

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 20, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: BUDGET MEMO #75 : EFFECTS OF TAX DEDUCTIBILITY ON INCREASE IN REAL PROPERTY TAXES

This is in response to Councilman Macdonald's question on how much of the annual increase in our local real estate tax bills is offset by a federal and state income tax deduction?

If the Alexandria homeowner itemizes deductions on federal and state tax income tax forms, the effect of the annual increase in real estate taxes varies by income level, filing status and the applicability of the provisions of the federal alternative minimum tax provisions, which can limit the amount of deductions claimed in certain circumstances. The deductibility of local real estate taxes on federal and state income taxes, however, can lower the impact of increased real property taxes from 21 percent to 41 percent depending on the tax bracket one falls in.

Assuming:

- a married couple filing jointly,
- with itemized deductions,
- who are not subject to the provisions of the federal alternative minimum tax provisions, and
- a City real property tax rate of 91.5 cents.

The attached table shows both the gross and post deduction net effect of increasing real estate tax bills.

Attachment

**Effects of Tax Deductibility on Increase in Real Property Taxes**

<b>Type of Residence</b>	<b>Average Residential Homeowner (Includes both single family and condominiums)</b>	<b>Average Single Family Residence</b>	<b>Average Condominium</b>
Real Property Tax Increase at a 91.5 cent rate	\$418 = +11.5% increase	\$428 = +9.1% increase	\$411 = +18.5% increase
Tax Savings = 20.75% if joint income between \$17,600 and \$59,400	\$87 tax savings adjusted tax increase = \$331	\$89 tax savings adjusted tax increase = \$339	\$85 tax savings adjusted tax increase = \$326
Tax Savings = 30.75% if joint income between \$59,400 and \$119,950	\$129 tax savings adjusted tax increase = \$289	\$132 tax savings adjusted tax increase = \$296	\$126 tax savings adjusted tax increase = \$285
Tax Savings = 33.75% if joint income between \$119,950 and \$182,800	\$141 tax savings adjusted tax increase = \$277	\$144 tax savings adjusted tax increase = \$284	\$139 tax savings adjusted tax increase = \$272
Tax Savings = 38.75% if joint income between \$182,800 and \$326,450	\$162 tax savings adjusted tax increase = \$256	\$166 tax savings adjusted tax increase = \$262	\$159 tax savings adjusted tax increase = \$252
Tax Savings = 40.75% if joint income over \$326,450	\$170 tax savings adjusted tax increase = \$248	\$174 tax savings adjusted tax increase = \$254	\$167 tax savings adjusted tax increase = \$244