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MEMORANDUM

DATE: OCTOBER 3, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: PROPOSED LIMITED TAX AMNESTY PERIOD FOR DELINQUENT VEHICLE PERSONAL PROPERTY TAXES

ISSUES: (1) Establishment of a tax amnesty program from November 1, 2005, to December 31, 2005, for delinquent vehicle personal property taxes owed for calendar years 2004 and prior years, and (2) authorization of the Director of Finance to collect 100 percent of the delinquent vehicle personal property taxes due from taxpayers after the Commonwealth stops reimbursing localities on a vehicle-by-vehicle basis.

RECOMMENDATION: That City Council pass on first reading and schedule for public hearing, second reading and final passage on October 15, 2005, an ordinance (Attachment) that would:

- Establish a tax amnesty program in which **penalty and interest** would be waived on all 2004 and prior year vehicle personal property tax bills for tax bills paid from November 1 through December 31, 2005.
- Authorize the Director of Finance to collect 100 percent of the tax due, plus applicable penalties and interest, from any taxpayer whose 2005 or prior year taxes remain unpaid on September 1, 2006, or such date as the State funding for PPTRA percentage reimbursement is no longer available to localities. The State has established September 1, 2006 as the final date localities will receive PPTRA payments for delinquent taxes under existing regulations, unless funding is depleted at an earlier date. The State has budgeted \$24 million for the PPTRA reimbursement on all delinquent taxes State-wide. This change will result in the City being kept whole as the portion of the tax reimbursement the City had received from the State in certain delinquent circumstances, would now be entirely payable by the taxpayer.
- Authorize the Director of Finance to compute penalty and interest on the entire amount of taxes owed when the State no longer reimburses the City for a portion of the tax bill. Currently, the City Code provides that penalty and interest is assessed only on the portion of the tax paid by the taxpayer, not the portion paid by the State. Once the State ceases payment of the percentage reimbursements on these accounts, the Finance Department needs authorization to assess penalty and interest on the entire tax bill including the portion formerly paid by the State.

DISCUSSION: The 2005 Virginia General Assembly capped the total cost of vehicle tax relief for the Commonwealth at \$950 million beginning in tax year 2006, which for the City is in fiscal year (FY) 2007. Each locality's proportionate share of the \$950 million will be based upon the amount of revenue collected by localities for tax year 2004. This includes all tax year 2004 revenue collected through December 31, 2005. The implementation of a tax amnesty program would encourage taxpayers who have failed to pay the 2004 tax or to register their vehicle for personal property taxation to do so by December 31, 2005, thus better maximizing the City's portion of the \$950 million cap. A special tax bill mailing for delinquent accounts will be undertaken in late October by the Finance Department.

Currently, the State reimburses the City for the PPTRA portion of a personal property tax bill shortly after the taxpayers pay their portion of the bill. However, beginning with tax year 2006, the State will no longer tie the PPTRA reimbursement to the payment of individual bills but will provide PPTRA reimbursement based on the City's proportionate share of the \$950 million. As part of the transition, the State will reimburse the PPTRA portion of delinquent taxes until either September 1, 2006, or when the State depletes its budgeted PPTRA funding. The State has provided \$24 million in the budget for the payment of PPTRA reimbursements on delinquent taxes.

The proposed ordinance authorizes the Director of Finance to collect all the delinquent taxes from the taxpayer including the delinquent PPTRA portion once the State ends reimbursement on delinquent vehicle taxes. Penalty and interest would be assessed on the entire bill including the PPTRA portion after the State ceases making reimbursements on delinquent tax collections. The following chart is an illustration of the taxpayers liability. It is based on a hypothetical tax bill of \$1,000 for which the PPTRA reimbursement is \$700. Taxes are normally due by October 5 of the tax year.

Example of Taxpayer Liability on \$1,000 Tax Bill with \$700 PPTRA Reimbursement		
	Tax Year 2004 and earlier	Tax Year 2005
Taxes Paid During Amnesty Period		
Taxes (paid by taxpayer)	\$300	\$300
Penalty	none	30
Interest ¹	none	10%/5%
State Reimbursement	\$700	\$700
Taxes Paid January 1, 2006 to September 1, 2006		
Taxes (paid by taxpayer)	\$300	\$300
Penalty	30	30
Interest ¹	10%/5%	10%/5%
State Reimbursement	\$700	\$700
Taxes Paid after elimination of State reimbursement based on payment.		
Taxes (delinquent)	\$1,000	\$1,000
Penalty	100	100
Interest ¹	10%/5%	10%/5%
State Reimbursement	\$ 0	\$ 0

NOTE: Penalty and interest assessed if taxes are paid after October 5 of the tax year.

¹Interest charged at 10% the first year and 5% for subsequent years.

During this past year, staff has made a concerted effort to enhance 2004 delinquent collections. Two additional temporary collectors were hired to assist with 2004 collections. In addition, special collection projects were conducted, including comparing City records with Virginia's Division of Motor Vehicle records to identify taxpayers who failed to register their vehicles in 2004. The Finance Department also participated in the State Set-Off-Debt Collection Program and the Division of Motor Vehicle Registration Withholding Program. Bank and wage liens have been issued against taxpayers to collect 2004 delinquent taxes, as well as the implementation of the Vehicle Immobilization Program.

FISCAL IMPACT: The anticipated increase in collections resulting from the amnesty program would offset the cost of the program. The City charges a ten percent penalty and ten percent per annum interest the first year and five percent thereafter on delinquent personal property tax bills. Last year, during November and December, staff collected approximately \$17,000 in penalty and interest on delinquent vehicle personal property taxes. If the City initiates a tax amnesty program in 2005, the City would probably abate \$17,000 in penalty and interest. However, last year the City collected approximately \$267,000 in delinquent taxes in November and December (\$84,000 from taxpayers and \$183,000 in PPTRA reimbursements from the State). If the City were to increase the collections of delinquent taxes that would otherwise not be collected by only six percent, the entire cost of the tax amnesty program would be approximately recovered. Moreover, because the increase in collections would increase the City's percentage of the Commonwealth's \$950 million PPTRA reimbursement, the increase would be reflected in the City's portion of the PPTRA reimbursement from the Commonwealth in FY 2007 and every year thereafter. This means that for every \$10,000 in additional personal property taxes collected this year due to the tax amnesty period, \$100,000 in additional State revenue would be paid to the City over a 10-year period.

ATTACHMENT: Proposed Council Ordinance

STAFF:

Mark Jinks, Assistant City Manager for Fiscal and Financial Affairs
D. A. Neckel, Director of Finance

Introduction and first reading:	10/11/05
Public hearing:	10/15/05
Second reading and enactment:	10/15/05

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend and reordain Section 3-2-230, Division 3 (TANGIBLE PERSONAL PROPERTY AND MACHINERY) of Article M (LEVY AND COLLECTION OF PROPERTY TAXES) of Chapter 2 (TAXATION) of Title 3 (FINANCE, TAXATION AND PROCUREMENT) of the Code of the City of Alexandria, Virginia, 1981, as amended

Summary

The proposed ordinance would impose personal property tax liability on the taxpayer, in the full amount of the tax, without application of the reduction afforded under the Virginia Personal Property Tax Relief Act of 1998, as amended, for 2005 and prior tax years, for any qualifying vehicle for which personal property tax, penalty, and interest remains due and owing as of September 1, 2006, or the date state funds for reimbursing the City of the state's share of such bills become unavailable, whichever occurs first. The proposed ordinance would also establish a personal property tax amnesty program, to run from November 1, 2005 to December 31, 2005, whereby penalties and interest for taxes due for tax year 2004 and all prior tax years would be waived upon payment of delinquent taxes.

Sponsor

Staff

Mark Jinks, Assistant City Manager
Daniel A. Neckel, Director of Finance
David Clark, Chief, Treasury Division
Roderick B. Williams, Assistant City Attorney

Authority

Acts of Assembly 2005, ch. 951, item 503.D.1
Virginia Code § 58.1-3916

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Estimated Costs of Implementation

None

Attachments in Addition to Proposed Ordinance and its Attachments (if any)

None

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ORDINANCE NO. _____

AN ORDINANCE to amend and reordain Section 3-2-230, Division 3 (TANGIBLE PERSONAL PROPERTY AND MACHINERY) of Article M (LEVY AND COLLECTION OF PROPERTY TAXES) of Chapter 2 (TAXATION) of Title 3 (FINANCE, TAXATION AND PROCUREMENT) of the Code of the City of Alexandria, Virginia, 1981, as amended

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Division 3 (Tangible Personal Property and Machinery) of Article M (Levy and Collection of Property Taxes) of Chapter 2 (Taxation) of Title 3 (Finance, Taxation and Procurement) of the Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended by enacting an amended Section 3-2-230, to read as follows:

Sec. 3-2-230 When taxes due, delinquent taxes; penalty.

(a) The taxes levied on tangible personal property, on machinery and tools, and on mobile homes, motor vehicles, boats and trailers, except those which become subject to said tax after September 5, shall be due and payable to the director on or before October 5 of the year for which they are levied and shall be considered delinquent after that date. To all of said taxes so delinquent there shall be added and collected as a part thereof a penalty of 10 percent or \$10, whichever is greater; provided, however, that for tax year 2002 and subsequent tax years, the penalty for taxes levied on motor vehicles subject to the Personal Property Tax Relief Act of 1998 shall be calculated based solely on the portion of the taxes levied which the taxpayer is required to pay under such Act, and provided further that the penalty shall in no case exceed the amount of tax due from the taxpayer, and provided further that the entitlement to personal property tax relief for qualifying vehicles arising under the provisions of § 58.1-3524 of the Code of Virginia (1950), as it existed prior to the amendments made in Chapter 1 of the Acts of Assembly, 2004 Special Session I, for tax year 2005 and all prior tax years, shall expire on September 1, 2006, or such date as state funds for reimbursement of the state share of such bills have become unavailable, whichever earlier occurs, for any qualifying vehicle for which personal property tax, penalty, and interest remains due and owing as of September 1, 2006, for tax year 2005 and/or any prior tax years. In addition thereto, interest on the taxes and penalty due from the taxpayer shall commence on the first day following the day such taxes are due and shall continue until all such taxes and penalty are paid. Such interest shall accrue at the rate of 10 percent per annum for the first year such taxes and penalty remain unpaid and thereafter at the rate of five percent per annum. There shall also be due, in addition to all penalties and interest, fees for administrative costs and reasonable attorney's fees or collection agency's fees incurred in the collection of such taxes, not to exceed the maximum permitted under section 58.1-3958 of the Code of Virginia (1950), as amended.

(b) The taxes levied on motor vehicles, boats and trailers which become subject to taxation between September 6 and December 31 of any given year shall be due and payable not more than 30 days after they become so subject to taxation. These taxes shall be considered delinquent if

1 not paid on or before the thirtieth day from the date any motor vehicle, boat or trailer becomes
2 subject to taxation. To all taxes so delinquent, there shall be added and collected as a part thereof,
3 a penalty of 10 percent or \$10, whichever is greater; provided, however, that for tax year 2002
4 and subsequent tax years, the penalty for taxes levied on motor vehicles subject to the Personal
5 Property Tax Relief Act of 1998 shall be calculated based solely on the portion of the taxes
6 levied which the taxpayer is required to pay under such Act, and provided further that the penalty
7 shall in no case exceed the amount of tax due from the taxpayer, and provided further that the
8 entitlement to personal property tax relief for qualifying vehicles arising under the provisions of
9 § 58.1-3524 of the Code of Virginia (1950), as it existed prior to the amendments made in
10 Chapter 1 of the Acts of Assembly, 2004 Special Session I, for tax year 2005 and all prior tax
11 years, shall expire on September 1, 2006, or such date as state funds for reimbursement of the
12 state share of such bills have become unavailable, whichever earlier occurs, for any qualifying
13 vehicle for which personal property tax, penalty, and interest remains due and owing as of
14 September 1, 2006, for tax year 2005 and/or any prior tax years. In addition thereto, interest on
15 the taxes and penalty due from the taxpayer shall commence on the first day following the day
16 such taxes are due and shall continue until all such taxes and penalty are paid. Such interest shall
17 accrue at the rate of 10 percent per annum for the first year such taxes and penalty remain unpaid
18 and thereafter at the rate of five percent per annum. There shall also be due, in addition to all
19 penalties and interest, fees for administrative costs and reasonable attorney's fees or collection
20 agency's fees incurred in the collection of such taxes, not to exceed the maximum permitted
21 under section 58.1-3958 of the Code of Virginia (1950), as amended.

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23 (c) With respect to the expiration, set forth in (a) and (b) above, of the entitlement to
24 personal property tax relief for qualifying vehicles arising under the provisions of § 58.1-3524 of
25 the Code of Virginia (1950), as it existed prior to the amendments made in Chapter 1 of the Acts
26 of Assembly, 2004 Special Session I, for any qualifying vehicle for which personal property tax,
27 penalty, and interest remains due and owing as of September 1, 2006, or such date as state funds
28 for reimbursement of the state share of such bills have become unavailable, whichever earlier
29 occurs, for tax year 2005 and/or any prior tax years, there shall be due for each such qualifying
30 vehicle a supplemental amount equal to the credit for any reimbursable amount to which such
31 qualifying vehicle would have been entitled pursuant to the provisions of Virginia Code §
32 58.1-3524 as it existed prior to the amendments effected by Chapter 1 of the Acts of Assembly of
33 2004, Special Session I, plus penalty and interest thereon in the amounts provided for in this
34 section. Penalty and interest with respect to bills issued pursuant to this subsection shall be
35 computed on the entire amount of the tax owed. Interest shall be computed at the rates provided
36 in this section from the original due date of the tax.

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38 (d) There is hereby established an amnesty program for payment of delinquent taxes imposed
39 under §§ 3-2-224 of this Code, for tax years 2004 and prior, the intent of which program being to
40 improve voluntary compliance with the City's personal property tax ordinances and to increase
41 and to accelerate collections of such taxes owed to the City, as follows:

42
43 (1) The program shall be conducted during the period November 1, 2005, through
44 December 31, 2005.
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1 (2) All penalties and interest assessed or assessable, as provided in this section, with
2 respect to the tax imposed under §§ 3-2-224 of this Code, which are the result of
3 nonpayment, underpayment, nonreporting or underreporting of tax liabilities, shall be
4 waived upon receipt of the payment of the amount of taxes owed, except that no person
5 currently under investigation or prosecution for filing a fraudulent return or failing to file
6 a return with the intent to evade tax shall qualify to participate.
7

8 (3) Any taxpayer who defaults upon any agreement to pay tax arising out of a grant of
9 amnesty is subject to reinstatement of the penalty and interest forgiven and any such other
10 penalties as may apply, as though the taxpayer retained the original outstanding balance at
11 the close of the amnesty program.
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13 Section 2. That this ordinance shall become effective upon the date and at the time of its
14 final passage.
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17 WILLIAM D. EUILLE
18 Mayor
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20 Introduction: 10/11/05
21 First Reading: 10/11/05
22 Publication:
23 Public Hearing:
24 Second Reading:
25 Final Passage:
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ORDINANCE NO. 4424

AN ORDINANCE to amend and reordain Section 3-2-230, Division 3 (TANGIBLE PERSONAL PROPERTY AND MACHINERY) of Article M (LEVY AND COLLECTION OF PROPERTY TAXES) of Chapter 2 (TAXATION) of Title 3 (FINANCE, TAXATION AND PROCUREMENT) of the Code of the City of Alexandria, Virginia, 1981, as amended

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(a) The taxes levied on tangible personal property, on machinery and tools, and on mobile homes, motor vehicles, boats and trailers, except those which become subject to said tax after September 5, shall be due and payable to the director on or before October 5 of the year for which they are levied and shall be considered delinquent after that date. To all of said taxes so delinquent there shall be added and collected as a part thereof a penalty of 10 percent or \$10, whichever is greater; provided, however, that for tax year 2002 and subsequent tax years, the penalty for taxes levied on motor vehicles subject to the Personal Property Tax Relief Act of 1998 shall be calculated based solely on the portion of the taxes levied which the taxpayer is required to pay under such Act, and provided further that the penalty shall in no case exceed the amount of tax due from the taxpayer, and provided further that the entitlement to personal property tax relief for qualifying vehicles arising under the provisions of § 58.1-3524 of the Code of Virginia (1950), as it existed prior to the amendments made in Chapter 1 of the Acts of Assembly, 2004 Special Session I, for tax year 2005 and all prior tax years, shall expire on September 1, 2006, or such date as state funds for reimbursement of the state share of such bills have become unavailable, whichever earlier occurs, for any qualifying vehicle for which personal property tax, penalty, and interest remains due and owing as of September 1, 2006, for tax year 2005 and/or any prior tax years. In addition thereto, interest on the taxes and penalty due from the taxpayer shall commence on the first day following the day such taxes are due and shall continue until all such taxes and penalty are paid. Such interest shall accrue at the rate of 10 percent per annum for the first year such taxes and penalty remain unpaid and thereafter at the rate of five percent per annum. There shall also be due, in addition to all penalties and interest, fees for administrative costs and reasonable attorney's fees or collection agency's fees incurred in the collection of such taxes, not to exceed the maximum permitted under section 58.1-3958 of the Code of Virginia (1950), as amended.

(b) The taxes levied on motor vehicles, boats and trailers which become subject to taxation between September 6 and December 31 of any given year shall be due and payable not more than 30 days after they become so subject to taxation. These taxes shall be considered

delinquent if not paid on or before the thirtieth day from the date any motor vehicle, boat or trailer becomes subject to taxation. To all taxes so delinquent, there shall be added and collected as a part thereof, a penalty of 10 percent or \$10, whichever is greater; provided, however, that for tax year 2002 and subsequent tax years, the penalty for taxes levied on motor vehicles subject to the Personal Property Tax Relief Act of 1998 shall be calculated based solely on the portion of the taxes levied which the taxpayer is required to pay under such Act, and provided further that the penalty shall in no case exceed the amount of tax due from the taxpayer, and provided further that the entitlement to personal property tax relief for qualifying vehicles arising under the provisions of § 58.1-3524 of the Code of Virginia (1950), as it existed prior to the amendments made in Chapter 1 of the Acts of Assembly, 2004 Special Session I, for tax year 2005 and all prior tax years, shall expire on September 1, 2006, or such date as state funds for reimbursement of the state share of such bills have become unavailable, whichever earlier occurs, for any qualifying vehicle for which personal property tax, penalty, and interest remains due and owing as of September 1, 2006, for tax year 2005 and/or any prior tax years. In addition thereto, interest on the taxes and penalty due from the taxpayer shall commence on the first day following the day such taxes are due and shall continue until all such taxes and penalty are paid. Such interest shall accrue at the rate of 10 percent per annum for the first year such taxes and penalty remain unpaid and thereafter at the rate of five percent per annum. There shall also be due, in addition to all penalties and interest, fees for administrative costs and reasonable attorney's fees or collection agency's fees incurred in the collection of such taxes, not to exceed the maximum permitted under section 58.1-3958 of the Code of Virginia (1950), as amended.

(c) With respect to the expiration, set forth in (a) and (b) above, of the entitlement to personal property tax relief for qualifying vehicles arising under the provisions of § 58.1-3524 of the Code of Virginia (1950), as it existed prior to the amendments made in Chapter 1 of the Acts of Assembly, 2004 Special Session I, for any qualifying vehicle for which personal property tax, penalty, and interest remains due and owing as of September 1, 2006, or such date as state funds for reimbursement of the state share of such bills have become unavailable, whichever earlier occurs, for tax year 2005 and/or any prior tax years, there shall be due for each such qualifying vehicle a supplemental amount equal to the credit for any reimbursable amount to which such qualifying vehicle would have been entitled pursuant to the provisions of Virginia Code § 58.1-3524 as it existed prior to the amendments effected by Chapter 1 of the Acts of Assembly of 2004, Special Session I, plus penalty and interest thereon in the amounts provided for in this section. Penalty and interest with respect to bills issued pursuant to this subsection shall be computed on the entire amount of the tax owed. Interest shall be computed at the rates provided in this section from the original due date of the tax.

(d) There is hereby established an amnesty program for payment of delinquent taxes imposed under § 3-2-224 of this Code, for tax years 2004 and prior, the intent of which program being to improve voluntary compliance with the City's personal property tax ordinances and to increase and to accelerate collections of such taxes owed to the City, as follows:

(1) The program shall be conducted during the period November 1, 2005, through December 31, 2005.

(2) All penalties and interest assessed or assessable, as provided in this section, with respect to the tax imposed under § 3-2-224 of this Code, which are the result of nonpayment, underpayment, nonreporting or underreporting of tax liabilities, shall be waived upon receipt of the payment of the amount of taxes owed, except that no person currently under investigation or prosecution for filing a fraudulent return or failing to file a return with the intent to evade tax shall qualify to participate.

(3) Any taxpayer who defaults upon any agreement to pay tax arising out of a grant of amnesty is subject to reinstatement of the penalty and interest forgiven and any such other penalties as may apply, as though the taxpayer retained the original outstanding balance at the close of the amnesty program.

Section 2. That this ordinance shall become effective upon the date and at the time of its final passage.

WILLIAM D. EUILLE
Mayor

Final Passage: October 15, 2005