

# City of Alexandria, Virginia

## MEMORANDUM

DATE: OCTOBER 8, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: CREATION OF SPECIAL BUSINESS TAX CLASSIFICATIONS AND TAX RATES FOR BUSINESSES OPERATING ON FEDERAL DISASTER LOANS

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During the September 14 Public Hearing, Judy Evans, Treasurer of Suburban Printing Service, asked if City Council could grant some form of tax relief from business personal property taxes for those businesses which received federal SBA economic disaster loans. Suburban Printing, she indicated, has seen their revenues decline 25% since September 11. During the hearing, the Mayor asked staff to research and report back to the City Council if the City had the authority to grant tax relief and what might the fiscal impact of granting such tax relief be.

The City does not have legal authority under the State Code to provide relief from business personal property taxes. Only the General Assembly can create personal property tax relief classifications. If the City had the authority, it could create a new special personal property classification for property owned by firms that have received federal disaster loans and tax the property in that special category at a lower rate than other business personal property. The City Attorney believes that the avenue for relief as to personal property taxes would be for the General Assembly to establish a new classification for property owned by business which have qualified for federal SBA economic disaster loans. Even though City Council does not currently have the authority to provide relief on personal property taxes for those who qualify for SBA economic disaster loans, Council does have the authority to grant (by resolution) an extension of time of up to ninety days to pay the taxes without penalty or interest charges.

The City does have the legal authority to establish tax relief from business license taxes by creating a new business license classification for firms that have received SBA economic disaster loans. Such a classification could be taxed at a lesser rate than other businesses, as long as all gross receipts in the new classification are taxed uniformly. However, printing firms such as Suburban Printing are exempt from the business license tax under State law and pay no business license tax.

Legal authority aside, from a policy standpoint, the creation of a special personal property tax classification or the extension of time to pay these taxes raises significant issues. One underlying principle of Virginia property tax law is the identical treatment of similar taxpayers. Consider the example of two businesses with identical equipment, one of which is approved for an SBA economic disaster loan and received it, and the other did not apply (or was turned down). If a

special tax classification is created, these two businesses would receive tax bills of different amounts, because one business received the federal loan while the other did not.

A second issue is that the City has two types of taxes, taxes on economic transactions and taxes based on property valuation. Commercial property taxes are based on the market value of property and should not be based on the economic condition of the business. Business license taxes, sales taxes, and other taxes are the means by which the City taxes the economic transactions of a business or its customers. Those tax amounts are variable, based on increases or decreases in business revenues. It should be noted that because the business license tax is based on a business's total receipts times a specific tax rate, if a business's receipts drop then so does the subsequent year's business license tax payment. As a result, if a business's receipts dropped after September 11, 2001, and have not fully recovered, then its 2001 and 2002 business license tax payments to the City will both be proportionately lower than its 2000 business license tax payment. Therefore, under this example a business has already received some relief from the City. However, as previously noted, Suburban Printing Services, as a printing firm, is exempt from business license taxes and therefore did not see a change in their business license taxes from the zero tax liability they normally receive.

Another issue is the precedent that is set by granting tax relief at this time. Our region is in a recession and many businesses have declining revenues. Some have applied for federal disaster loans, while the vast majority of businesses have not applied. Also, some businesses applied for these federal loans and were turned down because the federal government did not believe these firms to be creditworthy to lend to (i.e., they were in worse shape than those businesses who did receive loans). Granting tax relief for businesses experiencing fiscal difficulty because of September 11 opens the City up for requests for tax relief from other businesses also experiencing financial difficulty. How would the City make a policy distinction among businesses which are experiencing financial difficulty and decide who would and who would not receive tax relief? Making such a policy distinction would be very difficult.

The Finance Department has closely reviewed the 2002 business personal property tax return of Suburban Printing Services. The staff has contacted Judy Evans with suggested amendments to the company's tax return that would reduce the company's tax liability within the framework of existing City tax policies.

**FISCAL IMPACT:** There are currently forty-three Alexandria companies that have qualified for Federal Economic Injury Disaster Loans. Based on a request from Congressman Moran, the filing date for applications for an Economic Injury Disaster Loan was extended to September 30, 2002. Staff does not know how many businesses have applied for assistance and the SBA has not yet processed all of the applications. According to the City's Small Business Development Center, the SBA granted most of the loans in the hospitality industry (restaurants, travel service firms and transportation firms).

If 50 City businesses receive federal economic disaster loans (an estimate based on SBA approvals to date) and if their business tax bill is average (\$5,000), then the total cost of providing complete tax relief would be \$250,000 in lost revenues to the City's General Fund. The cost to provide an extension of time to pay of up to ninety days would be nominal. Since the tax was due on October 7, 2002, most businesses in this SBA loan category (including Suburban Printing) have most likely paid the tax, and none have asked for an extension from the City's Finance Director in the last six months.

cc: Judy Evans, Treasurer, Suburban Printing Services  
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