessing business personal property, in addition to the current method requiring valuation based on a percentage of original cost.
- (6) Eliminate boats from the property which can be prorated, or require the Commission of Game and Inland Fisheries to furnish a monthly list of boat registrations to the Commissioners of the Revenue of the prorating localities.
- (7) Classify rental equipment as stock and trade subject to the merchants capital tax pursuant to § 58.1-3509 of the Code of Virginia instead of taxing it as tangible personal property under § 58.1-3503.
- (8) Classify rental equipment under the retail sales tax rate pursuant to § 58.1-3706(2) for license taxes instead of taxing it at the higher professional services rate under § 58.1-3706(3).
- (9) Authorize the rental equipment businesses to collect an additional 1% sales tax to be distributed to localities pursuant to § 58.1-2425(ii), similar to the additional tax collected on rental passenger vehicles under § 58.1-2402(3) and (4) of the Code of Virginia.
- (10) Establish guidelines distinguishing rented and leased equipment for purposes of local taxation.

IV. RECOMMENDATIONS

At the final meeting on January 14, 1987, the joint subcommittee examined draft legislation illustrating the alternative proposals for resolving the administrative problems of the tangible personal property tax. After listening to recommendations from the Commissioners of the Revenue Association and the Equipment Rental Association, the subcommittee agreed to submit the following three recommendations to the 1987 General Assembly as draft legislation:

1. Amend § 58.1-3503(B) by adding the term "obsolescence" so that commissioners may consider this factor to arrive at more precise and equitable assessments of business personal property which depreciate at a rapid rate.
2. Amend § 58.1-3503 by establishing a separate category for valuing short-term rental equipment based on a percentage of original cost so that commissioners will have greater flexibility in valuing short-term rental equipment.
3. Amend § 58.1-3516(A) to allow prorating localities to exclude boats from the proration ordinance so that proration will be applied consistently with the statutory requirements.

The legislation and resolution recommended by the joint subcommittee are contained in Appendices A1 and A2.

Respectfully submitted,

Charles J. Colgan, Chairman

R. Beasley Jones, Vice Chairman

Stanley C. Walker

Elmon T. Gray

David G. Brickley

Jay W. DeBoer

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APPENDIX A-1

SENATE BILL NO. HOUSE BILL NO.

A BILL to amend and reenact § 58.1-3503 of the Code of Virginia, relating to the tangible personal property tax.

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-3503 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-3503. General classification of tangible personal property.--A. Tangible personal property is classified for valuation purposes according to the following separate categories which are not to be considered separate classes for rate purposes:

1. Farm animals, except as exempted under § 58.1-3505.
2. Farm machinery, except as exempted under § 58.1-3505.
3. Automobiles, except those described in paragraphs 7, 8 and 9 of this section, which shall be valued by means of a recognized pricing guide or if the model and year of the individual automobile are not listed in the recognized pricing guide on the basis of a percentage or percentages of original cost.
4. Trucks of less than two tons, which may be valued by means of a recognized pricing guide or if the model and year of the individual truck are not listed in the recognized pricing guide on the basis of a percentage or percentages of

original cost.

5. Trucks and other vehicles, as defined in § 46.1-1, except those described in paragraphs 4, and 6 through 10 of this section, which shall be valued by means of either a recognized pricing guide using the lowest value specified in such guide or a percentage or percentages of original cost.

6. Mobile homes, as defined in § 36-71 (4), which may be valued on the basis of square footage of living space.

7. Antique motor vehicles, as defined in § 46.1-1.

8. Taxicabs.

9. Motor vehicles with specially designed equipment for use by the handicapped, which shall not be valued in relation to their initial cost, but by determining their actual market value if offered for sale on the open market.

10. Motorcycles, campers and other recreational vehicles, which shall be valued by means of a recognized pricing guide or a percentage or percentages of original cost.

11. Boats weighing under five tons and boat trailers, which shall be valued by means of a recognized pricing guide or a percentage or percentages of original cost.

12. Boats or watercraft weighing five tons or more, which shall be valued by means of a percentage or percentages of original cost.

13. Aircraft, which shall be valued by means of a recognized pricing guide or a percentage or percentages of original cost.

14. Household goods and personal effects, except as

exempted under § 58.1-3504.

15. Tangible personal property used in a research and development business, which shall be valued by means of a percentage or percentages of original cost.

16. Computer hardware used by businesses primarily engaged in providing data processing services to other nonrelated or nonaffiliated businesses, which shall be valued by means of a percentage or percentages of original cost.

17. All tangible personal property employed in a trade or business other than that described in paragraphs 1 through 16 of this section, which shall be valued by means of a percentage or percentages of original cost.

18. All tangible personal property employed in a short-term rental trade or business shall be valued by means of a percentage or percentages of original cost.

"Short-term rental" means the transfer of the possession or use of tangible personal property for consideration without the transfer of ownership for an hourly, daily, weekly, or monthly period. Short-term rental shall exclude all agreements exceeding thirty-one days, including renewal options. Short-term rental shall exclude any transaction which requires the person, firm, or corporation paying for the use of the property to maintain it, or grants that person, firm, or corporation an option to purchase the rental property. Rental property, excluding daily rental passenger cars as defined in § 58.1-2401, which does not qualify as short-term rental property, shall be valued by §

58.1-3503 (A)(17).

19. All other tangible personal property.

B. Methods of valuing property may differ among the separate categories, so long as each method used is uniform within each category, is consistent with requirements of this section and may reasonably be expected to determine actual fair market value. Nothing herein shall be construed to prevent a commissioner of revenue from taking into account the condition and obsolescence of the property. The commissioner of revenue shall make available to taxpayers on request a reasonable description of his valuation methods. Such commissioner, or other assessing officer, or his authorized agent, when using a recognized pricing guide as provided for in the following subsections, may automatically extend the assessment if the pricing information is stored in a computer.

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APPENDIX A-2

SENATE BILL NO. HOUSE BILL NO.

A BILL to amend and reenact § 58.1-3516 of the Code of Virginia as it is currently in effect and as it will become effective January 1, 1988, relating to the proration of the personal property tax.

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-3516 of the Code of Virginia as it is currently in effect and as it will become effective January 1, 1988, is amended and reenacted as follows:

§ 58.1-3516. Proration of personal property tax.--A. Any county operating under the county manager plan or the urban county executive plan, the Counties of Albemarle, Chesterfield, Isle of Wight, James City, Lee, Loudoun, Gloucester, York, Roanoke, Scott, and Spotsylvania and any city having a population in excess of 100,000, and the Cities of Falls Church, Franklin, Lynchburg, and Poquoson may provide by ordinance for the levy and collection of personal property tax on motor vehicles, trailers and boats which have acquired a situs within such locality after the tax day for the balance of the tax year. Such tax shall be prorated on a monthly basis. Such ordinance may exclude boats from the property subject to proration of the personal property tax. For purposes of proration, a period of more than one-half of a month shall be counted as a full month and a period of less than one-half of a month shall not be

counted.

Such ordinance shall also provide for relief from tax and a refund of the appropriate amount of tax already paid, which shall be prorated on a monthly basis, where any motor vehicle, trailer, or boat loses its situs within such locality after the tax day or after the day on which it acquires a situs (hereafter "situs day"). When any person sells or otherwise transfers title to a motor vehicle, trailer, or boat with a situs in the locality after the tax day or situs day, the tax shall be relieved, prorated on a monthly basis, and the appropriate amount of tax already paid shall be refunded or credited, at the option of the taxpayer, against the tax due on any motor vehicle, trailer, or boat owned by the taxpayer during the same tax year by the treasurer of such locality. Such refund shall be made within thirty days of the date such tax is relieved. When any person, after the tax day or situs day, acquires a motor vehicle, trailer, or boat with a situs in the locality, the tax shall be assessed on the motor vehicle, trailer, or boat for the portion of the tax year during which the new owner owns the motor vehicle, trailer, or boat and it has a situs within the locality.

B. Such ordinance shall provide for the filing of returns and payment of such tax. Such ordinance shall also exempt property from the levy of such personal property tax for any tax year or portion thereof during which the property was legally assessed by another jurisdiction in the Commonwealth and the tax paid. Such ordinance may provide

that, notwithstanding any other date for billing and payment of local personal property tax, the locality may bill all personal property taxes assessed for a portion of the tax year less than the full year on or after December 15 of each year. The ordinance may further provide that such taxes shall be due not less than thirty days after the date of the tax bill. If the tax is not paid when due, the penalty and the interest otherwise provided for by § 58.1-3916 shall be imposed based on the established due date.

§ 58.1-3516. (Effective January 1, 1988) Proration of personal property tax.--A. Any county operating under the county manager plan or the urban county executive plan, the Counties of Albemarle, Chesterfield, James City, Loudoun, Gloucester, York, Prince William, Roanoke, Scott, and Spotsylvania and any city having a population in excess of 100,000, and the Cities of Falls Church, Lynchburg and Manassas may provide by ordinance for the levy and collection of personal property tax on motor vehicles, trailers and boats which have acquired a situs within such locality after the tax day for the balance of the tax year. Such tax shall be prorated on a monthly basis. Such ordinance may exclude boats from the property subject to proration of the personal property tax. For purposes of proration, a period of more than one-half of a month shall be counted as a full month and a period of less than one-half of a month shall not be counted.

Such ordinance shall also provide for relief from tax and a refund of the appropriate amount of tax already paid,

which shall be prorated on a monthly basis, where any motor vehicle, trailer, or boat loses its situs within such locality after the tax day or after the day on which it acquires a situs (hereafter "situs day"). When any person sells or otherwise transfers title to a motor vehicle, trailer, or boat with a situs in the locality after the tax day or situs day, the tax shall be relieved, prorated on a monthly basis, and the appropriate amount of tax already paid shall be refunded or credited, at the option of the taxpayer, against the tax due on any motor vehicle, trailer, or boat owned by the taxpayer during the same tax year by the treasurer of such locality. Such refund shall be made within thirty days of the date such tax is relieved. When any person, after the tax day or situs day, acquires a motor vehicle, trailer, or boat with a situs in the locality, the tax shall be assessed on the motor vehicle, trailer, or boat for the portion of the tax year during which the new owner owns the motor vehicle, trailer, or boat and it has a situs within the locality.

B. Such ordinance shall provide for the filing of returns and payment of such tax. Such ordinance shall also exempt property from the levy of such personal property tax for any tax year or portion thereof during which the property was legally assessed by another jurisdiction in the Commonwealth and the tax paid. Such ordinance may provide that, notwithstanding any other date for billing and payment of local personal property tax, the locality may bill all personal property taxes assessed for a portion of the tax

year less than the full year on or after December 15 of each year. The ordinance may further provide that such taxes shall be due not less than thirty days after the date of the tax bill. If the tax is not paid when due, the penalty and the interest otherwise provided for by § 58.1-3916 shall be imposed based on the established due date.

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