

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 19, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER²⁷

SUBJECT: BUDGET MEMO # 53 : POTENTIAL RECORDATION TAX CHANGE FISCAL IMPACT

This memo is in response to Mayor Euille's question regarding the impact of possible changes to the Recordation Tax by the Virginia General Assembly. The Commonwealth of Virginia levies a tax on the recordation of deeds, deeds of trust, mortgages, leases and contracts for the sale, assignment, transfer, conveyance or vestment of lands, tenements or realty. The amount of the State tax on every deed, contract or other legal instrument is determined and collected by the Clerk of the Circuit Court in the locality. The current rate that the State levies on real estate conveyance and certain other real estate transactions is \$0.15 per \$100 of the purchase price or fair market value of the property, whichever is greater. The revenue from this State levy goes entirely to the State.

Currently, localities are permitted to collect a piggy back recordation tax of one-third of the state's rate, or \$0.05 per \$100 of value. The House of Delegates recently discussed the possibility of increasing the State rate by \$0.10 from its current \$0.15 per \$100 of value rate to \$0.25, approximately a 67 percent increase. This increase would have enabled the City to increase its piggy back rate from \$0.05 to \$0.083. However, the revenue bill that the House has passed and forwarded to the Senate does not include any increase in the State's recordation tax.

In FY 2003, the City received \$3.3 million in revenue from the recordation tax. If the new \$0.083 rate had been in effect, the City would have received \$5.4 million, an increase of \$2.1 million. In anticipation of a slowing in refinancing activity due to higher mortgage interest rates, in FY 2005 revenue from the recordation tax is budgeted at \$2.6 million. With an increase in the local tax from \$0.05 to \$0.083, the budgeted recordation tax revenue would increase to \$4.3 million, an increase of \$1.7 million. However, it now appears that any recordation tax rate increase is considerably less likely than ten days ago when the House was seriously considering its increase.