Commission on Local Government

Estimate of Local Fiscal Impact

2023 General Assembly Session | 01/11/23

In accordance with the provisions of 30-19.03 of the Code of Virginia, the staff of the Commission on Local Government offers the following analysis of legislation impacting local governments.

HB 1402: Personal property taxes; valuation. (Patron: Delegate Marie E. March)

Bill Summary: Personal property taxes; valuation. Requires, for taxable years beginning on and after January 1, 2024, that tangible personal property employed in a trade or business be valued for taxation using the federal Modified Accelerated Cost Recovery System (MACRS) of depreciation in place of the valuation methods currently in effect. The MACRS is also required to be used for machinery and tools taxes.

Local Fiscal Impact: Net Additional Expenditure: ___X___ Net Reduction of Revenues:___X___

Summary Analysis:

Number of Localities Responding: 5 Cities, 10 Counties, 4 Towns, 0 Other

Localities estimated a negative fiscal impact ranging from $0 to $55 million over the biennium (including both revenue loss and expenditure increases).

All localities identified the bill's fiscal impact as the loss of personal property tax revenue due to the bill's changes in valuation methods. Several noted that the proposed valuation methods (the federal Modified Accelerated Cost Recovery System (MACRS) of depreciation) would allow for the full depreciation of business personal property, as opposed to current systems which collect a small amount on fully depreciated personal property items after a set number of years. Localities that did not provide a numerical estimate stated that the bill posed an indeterminant but substantial impact; those localities stated they were unable to provide a numerical estimate due to the complexity of the calculations needed to do so (comparison of all business personal property current valuations to their new valuation under MARCS).

Most localities noted that the bill would also present a recurring increase in expenditures, in order to administer the change in valuation methods. Several stated this would take one to several additional employees in order to make the necessary changes.

A few localities reported no fiscal impact, as they did not collect personal property tax revenue.

The precise impact of the bill scales with the size of the locality; more populous localities reported greater fiscal impacts than less populous ones.

Net Reduction in Revenues: Itemized Estimates by Responding Localities

Locality	Juris	Real Estate Revenue Reduction		Personal Property Revenue Reduction		Sales Tax Revenue Reduction	
		FY23	FY24	FY23	FY24	FY23	FY24
City of Alexandria	City						
City of Harrisonburg	City			$5,700,000	$5,900,000		
City of Manassas	City			$9,000,000	$9,000,000		
City of Poquoson	City						
City of Richmond	City						
Augusta County	County			$858,000	$858,000		
Chesterfield County	County						
Fairfax County	County				$50,000,000		
Loudoun County	County						
Nottoway County	County			$350,000	$350,000		
Orange County	County				$1,595,378		
Prince George County	County			$782,550	$821,678		
Roanoke County	County						
Rockingham County	County				$3,000,000		
Wise County	County			$1,342,142	$1,342,142		
Town of Blacksburg	Town						
Town of Leesburg	Town			$67,375	$134,750		
Town of Luray	Town				$75,000		
Town of Rocky Mount	Town						

Net Reduction in Revenues: Itemized Estimates by Responding Localities

Locality	BPOL Tax Revenue Reduction		Other Local Revenues Reduction		State Revenue Reduction		Penny Value of Decrease on Real Estate Rate*	Total Decrease in Revenues (Biennium Total)
	FY23	FY24	FY23	FY24	FY23	FY24		
City of Alexandria	$1,700,000	$1,700,000						$3,400,000
City of Harrisonburg							0.12	$11,600,000
City of Manassas							0.15	$18,000,000
City of Poquoson								$0
City of Richmond								$0
Augusta County							0.01	$1,716,000
Chesterfield County								$0
Fairfax County							0.017	$50,000,000
Loudoun County								$0
Nottoway County							0.4	$700,000
Orange County							0.031	$1,595,378
Prince George County							0.0225	$1,604,228
Roanoke County							0	$0
Rockingham County							0.04	$3,000,000
Wise County							0.45	$2,684,285
Town of Blacksburg								$0
Town of Leesburg							0.0625	$202,125
Town of Luray								$75,000
Town of Rocky Mount								$0

Locality	Revenue Narrative by Responding Localities
City of Alexandria	As written, this proposed bill would vastly increase the complexity of calculating business property tax and auditing the same. Given the increased complexity, it is likely a TBD staff increase would be needed. At this time, the City estimate assumes a 5.00 FTE increase and a $1M+ increase in operating costs to make the required IT changes to implement a MACRS system. Each 1% loss on Business Personal Tax would reduce the general fund by approximately $169,000, so a 10% increase in depreciation would reduce revenue by $1.7M.
City of Harrisonburg	The Commissioner of the Revenue estimates a 75% loss in revenue due to the change in depreciation methods. FY 2024 includes a 4% growth factor.
City of Manassas	We expect this legislation would cause as much as a 75% reduction in business personal property and machinery and tools tax revenue. This is a significant source of revenue for the City and would cause a sever spike in the real estate tax rate to compensate for the loss, or a significant reduction in services to our community.
City of Poquoson	That assumption is 1 FTE therefore we would need a penny at least to cover the cost of this change.
City of Richmond	The fiscal implication of this legislation is unknown at this time. Accelerating the rate of depreciation will lower the tax basis and thus lower revenue.
Augusta County	The Constitution notes fair and equitable valuation across a class. The additional language notes that valuation should be MACRS or in the event that the federal depreciation method is not applicable to the property in question, it can go back to the valuation methods in A or B, which therefore allows different valuation methods within a class. The MACRS depreciation method allows greater accelerated depreciation over the life of the asset. This means that the business can take larger tax deductions in the initial years and deduct less in later years of the asset's life. Also, MACRS depreciation is not used in the preparation of the balance sheet because it is not approved by GAAP. Business personal property totals $2.9 million and Machinery and tools totals $5.6 million in annual revenues for the County. It is hard to determine an exact amount of decrease in revenue without analyzing all the data for each of the taxpayers for either tax. If the value of property is substantially reduced due to the accelerated deprecaition in early years, the value of revenue available to the County will decrease. Estimated a 10% decrease in personal property tax revenue to record something.

Locality	Revenue Narrative by Responding Localities
Chesterfield County	-Given the inability to know the current age of assets and asset classes in which business property within the county would fall under, it is difficult to come up with an exact value for potential loss of revenue. -The county's current valuation method could place asset values higher/lower than what they would be under the Modified Accelerated Cost Recovery System (MACRS) of depreciation depending on the age and class of the asset. -One significant difference in the county's current valuation method and MACRS is that, MACRS has end of life for assets. Which allows assets to fully depreciated rather than continuing to be assessed at a small percentage of the original total capitalized cost. -Currently the county taxes Machinery and Tools at 25% of total capitalized costs for the first 10 years, 20% for the 10 years prior and 15% all years prior. For Tangible Personal Property, Computers are taxed at 50%/40/20/10/5 for the first 5 years and 1% for all prior years. For all other furniture, fixtures, equipment and tools, business are taxed 70%/50/40/30/20 for the first 5 years and 10% all years prior. -The total taxable value of property that would qualify for the new MACRS depreciation method was $9,764,136 in CY21 and is estimated at $10,000,000 or 1.15% of FY23 budgeted general fund revenue. -A 10% reduction in the assed value of qualified business personal property would result in a $1,000,000 reduction of revenue annually, which is equivalent to $0.002 of the real estate rate.
Fairfax County	This bill would require that for taxable years beginning on and after January 1, 2024, tangible personal property employed in a trade or business be valued for taxation using the federal Modified Accelerated Cost Recovery System (MACRS) in place of the valuation methods currently in effect. We estimate that the bill could reduce personal property tax revenue by $30-$50 million annually, which is approximately 30-50 percent of the County's Business Personal Property tax revenue. There would be additional expenditures of an estimated $2-5 million related to implementation including electronic tax system changes that would require additional IT staff and some additional Auditors will be needed to review the filings. As written, the bill is somewhat unclear. Due to the complexities of implementation, it would be impossible to implement by January 1, 2024. In addition, it is unclear whether business vehicles would be included in the bill that would increase the impact to revenue. There are different calculations of depreciation using MACRS and based on the bill's requirements that might also affect the overall impact to revenue.

Locality	Revenue Narrative by Responding Localities
Loudoun County	While we cannot estimate revenue impacts at this time, they are expected to be significant. Changing to the MACRS method for valuing business tangible personnel property - any business asset 8 years or older wouldn't be taxable. Also, any asset that was expensed and not capitalized for depreciation purposes wouldn't be taxable. Loudoun currently tax all assets with an original cost of $25 or more, regardless of whether they are depreciated federally. It would also lead tax inequity because capitalization thresholds vary greatly between business entities. It can vary as much as thousands between entities. For machinery and tools (manufacturing and processing equipment) almost all will fall into the 7-year class category. MACRS leaves no residual value; within 7 years' time the equipment would be fully depreciated to zero. So, anything still in service after 7 years wouldn't be taxable. Our current schedule depreciates the value over 5 years, but leaves a residual value of 10% of original capitalized cost that remains while the asset is still in service. It only drops to zero after the asset has been disposed. Machinery and tools last for a whole lot longer than 7 years' time and it's usually high dollar equipment. For example, an asset with a total capitalized cost of $1 million purchased 8 years ago and taxed under our current valuation method would earn the County $2,750 in tax revenue. That same asset with a total capitalized cost of $1 million purchased 8 years ago under the MACRS method would earn the County $0 in tax revenue. There will be lost tax revenue.
Nottoway County	This is going to cost the locality money in revenue in BPP and MandT. Somebody has got to monitor the equipment and the different depreciation methods and if MACRSis used the co st of the equipment will go to zero in a maximum of 7 years.
Orange County	Used 75% of total business personal property and machinery and tools estimate tax revenue. This amount was recommended by the Commissioner of the Revenue based on discussions with her professional association.
Prince George County	Estimated loss in BFF (Business PPT) estimated at 25% of actual 2022 billing with a 5% inflator for FY2024; Estimated loss of Machinery and Tools Tax calculated at 25% of FY2023 budgeted levels with a 5% inflator for FY2024. We have no way of precisely or accurately calculating a loss without knowing the difference in MACRS depreciation compared to the current method used. Real Estate penny value is 2.25 cents or $0.0225
Roanoke County	Given the MACRS will decrease the values of personal property to a smaller value, eventually ending in $0 we will not receive the revenue we once did from these assessments.

Locality	Revenue Narrative by Responding Localities
Rockingham County	1.Getting our taxpayers to file a schedule of assets is often difficult enough without trying to get them to understand we need a schedule with current value after accumulated depreciation. 2.This change would require us to review each line item, each year. Currently, if an item is on the schedule (in service), it automatically is depreciated 10% annually until it reaches 20% of original cost. Under this new system, we would have to review and hand enter each value annually. Less than one year to implement this change is ridiculous. We would need to hire additional staff to make it work. 3.You are most interested in the fiscal impact. I wouldn't know how to even estimate it without a comprehensive review of each account. If assets are fully depreciated, do they become zero? We have older assets (8 years or older) still in service at 20% of original cost. If those assets are now zero, a tremendous number of assets would be removed from assessment entirely. Depending on whether the newer items are on a 10yr or 7yr or 5yr depreciation, etc., it could change the assessed value tremendously as well. 4.This may reduce the tax levy on BE, BF, CE, AE and MT drastically. If that happens, the overall PP tax rate would have to be increased to make up the difference. In short, it would put more of the tax burden on the individual taxpayer.
Wise County	Some Commissioners are initially projecting up to 75% loss of revenue with this accelerated schedule. It would have significant fiscal impact on a locality to accelerate the depreciation schedule so quickly with no floor. Penny value is based upon Tangible Personal Property only.
Town of Blacksburg	Not applicable as the Town of Blacksburg does not collect personal property taxes.
Town of Leesburg	The effect is generally to cut Business Personal Property Taxes in half (by 50%). It is impossible to precisely estimate this without the ages values and MACRS classifications of the asset base. MACRS is the IRS depreciation method that lets most items be written off entirely in their first year but effectively cuts the tax rates on assets at least in half. IRS does it as an incentive to get business to invest in their plant and equipment. It then determines how much of a deduction the business gets but does not operate the same way when applied to PPT. This is considered an inappropriate use of MACRS methodology.
Town of Luray	Potential reducition in calculated value of equipment from which Personal Property Taxes are generated
Town of Rocky Mount	There may be a slight decrease in personal property and machinery and tools tax revenue from the proposed shift in valuation methods in the first year or two. I don't believe we will see a decrease in revenue over the total life of the asset just a shift in the amount per year.

*Penny value is defined as the amount a locality would need to raise their real estate tax rate to cover the fiscal impacts of the bill, assuming no other changes to revenues or expenditures. It is represented in terms of dollars (e.g., 0.01 is a one cent increase in the real estate tax rate, etc.).

Net Increase in Expenditures: Itemized Estimates by Responding Localities

Locality	Juris	Recurring Expense-Personnel		Recurring Expense - Operating		Recurring Expense - Capital		Recurring Expense - Other	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
City of Alexandria	City	$575,000	$575,000	$1,000,000	$1,000,000				
City of Harrisonburg	City	$60,000	$60,000						
City of Manassas	City	$75,000	$75,000						
City of Poquoson	City	$22,315	$89,258	$3,000	$3,000				
City of Richmond	City								
Augusta County	County	$50,617	$50,617						
Chesterfield County	County								
Fairfax County	County								
Loudoun County	County								
Nottoway County	County	$40,000	$40,000						
Orange County	County		$26,378						
Prince George County	County	$64,500	$64,500						
Roanoke County	County								
Rockingham County	County								
Wise County	County	$69,579	$73,058						
Town of Blacksburg	Town								
Town of Leesburg	Town								
Town of Luray	Town								
Town of Rocky Mount	Town								

Net Increase in Expenditures: Itemized Estimates by Responding Localities

Locality	Nonrecurring Expense - Operating		Nonrecurring Expense - Capital		Nonrecurring Expense - Other		Penny Value of Increase on Real Estate Rate*	Total Increase in Expenses (Biennium Total)
	FY23	FY24	FY23	FY24	FY23	FY24		
City of Alexandria							0	$3,150,000
City of Harrisonburg							0	$120,000
City of Manassas							0.01	$150,000
City of Poquoson	$1,000	$0					0.01	$118,573
City of Richmond								$0
Augusta County	$20,000						0	$121,234
Chesterfield County								$0
Fairfax County		$5,000,000						$5,000,000
Loudoun County								$0
Nottoway County							0.01	$80,000
Orange County							0.0026	$26,378
Prince George County			$5,000				0.002	$134,000
Roanoke County								$0
Rockingham County								$0
Wise County							0.0232	$142,637
Town of Blacksburg								$0
Town of Leesburg								$0
Town of Luray								$0
Town of Rocky Mount								$0

Locality	Expenditure Narrative by Responding Localities
City of Alexandria	As written, this proposed bill would vastly increase the complexity of calculating business property tax and auditing the same. Given the increased complexity, it is likely a TBD staff increase would be needed. At this time, the City estimate assumes a 5.00 FTE increase and a $1M+ increase in operating costs to make the required IT changes to implement a MACRS system. The required IT changes needed to comply are estimated to take 1 year+ to complete the necessary programming. Each 1% loss on Business Personal Tax would reduce the general fund by approximately $169,000, so a 10% increase in depreciation would reduce revenue by $1.7M.
City of Harrisonburg	The Commissioner of the Revenue would anticipate needing to hire an additional full-time employee to monitor business equipment and different depreciation methods.
City of Manassas	This change would increase the workload of our staff and require the addition of one FTE. Total increase on rate would be $0.0005.
City of Poquoson	This is going to cost the locality money in labor, software requirements and revenue in BPP and MandT. We would have to assign a full FTE for the labor and purchase software. Right now we assess all BPP at 30% of total original cost. It is a very easy and streamlined process for our business and the COR. If this change a person will have to monitor the equipment and the different depreciation methods and if "MACRS" is used the cost of the equipment will go to zero in a maximum of 7 years.
City of Richmond	We do not track at the data elements needed to perform the analysis (MACRS vs. other depreciation methodologies) in the revenue administration system. The time and effort needed to perform the extraction/gathering of this data would result in added burden on Finance staff. As such, the fiscal implication of this legislation is unknown at this time. The passage of this bill may result in additional manpower, technology, and policy changes to address the current method each business taxed with tangible personal property as well as machinery and tools is using and any procedural changes needed when the federal depreciation method is implemented, if not currently.
Augusta County	The Constitution notes fair and equitable valuation across a class. The additional language notes that valuation should be MACRS or in the event that the federal depreciation method is not applicable to the property in question, it can go back to the valuation methods in A or B, which therefore allows different valuation methods within a class. Such a change would require programming changes to software and coordination with the taxpayer to submit tax returns showing the property included in the return, therefore more administrative burden. Costs above include addition of one staff member in COR office and estimated one time programming costs for software change.

Locality	Expenditure Narrative by Responding Localities
Chesterfield County	While this bill would not have a direct increase in expenditures, it would result in operational changes of how assessments are currently done and the need to update several forms regarding tangible personal property and machinery and tools.
Fairfax County	
Loudoun County	For operating impacts, such assessment concepts are outside the capabilities of current systems which would mean an additional system or enhancements to existing systems at a cost to the County while the County experiences revenue losses from such new valuation structures.
Nottoway County	This is going to cost the locality money in labor as I would need to assign a full FTE for the labor. This FTE would need to monitor the equipment and the different depreciation methods.
Orange County	Used the cost of one half of an average Commissioner of Revenue deputy FTE to calculate values under the MACRS method rather than importing values from NADA
Prince George County	Additional Deputy Commissioner of Revenue (no Comp Board reimbursement) Salary and Benefits - $64,500 (recurring FY23 and FY24) Computer and FFE One Time Cost - $5,000 Expenditure impact is .20 cents or $0.002
Roanoke County	At the moment we are not sure. We will need to analyze the comparison between the MACRS and the current way we assess.
Rockingham County	
Wise County	It may also facilitate a need for an additional FTE to monitor. Penny value is based upon Tangible Personal Property only.
Town of Blacksburg	Not applicable as the Town of Blacksburg does not collect personal property taxes.
Town of Leesburg	There is no expenditure impact from this.
Town of Luray	
Town of Rocky Mount	HB1402 may impact our revenues

* Penny value is defined as the amount a locality would need to raise their real estate tax rate to cover the fiscal impacts of the bill, assuming no other changes to revenues or expenditures. It is represented in terms of dollars (e.g., 0.01 is a one cent increase in the real estate tax rate, etc.).