

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 6, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

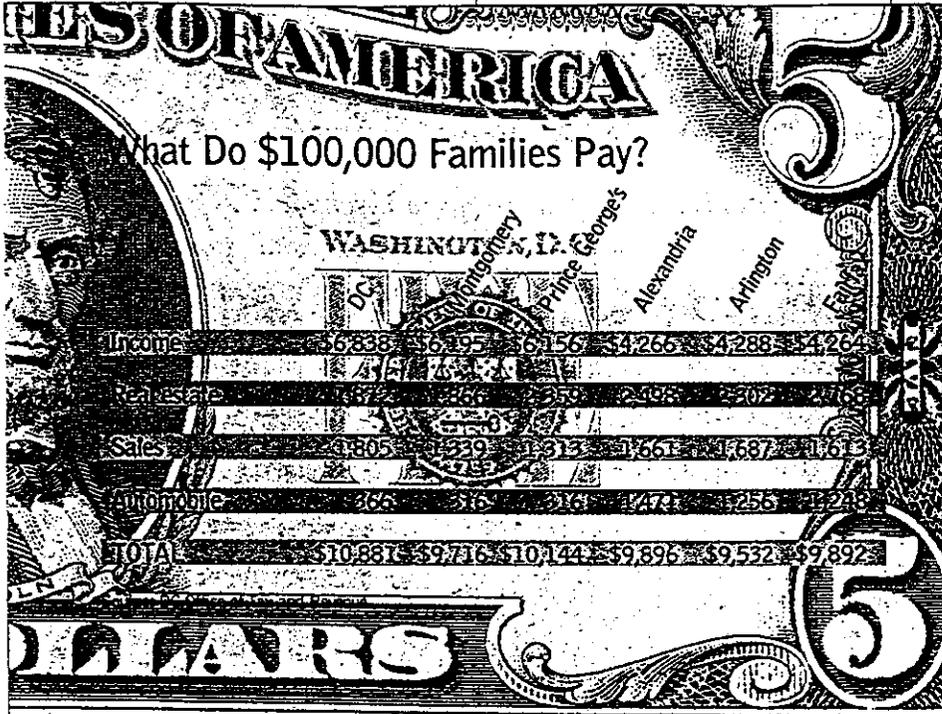
FROM: PHILIP SUNDERLAND, CITY MANAGER *ps*

SUBJECT: BUDGET MEMO # 8 : COMPARATIVE TAX STUDY BY THE DISTRICT OF COLUMBIA

As required by Congress, the District of Columbia government periodically undertakes a regional tax burden comparison. The latest issue of *The Washingtonian* contains one of the charts included from this study (Attachment I). This chart reflects a study methodology error that Northern Virginia jurisdictions have attempted to get the District government to change for years. The chart overstates the vehicle personal property tax impact by overvaluing the vehicles that families are assumed to own. As a result, the overall tax burdens for Northern Virginia are overstated. In January the City again wrote to the District of Columbia government (Attachment II) to again try to get this longstanding error corrected. In future years, the error will be less of an issue due to the lowering of the cost of the vehicle personal property tax to taxpayers by the state.

- Attachments: I. Chart from *The Washingtonian* article
 II. January 4, 2001 letter from the City to the District of Columbia government

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CIGARETTES AND WINE PHOTOGRAPHS BY MATTHEW PROBERT. FOOD BY MONTEN LOODS/LOCK

RESTAURANTS. If you like to eat out, consider Maryland. It has the cheapest tax on restaurant meals, at 5 percent.

Virginia's state-imposed restaurant tax is lower, 3½ percent, but local communities can tack on more. The total adds up to 6½ percent in Alexandria, 7½ percent in Arlington and Fairfax, and 8½ percent in Falls Church.

Dinner out in DC is the most expensive: The restaurant meal tax is 10 percent.

\$1,335 in Prince George's, with only \$34 going to income taxes.

These estimates are based on a study of 1999 taxes by the DC Office of Tax and Revenue. The hypothetical family in this study consists of two working spouses and two school-age children. Looking at a family making \$100,000 a year, officials assumed the family owned a home worth \$225,000 and two cars, one with a trade-in value of \$21,125 and the second worth \$12,325. Here's what their tax burden looks like:

More Tax Bites

CIGARETTES. For a pack of cigarettes, DC will take 65 cents in taxes; Maryland wants 66 cents. Tobacco-growing Virginia wants only 2½ cents a pack.

Still, watch where you smoke in Northern Virginia, where local governments can impose their own cigarette tax. It's an extra 30 cents a pack in Alexandria and Fairfax City, 25 cents in Falls Church. But Arlington and Fairfax counties tack on only an extra nickel, for a total cigarette tax of 7½ cents a pack.

Not only does it cost more to smoke in

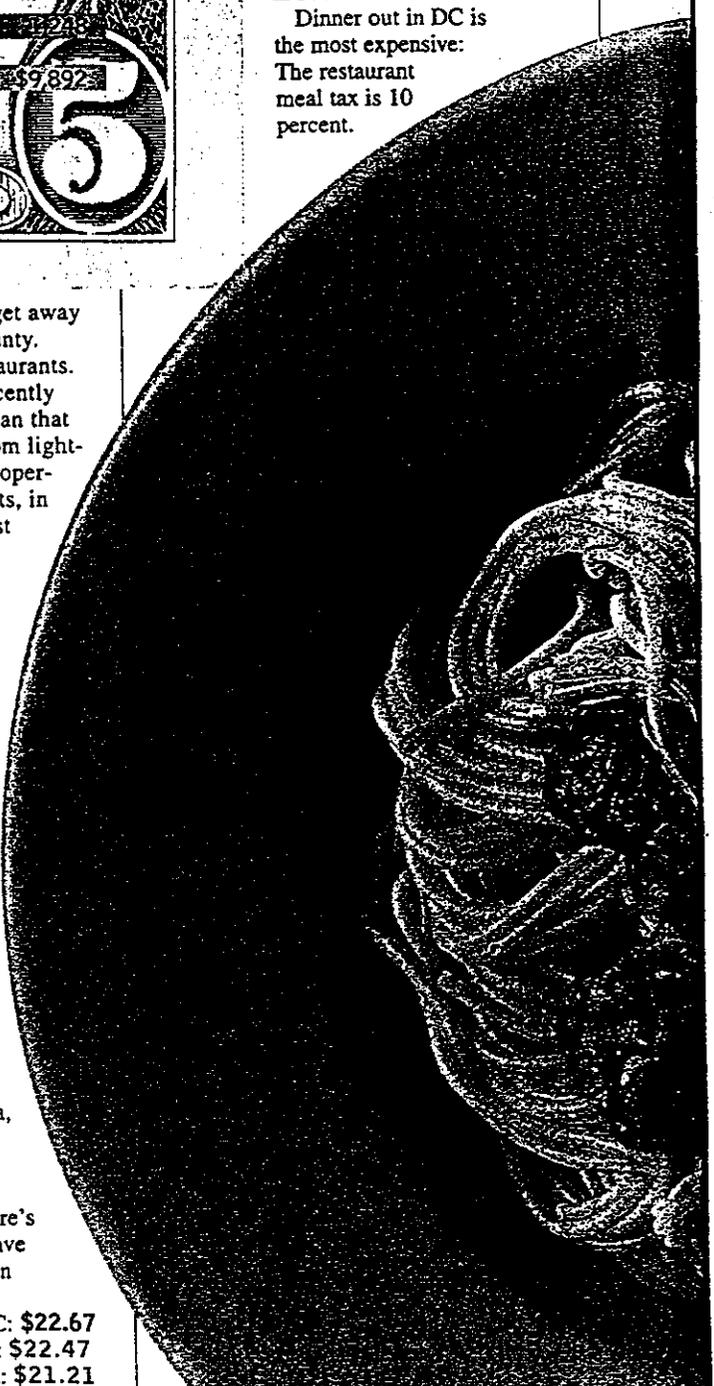
Maryland, you can barely get away with it in Montgomery County. There's no smoking in restaurants. And Friendship Heights recently tried to impose a tobacco ban that would have kept people from lighting up outside on public property, like sidewalks and streets, in the village of high-rises just north of the DC line.

LIQUOR. DC has the highest tax on alcohol sales, 8 percent, but at least you can easily find a liquor store. In Maryland and Virginia the taxes are lower, 4½ percent in Virginia and 5 percent in Maryland, but liquor sales are

through tightly controlled state-run stores.

To find the best place to buy a one-liter bottle of Absolut vodka, we checked prices in DC, Virginia, and Maryland. Here's what you'd have

paid per bottle, with tax, in late February:
 Morris Miller Liquor, DC: \$22.67
 ABC Liquor, Alexandria: \$22.47
 ABC Liquor, Cabin John: \$21.21



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OFFICE OF THE CITY MANAGER

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January 4, 2001

Natwar Ghandi
Chief Financial Officer
District of Columbia
One Judiciary Square, Room 1120
Washington, D.C. 20001-2714

Dear Mr. Ghandi:

It is our understanding that the District government is required by Congress to issue an annual *Tax Rates and Tax Burdens Study for the Washington Metropolitan Area*. When this report is prepared for next year, the Virginia localities in the study would appreciate it if a long standing error in the Study's methodology could be corrected. The Study assumes that a family of four with an income of just \$25,000 would own a 3-year old vehicle whose depreciated value for tax purposes would be \$14,375, producing a tax bill of \$597. Similar assumptions are used for Arlington and Fairfax Counties as well. It should be noted that the average assessed value of a vehicle in Alexandria (high and low income households alike) is just \$7,948. I think that you would find similar averages in Arlington County and Fairfax County. Since the car value issue is material to the conclusions in the report, I thought it valuable to bring this to your attention in time for it to be addressed in the 2000 report.

As your staff prepares the next report, we would be more than willing to assist in working through the complex car tax issue.

Sincerely,

Mark Jinks
Assistant City Manager

Attachment

cc: Edward Long, Chief Financial Officer, Fairfax County
Barbara Donnellan, Director, Management and Finance,
Arlington County
Daniel Neckel, Director, Finance, City of Alexandria