

# Commission on Local Government

## Estimate of Local Fiscal Impact

2023 General Assembly Session | 1/19/23

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.

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### **HB 1685: Business local; taxes, penalties. (Patron: Karen S. Greenhalgh)**

**Bill Summary: Local business taxes; penalties.** Caps the maximum amount of penalties that may be assessed on unpaid license taxes or tangible personal property taxes owed by a business at five percent of the amount due. The bill provides the same cap for penalties assessed for failing to apply for a license or file a return on time for such taxes. The bill requires the assessing official, upon assessing any such penalty, to notify the affected taxpayer of the amount of such penalty, any interest assessed, and the total amount of tax owed. The bill is a recommendation of the Small Business Commission.

**Local Fiscal Impact:**    **Net Additional Expenditure:**   X      **Net Reduction of Revenues:**   X  

### **Summary Analysis:**

**Number of Localities Responding: 7 Cities, 9 Counties, 6 Towns, 0 Other**

Localities estimated a negative fiscal impact ranging from \$0 to \$1.2 million over the biennium

Localities identified the bill's fiscal impact as the loss in interest and penalty revenue from late BPOL (Business and Professional Occupation License) tax and business tangible personal property tax payments. Localities stated that the penalty cap proposed would reduce that fee revenue by 50% (by allowing only a 5% penalty on unpaid taxes, rather than 10%).

Several localities noted that the change in the penalty cap would reduce the incentive for businesses to pay their taxes on time, leading to an indeterminate negative fiscal impact. One locality indicted an increase in expenditures, noting that the decrease in the penalty would lead to lower compliance from businesses and a subsequent need for corrective action from local staff.

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			\$340,000	\$340,000		
City of Danville	City			\$20,341	\$20,500		
City of Harrisonburg	City	\$0	\$0	\$0	\$0	\$0	\$0
City of Manassas	City			\$8,000	\$8,000		
City of Norfolk	City						
City of Richmond	City						
City of Winchester	City	\$32,500	\$65,000				
Augusta County	County						
Chesterfield County	County						
Henrico County	County				\$300,000		
Nottoway County	County						
Orange County	County			\$150,750	\$150,750		
Prince William County	County						
Rappahannock County	County						
Roanoke County	County						
Rockingham County	County						
Town of Blacksburg	Town						
Town of Chincoteague	Town				\$10,000		
Town of Leesburg	Town			\$52,231	\$104,461		
Town of Luray	Town						
Town of Marion	Town						
Town of Rocky Mount	Town	\$3,000	\$3,000	\$3,000	\$3,000		

### 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							0	\$680,000
City of Danville							0	\$40,841
City of Harrisonburg	\$143,035	\$143,035	\$0	\$0	\$0	\$0	0.029	\$286,070
City of Manassas	\$4,500	\$4,500					0.0002	\$25,000
City of Norfolk								\$0
City of Richmond				\$1,224,997			0	\$1,224,997
City of Winchester								\$97,500
Augusta County			\$37,500	\$37,500				\$75,000
Chesterfield County								\$0
Henrico County		\$400,000					0.001	\$700,000
Nottoway County			\$40,500	\$45,000			0.005	\$85,500
Orange County							0.31	\$301,500
Prince William County								\$0
Rappahannock County			\$52,500	\$52,500			0.003	\$105,000
Roanoke County							0	\$0
Rockingham County							0	\$0
Town of Blacksburg	\$13,956	\$13,956					0.0004	\$27,912
Town of Chincoteague				\$5			0	\$10,005
Town of Leesburg	\$41,000	\$82,000					0.006	\$279,692
Town of Luray	\$20,000	\$50,000					0.02	\$70,000
Town of Marion								\$0
Town of Rocky Mount								\$12,000

Locality	Revenue Narrative by Responding Localities
City of Alexandria	As currently written, it would cut our late penalties for BPOL and Business Personal Property from 10% to 5%, loss of approximately \$340,000 per year. Provides more favorable treatment for BPOL and BPP compared to all other taxes (Car tax, Real Estate, trustee taxes).
City of Danville	Based on actuals from last fiscal year. City collected \$40,681.67 on a 10% rate. At 5%, the amount collected would have been \$20,340.84. FY 2024 amount based on trends.
City of Harrisonburg	At the current rate of 10%, the City's June 2022 revenue indicated the penalties for these taxes was \$286,070 for the year. With the maximum being reduced to 5%, the estimated changes in net revenue is half of the City's previous assessed fees.
City of Manassas	There is minimal fiscal impact with this legislation.
City of Norfolk	We anticipate a fiscal impact from this bill, however, lack the vital information at this current moment to make a prediction with a high degree of confidence on the impact this will have.
City of Richmond	Currently, a penalty of 10% is imposed for failure to pay a tax or installation. The proposed legislation suggests decreasing the penalty to 5% which would result in a decrease of up to fifty percent of our revenue for penalties and interest.
City of Winchester	<p>We conservatively estimated a 25% increase in both filing and payment compliance concerns. The loss of the actual penalty revenue is not the significant factor. The real issue is the loss of one of our most efficient and effective compliance tools. While the penalties are small compared to the overall City budget, they are significant to the taxpayer. With education and sometimes learning the hard way our taxpayers have largely chosen to submit timely filings and payments. Realistically, the City competes with the private market when it comes to a taxpayer' priority in paying bills. Those with minimal negative consequences drop to the bottom of the list.</p> <p>Reducing the penalties to negligible levels basically eliminates the urgency of compliance on behalf of the taxpayer while increasing the workload of our offices. The City will suffer delayed or lost revenue, while costs will increase to both COR and Treasurer offices with statutory assessments and subsequent correction process, increased mailing notices and increased legal activity.</p>
Augusta County	Net decrease in revenue is about \$37,500. This is based on penalty collected on PP 2022 at 10%, divided by 2.
Chesterfield County	Legislation will have no fiscal impact on the county, as current maintenance reserve policies are higher than those set forth.
Henrico County	Estimate based on prior year penalties billed for personal property, business personal property, and BPOL.

Locality	Revenue Narrative by Responding Localities
Nottoway County	The County's penalties are assigned at 10% resulting in a 50% loss in revenue.
Orange County	Orange County's penalty for all types of taxes (including personal property) is 10%. It is unlikely the Board would set a different penalty amount for personal property, therefore, if the rate were limited to 5%, the revenue from penalties would be cut in half.
Prince William County	Estimated revenue loss due to reduction of penalty rate from 10% to 5% between \$500,000 to \$1,000,000.
Rappahannock County	Rappahannock County charges the currently listed maximum of 10%, cutting this to 5% will have the revenue received interest paid due to late payment of taxes, which in FY2023 was budgeted to be 105,000.
Roanoke County	We anticipate a decrease in revenues due to the fact we currently cap the maximum penalty for unpaid taxes at 10% and a 5% cap would decrease revenue.
Rockingham County	I am not exactly sure how to calculate the reduction in revenue but it will cause our revenue to decline - is that \$50,000 or \$100,000? I am not exactly sure, but I wouldn't think it would be greater than \$100,000.
Town of Blacksburg	The Town of Blacksburg currently assesses a 10% penalty for BPOL. If passed, HB1685 will cap the penalty at 5%, which would reduce revenue by an estimated \$13,956 based on the FY 2023 budget.
Town of Chincoteague	A decrease in the amount of penalties and interest collected.
Town of Leesburg	If the Town were to reduce its interest rate to 5% we would realize a loss in revenue of 50% since our current rate is 10%. This estimate is based on our current FY23 revenues and FY 24 budget estimates for interest income related to the Personal Property and Business Taxes. For #11: less than one penny or one sixth of a penny.
Town of Luray	Reduced incentive to pay license fees on time could result in fewer businesses paying on time.
Town of Marion	
Town of Rocky Mount	We're thinking a small revenue loss of approximately \$6,000 per fiscal 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								
City of Danville	City								
City of Harrisonburg	City								
City of Manassas	City								
City of Norfolk	City								
City of Richmond	City								
City of Winchester	City								
Augusta County	County								
Chesterfield County	County								
Henrico County	County								
Nottoway County	County								
Orange County	County								
Prince William County	County								
Rappahannock County	County								
Roanoke County	County								
Rockingham County	County								
Town of Blacksburg	Town								
Town of Chincoteague	Town								
Town of Leesburg	Town								
Town of Luray	Town								
Town of Marion	Town								
Town of Rocky Mount	Town								

### Net Increase in Expenditures: Itemized Estimates by Responding Localities

[illegible]

Locality	Expenditure Narrative by Responding Localities
City of Alexandria	
City of Danville	
City of Harrisonburg	
City of Manassas	
City of Norfolk	
City of Richmond	
City of Winchester	
Augusta County	
Chesterfield County	
Henrico County	
Nottoway County	
Orange County	
Prince William County	Potential charges may be incurred if our system requires modification to accommodate multiple penalty rates by property tax types and property class (personal versus business).
Rappahannock County	
Roanoke County	
Rockingham County	
Town of Blacksburg	No fiscal impact to town expenditures. The Town of Blacksburg already sends notifications to taxpayers.
Town of Chincoteague	
Town of Leesburg	Town staff are able to adjust the interest rate within our existing billing system so there would be no expenditure expected from this change.
Town of Luray	
Town of Marion	
Town of Rocky Mount	

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