

AD HOC COMMERCIAL TAX OPTION STUDY COMMITTEE
Comparison of City Taxes Provided by Selected Types of Businesses
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Much is made of the disparity between the proportion of commercial real property vs residential real property. A larger proportion of the real property assessed value in the City is residential property as opposed to commercial property. This gives the impression that residents provide more of the City's tax revenue than businesses. In fact, at least 50% of the City's tax and nontax revenue comes in because business takes place in Alexandria. Businesses bring Alexandria not only real estate tax, but also business license tax, personal property tax, sales tax, restaurant tax, and hotel tax. No matter who pays the sales tax, it only comes to Alexandria when business takes place in Alexandria. When all types of tax revenue are taken into account, there is not an imbalance of revenue provided by commercial property vs residential. Businesses bring in at least half of the City's tax revenue.

A general analysis of several types of businesses is attached. It shows the various types of tax paid by a business with \$1,000,000 annual gross receipts. In this example, a restaurant brings the City tax revenue of as much as \$51,000 per year. In contrast, a \$1,000,000 single family home provides real estate tax of only \$8,300.

In addition, commercial property provides a better net return to the City than residential property. The Economic Sustainability Task Force distributed a comparison of the net profit provided to the City by different types of development. It shows that the City keeps more than 80% of the tax dollars provided by Office, Retail, and Hotel properties. The City only keeps 36.8% of the tax dollars provided by Townhouses and only 27% from Apartments. Residential properties such as Townhouses and Apartments use up the majority of their tax dollars through their need for services.

City Council and City Staff say that they strive to maintain Alexandria's tax rates in the median range compared to neighboring jurisdictions; neither the highest nor the lowest. In fact, many businesses pay taxes at higher rates than their neighbors in Arlington or Fairfax. For example, professionals in Alexandria pay business license tax at the rate of 58 cents per hundred dollars of gross receipts. This is the maximum rate allowed by State law. At the same time, professionals in Arlington pay only 36 cents and professionals in Fairfax pay only 31 cents. This means that a professional business in Alexandria already pays 87% more business license tax than the same professional business in Fairfax and 61% more than the same professional business in Arlington.

Business service and personal service businesses also pay significantly more tax in Alexandria than in Fairfax. These businesses pay 84% more business license tax in Alexandria than their counterparts in Fairfax. While Alexandria does not have the highest tax rate in every category, in the majority of business categories, businesses pay more business license tax in Alexandria than in Arlington or Fairfax.

Commercial property in Alexandria already brings in half of the City's total tax revenue and uses less services than residential property. In addition, many Alexandria businesses are already paying tax at higher rates than their counterparts in Arlington and Fairfax. With this level of taxes already being paid by Alexandria businesses, it's hard to see why Alexandria businesses should be burdened with an additional tax on commercial property.

In their report, the Economic Sustainability Task Force recommended that Council ease the burden on residential taxpayers by growing the commercial tax base. The task force recommended that Council take steps to grow the commercial real estate tax base to the point where it is more than 50% of total assessed value, emphasizing office and retail space as the primary strategy. The task force points out that encouraging commercial development is the way to reduce the tax paid by residents and recommends that the Council take steps to encourage and seek out commercial development, particularly office space, retail space, hotels and service businesses. In light of this recommendation to encourage business in Alexandria, it doesn't make sense to add another tax to Alexandria businesses.

Soon the development currently taking place in East Eisenhower will add \$2.6 billion in assessed value. This will provide real estate tax revenue of approximately \$22 million each year. With this added tax revenue on the way, an additional tax on commercial real estate will not be needed. If additional tax revenue is desired to reduce the taxes paid by residents, it makes more sense to consider the tax revenue that is on the way from East Eisenhower development rather than adding another tax to Alexandria businesses.

If the additional tax on commercial property is to be used to fund transportation, then the cost should be borne by all transportation users, businesses and residents alike. Raising the real estate tax on all property would generate \$3.5 million per one cent of tax rate. It would take 3 and a half cents on commercial property to raise the same amount of revenue.

There are many reasons why the additional tax on commercial property should not be adopted:

- about half of the City's tax and nontax revenue already comes in because business takes place in Alexandria,
- a typical business in Alexandria already provides three to six times as much tax revenue as a typical residence,
- commercial property already provides a higher net revenue than residential property,
- many Alexandria businesses already pay more business license tax than businesses in Arlington and Fairfax,
- there is no special reason why the money for transportation should come solely from business when transportation is used by residents and businesses alike.

If the only good reason to adopt the additional tax is to provide funding, it is clear that development currently taking place in East Eisenhower will soon provide \$22 million of tax revenue each year. Rather than add yet another tax to the taxes already paid by Alexandria businesses, we should follow the recommendations of the Economic Sustainability Task Force and ease the tax burden on residential taxpayers by growing the commercial tax base. The way to raise more revenue is to grow more businesses. The additional tax on commercial property doesn't make sense for the future of our City.

City of Alexandria
Example using Taxes paid or generated by business in City

	Retail Merchant / Wholesale	Restaurant	Business Services	Professional Services
Business License tax				
Gross receipts	1,000,000	1,000,000	1,000,000	1,000,000
Business license rate per \$100 gross	\$ 0.20	\$ 0.20	\$ 0.35	\$ 0.58
Business License tax	2,000	2,000	3,500	5,800
Personal property tax rate per \$100 of value	4.75	4.75	4.75	4.75
Assume assessed value	25,000	25,000	25,000	25,000
personal property tax	1,188	1,188	1,188	1,188
Real estate tax				
assume assessed value	1,000,000	1,000,000	1,000,000	1,000,000
current rate per \$100 of assess value	0.83	0.83	0.83	0.83
real estate tax	8,300	8,300	8,300	8,300
Taxes paid directly by business	11,488	11,488	12,988	15,288
Taxes generated as result of business located in Alexandria				
sales tax city - portion	1.00%	1.00%	1.00%	1.00%
Sales tax collected	10,000	10,000		
meals tax - city portion		3.00%		
Meals tax collected		30,000		
Total taxes paid or generated by business	21,488	51,488	12,988	15,288

Commercial real estate option per \$1,000,000 assessed value

0.01	100	100	100	100
0.02	200	200	200	200
0.03	300	300	300	300
0.04	400	400	400	400
0.05	500	500	500	500

BUSINESS LICENSE RATES (BPOL)

License category	Tax Rate per \$ 100 of gross receipt			
	Max Rate allowed by Virginia code	Alexandria	Arlington	Fairfax
professional services	0.58	0.58	0.36	0.31
Repair services	0.36	0.35	0.35	0.19
Business services	0.36	0.35	0.35	0.19
Retail and Wholesale Merchant	0.20	0.20	0.20	0.17
Contractors	0.16	0.16	0.16	0.05
Soliciting agents	0.20	0.20	0.20	0.17
Rental Residential Property		0.50	0.28	0.26
Distressed Merchandise Sales	0.20	0.20	0.20	0.17
Financial Services	0.58	0.35		
Personal services	0.36	0.35	0.35	0.19
Retail Merchant	0.20	0.20	0.20	0.17
Wholesale Merchant		0.05	0.05	0.04
Amusement/Entertainment	0.36	0.36	0.25	0.26
Renting commercial real estate		0.35	0.43	0.26
Builder / Developer	0.16	0.16	0.16	0.05
Real estate broker/agent	0.58	0.35	0.36	0.31
Hotel and motel			0.36	0.26
Money Lending (mortgage broker)	0.58		0.36	0.19
Consultants /specialized services	0.36	0.35	0.36	0.31
Resturant	0.20	0.20	0.20	0.17
Personal property tax		4.75	5.00	4.57

Example of Estimated Taxes Paid using City estimates

City Staff estimate of additional commercial real estate tax per 1000 square foot of space per \$.01 of tax - \$40

Tax rate	Size of space				
	1,000	2,000	3,000	4,000	5,000
0.01	40	80	120	160	200
0.02	80	160	240	320	400
0.03	120	240	360	480	600
0.04	160	320	480	640	800
0.05	500	400	600	800	1000