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How Important Are Local Taxes to Localities?

Without concrete options, localities could lose out

RICHMOND, VA – Proposals to weaken or completely dismantle local business taxes without keeping cities, towns, and counties whole could threaten their ability to raise enough resources to pay for local priorities, according to new analysis released today by The Commonwealth Institute for Fiscal Analysis, an independent, non-partisan, nonprofit policy research organization in Virginia. In 2012, localities collected \$899 million from business professional occupational license (BPOL), machinery & tools (M&T), and merchant’s capital (MC) taxes, which is 6.2 percent of total local tax revenue statewide.

“Local governments, especially lower-income and less property rich communities, rely on these three sources of revenue to fund basic local services like police, fire and rescue, schools, and public utilities,” says Michael Cassidy, President and CEO of The Commonwealth Institute. “And local governments are really hamstrung by the legislature in Richmond when it comes to raising replacement revenue if these taxes were to be eliminated.”

Legislative efforts to weaken or dismantle local business taxes have been introduced in the General Assembly for at least the last 10 years. In addition, new proposals have emerged from both of the state’s gubernatorial candidates.

Among the report’s key findings:

- All but two of Virginia’s 171 cities, towns, and counties collect at least one of these local taxes, according to a survey by the state’s auditor:
 - 130 collect BPOL
 - 153 collect M&T
 - 47 collect MC taxes
- Virginia’s counties get 5.1 percent of their total local tax revenue from these local business taxes, independent cities get 8.3 percent, and towns get 14.5 percent.
- Replacement revenue sources like a local income tax or meals and lodging taxes face significant challenges
 - Nearly 75 percent of all localities already collect taxes on meals and/or hotel rooms leaving little ability for that tax to make up for the lost revenue.

The full report, *How Important Are Local Taxes to Localities?*, is available at www.thecommonwealthinstitute.org.

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About The Commonwealth Institute

The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit www.thecommonwealthinstitute.org for more information.