

Section 8

Merchants' Capital Taxes, 1999

The *Code of Virginia*, §§58.1-3509 and 58.1-3510, provides that localities may impose a local tax on merchants' capital. Merchants' capital is defined as the inventory of stock on hand, daily rental passenger cars as defined in §58.1-2401, daily rental property, and all other personal property (exempting tangible personal property not for sale as merchandise, which is taxed as tangible personal property), excluding money on hand and on deposit.

According to §58.1-3704 of the *Code*, no locality may impose a merchants' capital tax if it also imposes business, professional, and occupational license (BPOL) tax. A number of localities impose both of these taxes; but these localities exempt merchants from BPOL tax. Also, it should be noted that some towns impose both the merchants' capital and BPOL tax on merchants and therefore are not in accordance with the *Code of Virginia*.

Furthermore, §58.1-3510.1 authorizes localities to levy a tax which cannot exceed 1 percent on the gross proceeds of a person engaged in the short-term rental business as defined in §58.1-3510.

In 1978, the General Assembly enacted legislation (§58.1-3509 of the *Code*) that froze the merchants' capital-tax at the January 1, 1978 level. Localities that had raised their rates and/or assessment ratios after February 1, 1977 were required to roll back their rates on July 1, 1978 to the February 1, 1977 rate and refund any amount in excess. (See

Virginia, Acts of Assembly, 1978, c. 817, cl. 2, p. 1407.) While the enabling legislation prohibits localities from raising the merchants' capital tax rates, it does not prohibit localities from lowering the rates if they choose to do so. Thus, a locality may still lower the tax liability of a merchant by changing either the nominal rate, the assessment ratio, or both.

In 1999 the General Assembly authorized localities to exempt merchants from the local merchants capital tax. Localities may now at their discretion exempt merchants from the tax (see Section 1 of this publication for further details).

Also in 1999, the General Assembly enacted §58.1-3983.1 in regard to appeals and rulings of certain local business taxes including those on merchants' capital. The law provided that interested parties shall propose recommendations to address uniform methods of valuation, rate classification, and associated local revenue impacts for local business taxes to the House Finance and Senate Finance Committees by December 15, 1999.

The merchants' capital tax is levied by 50 Virginia counties and 12 of the responding towns. However, none of the commonwealth's cities impose this tax; instead they employ the BPOL tax. **Table 8.1** gives the nominal tax rates for the counties and towns per \$100, the value used for assessment, and the percentage of value.

The unweighted mean of the nominal tax rate for counties is \$2.27 per \$100 of assessed value. The median is \$1.23 and the first and third quartiles are \$0.71 and \$3.50, respectively. The unweighted mean of the nominal tax rate for towns is \$0.66 per \$100 of assessed value. The median is \$0.68, and the first and third quartiles are \$0.25 and \$1.00, respectively.

A majority of the localities that impose merchants' capital tax base assessment of capital on a percentage of the original cost. Of the 62 localities listed in **Table 8.1**, 46 report using the

original cost as a basis for assessment, while the numbers of localities utilizing fair market value and depreciated cost are 9 and 2, respectively.

Information on nominal tax rates of towns that did not respond to the survey can be found in the Virginia Department of Taxation's publication, *Local Tax Rates: Tax Year 1998*. Please note that the rates in the Virginia Department of Taxation's publication are for the 1998 tax year; it is the most recent information available for towns that did not respond to the survey.

Table 8.1
Merchants' Capital Tax, 1999

Locality	Nominal Tax Rate (per \$100)	Value Used for Assessment and % of Value		
		Original Cost (%)	Fair Market Value (%)	Depreciated Cost (%)
Cities	Note: No cities imposed this tax.			
Counties	Note: All counties responded to the survey. Those that answered "not applicable" for all items in this table are excluded.			
Amherst	3.95	30	...	...
Appomattox	1.00	85	...	...
Bedford	1.10	20	...	...
Bland	0.73	100	...	...
Brunswick	1.20	100	...	...
Buchanan	2.00	10	...	100
Buckingham	1.00	...	...	...
Campbell	3.25	33.33	...	...
Carroll	2.30	30	...	...
Charles City	2.80	100	...	...
Charlotte	3.20	10	...	...
Craig	3.50	25	...	...
Culpeper	0.01	100	...	1
Dickenson	10.50	10	...	...
Essex	3.75	5	...	...
Floyd	3.50	...	15	...
Franklin	1.08	100	...	...
Giles	4.80	25	...	...
Grayson	6.70	10	...	...
Hanover	1.90	10	...	...
Highland	1.00	Value provided by taxpayer.		
King & Queen	0.65	100	...	...
King William	3.90	20	...	...
Lancaster	1.00	50	...	...
Lee	1.25	...	30	...
Louisa	0.65	100	...	...
Lunenburg	1.20	40	...	...
Madison	4.30	20	...	...
Mecklenburg	0.0072	100	...	100
Middlesex	1.25	...	35	...
Montgomery	6.05	20	...	...
Northampton	6.25	10	...	...
Northumberland	2.00	50	...	...
Orange	0.40	100	...	...
Pittsylvania	2.75	30	...	...

... No response provided.

Table 8.1 (continued)

Locality	Nominal Tax Rate (per \$100)	Value Used for Assessment and % of Value		
		Original Cost (%)	Fair Market Value (%)	Depreciated Cost (%)
Counties (continued)				
Prince Edward	0.70	100	...	...
Pulaski	4.80	\$1,300,000 = 22 \$1,300,001- \$20,000,000 = 5 >\$20,000,000 = 1	...	...
Richmond	3.50	50	...	...
Rockingham	0.87	67	...	...
Russell	0.65	20	...	...
Scott	0.72	100	...	...
Shenandoah	0.60	100	...	...
Smyth	0.60	100	...	...
Southampton	0.50	...	100	...
Stafford	0.50	100	...	...
Sussex	1.00	100	...	...
Tazewell	4.30	20	...	...
Westmoreland	0.50	100	...	...
Wise	2.85	...	45	...
Wythe	0.56	100	...	...
Towns	Note: Towns that answered "not applicable" for all items in this table excluded. For a listing of town respondents and non-respondents, see Appendix B.			
Charlotte Court House	1.00	...	...	...
Claremont	0.25	...	...	...
Drakes Branch	1.10	10	...	...
Eastville	0.25	...	100	...
Iron Gate	1.00	...	35	...
Jonesville	0.25	...	100	...
La Crosse	1.25	...	...	...
Mineral	0.25	...	...	...
New Castle	0.50	25	...	...
Pennington Gap	0.25	100	...	...
Pocahontas	0.90	Done by Tazewell County.		
Strasburg	0.86	...	...	...
... No response provided.				