


City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 3, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: PROPOSED ORDINANCE TO PROVIDE BUSINESS LICENSE TAX RELIEF FOR RETAILERS

ISSUE: Consideration of an ordinance to provide business license tax relief to small retailers as an offset to the proposed add-on real estate tax on commercial property.

RECOMMENDATION: That City Council:

- (1) Introduce an ordinance to provide business license tax relief to retailers with gross receipts up to \$1.0 million and pass it on first reading on Tuesday, April 8;
- (2) Set the ordinance for public hearing on Tuesday, April 22 (which is the same public hearing date as the public hearing on other taxes); and
- (3) Set the ordinance for second reading and final passage on May 5, 2008, with the proposed new tax relief to be effective on January 1, 2009.

BACKGROUND: As part of the transportation funding initiatives approved (HB3202) during its 2007 session, the General Assembly included a package of major new regional and local funding options for Northern Virginia including the authority for Northern Virginia jurisdictions to adopt an add-on real estate tax on non-residential commercial property for transportation service and infrastructure investment initiatives. To be able to consider whether to adopt this add-on tax on commercial property tax as part of the FY 2009 budget process, Council established an Ad Hoc Committee to study this tax option and report back to Council, and requested that the Committee recommend whether Council should formally consider the commercial real estate add-on tax as part of the FY 2009 budget process.

The Committee, which recommended in early March that Council adopt an add-on rate in 2008 of no less than \$0.02 per \$100 of value, expressed concerns about the impact the add-on real estate tax would have on smaller, independent retailers. In addition, the Committee recommended that Council provide some business license tax relief for small and medium sized retailers (Attachment I). Some small and medium sized retailers in the City have indicated because of the health of the economy that they are seeing flat to declining sales as a result of

slowing consumer spending. These retailers most often rent (a fixed cost), and, as a class of business nationally, are widely acknowledged to have lower operating margins than many other types of business.

Under Virginia law, the City has little flexibility under most taxes to create exemptions or carve-outs for any single business group. However, under the business license tax statutes, the City has the ability to change tax policy as long as the total business license rate levied does not exceed the State-set maximum.

If Council decides to adopt the add-on real estate tax on non-residential commercial property, the Committee recommended establishing some tax relief for small and medium sized retail businesses. Currently, retail businesses are taxed at a rate of \$0.20 per \$100 of gross receipts if total gross receipts exceed \$100,000. Raising the sales threshold before the \$0.20 levy is applied from its current \$100,000 to \$1 million would cost \$0.3 million annually and benefit 463 retailers. If the threshold were increased to \$500,000, that would benefit 340 retailers and cost \$0.2 million.

FISCAL IMPACT: Business license tax revenue would decrease by \$0.3 million per year if the threshold was raised to \$1,000,000. If a two-cent add-on real estate tax rate were adopted, real estate tax revenues would rise \$2.0 million. The net impact of both actions would be a positive \$1.7 million per year.

ATTACHMENTS:

Attachment 1. Addendum to the Ad Hoc Commercial Transportation Tax Option Study
Committee Report
Attachment 2. Proposed Ordinance

STAFF:

Laura B. Triggs, Director of Finance
Debbie Kidd, Division Chief, Revenue Administration

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 3-15-08

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 14, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PAUL FRIEDMAN, CHAIR
 AD HOC COMMERCIAL TRANSPORTATION TAX OPTION STUDY
 COMMITTEE

SUBJECT: ADDENDUM TO THE AD HOC COMMERCIAL TRANSPORTATION TAX
 OPTION STUDY COMMITTEE REPORT

In follow up to our report, there are two items the Ad Hoc Committee would like to bring to your attention.

1. At the bottom of typed page 11 (handwritten page 13) of the report, it says that the gross receipts tax applies to retailers making "less than" \$100,000 in gross receipts, whereas it should say "more than."
2. While our report did not formally make a recommendation on how much business license tax relief to provide to retailers if Council established an add-on commercial real estate tax of at least 2 cents, the consensus of our Ad Hoc Committee was that the current threshold of \$100,000 of gross receipts should be raised to \$1,000,000 before the gross receipts rate of \$0.20 is applied. This would provide the following business license tax relief:

Gross Receipts	Business License Tax	Business License Tax Savings
\$ 100,000	\$50	N/A
\$ 200,000	\$50	\$ 350
\$ 500,000	\$50	\$ 950
\$ 750,000	\$50	\$1,450
\$1,000,000	\$50	\$1,950

Restructuring the business license tax in this manner would benefit 463 retailers, at a tax relief cost of \$0.3 million.

EXHIBIT NO. 2

Introduction and first reading:	04/08/08
Public hearing:	04/22/08
Second reading and enactment:	05/05/08

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend and reordain Section 9-1-75 (RETAIL MERCHANTS), of Article C (NONREGULATORY LICENSES), Chapter 1 (BUSINESS LICENSES), Title 9 (LICENSING AND REGULATION), of the Code of the City of Alexandria, Virginia, 1981, as amended.

Summary

The proposed ordinance increases the threshold for paying the revenue-based retail gross receipts tax from \$100,000 to \$1,000,000.

Sponsor

Staff

Mark Jinks, Deputy City Manager
Laura Triggs, Director of Finance
Karen S. Snow, Assistant City Attorney

Authority

§58.1 – 3703, Code of Virginia (1950), as amended
§2.02, Alexandria City Charter

Estimated Costs of Implementation

None

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

None

ORDINANCE NO. _____

AN ORDINANCE to amend and reordain Section 9-1-75 (RETAIL MERCHANTS), of Article C (NONREGULATORY LICENSES), Chapter 1 (BUSINESS LICENSES), Title 9 (LICENSING AND REGULATION) of the Code of the City of Alexandria, Virginia, 1981, as amended.

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Section 9-1-75 of the Code of the City of Alexandria, Virginia, 1981, as amended be, and the same hereby is, amended and reordained to read as follows:

Sec. 9-1-75 Retail merchants.

(a) Every person who engages in or conducts the business of a retail merchant in, and who maintains a definite place of business in, the city shall pay for the privilege of doing so an annual license tax of \$50 or, if the business' annual gross receipts with situs in the city equal or exceed ~~\$100,000~~ \$1,000,000, \$0.20 per \$100 of all the business' gross receipts with such situs.

(b) The license tax provided for in this section shall be in addition to the alcoholic beverage license tax required under any other sections of this chapter.

(c) Any person or organization who sponsors a show or sale of goods, wares and merchandise at retail and not for resale shall obtain a license under this section for such show or sale, and shall pay for the privilege of conducting the show or sale a license tax of \$50 and, upon the termination of the show or sale, \$0.20 per \$100 of the gross receipts of the show or sale in excess of \$15,000; provided that no license shall be issued for a period longer than one year.

Section 2. That this ordinance shall become effective on January 1, 2009.

WILLIAM D. EUILLE
Mayor

Introduction: 04/08/08
First Reading: 04/08/08
Publication:
Public Hearing:
Second Reading:
Final Passage: