

Section 9

Merchants' Capital Taxes, 2001

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 a business, professional, and occupational license (BPOL) tax. A number of localities impose both of these taxes; but these localities exempt merchants from the BPOL tax. Some localities, including the town of Pennington Gap, apparently impose both the merchants' capital and the BPOL tax on merchants, seemingly contradicting 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 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. The merchants' capital tax is used by 49 Virginia counties. None of the commonwealth's cities impose this tax; instead they employ the BPOL tax. Likewise, most of the towns that tax business actually use the BPOL tax. Only 13 of the responding towns authorize the use

the merchants' capital tax on their books, and of those, only 6 report actually assessing property according to a given percentage value of that property.

Table 9.1 gives the nominal tax rates per \$100 for the counties and towns, the value used for assessment, and the percentage of value.

The unweighted mean of the nominal tax rate for counties is \$2.33 per \$100 of assessed value. The median is \$1.25 and the first and third quartiles are \$0.72 and \$3.50, respectively. The unweighted mean of the nominal tax rate for towns is \$0.62 per \$100 of assessed value. The median is \$0.61, and the first and third quartiles are \$0.25 and \$1.00, respectively.

A majority of the localities that impose the merchants' capital tax base the assessment of capital on a percentage of the original cost. Of the 62 localities listed in **Table 9.1**, 46 report using the original cost as a basis for assessment, while the numbers of localities utilizing fair market value and depreciated cost are 8 and 1, 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 2000*. Please note that the rates in the Virginia Department of Taxation's publication are for the 2000 tax year; it is the most recent information available for towns that did not respond to the survey.



Table 9.1
Merchants' Capital Tax, 2001

Locality	Tax		Value Used for Assessment and % of Value		
	Assessment In-House (I) Contract (C)	Nominal Tax Rate (per \$100)	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	I	3.95	30	...	...
Appomattox	I	1.00	85	...	...
Bedford	...	1.10	20	...	...
Bland	I	0.73	100	...	...
Brunswick	I	1.20	100	...	...
Buchanan	I	2.00	10	...	...
Buckingham	...	1.00	...	...	...
Campbell	I	3.25	33.33	...	...
Carroll	I	2.30	30	...	...
Charles City	I	2.80	100	...	...
Charlotte	I	3.20	10	...	...
Craig	I	3.50	25	...	...
Dickenson	...	10.50	10	...	...
Essex	...	3.75	5	...	...
Floyd	I	3.50	15	...	...
Franklin	I	1.08	100	...	...
Giles	I	4.80	25	...	...
Grayson	...	6.70	10	...	...
Hanover	I	1.90	10	...	...
Highland	I	1.00	20 ^a	...	...
King & Queen	I	0.65	100	...	...
King William	...	3.90	20	...	...
Lancaster	I	1.00	50	...	...
Lee	I	1.41	...	30	...
Louisa	I	0.65	100	...	...
Lunenburg	I	1.20	40	...	...
Madison	...	4.30	20	...	...
Mecklenburg	...	0.72	100	...	100
Middlesex	I	1.25	...	35	...
Montgomery	I	6.05	20	...	...

... No response provided.

^a Highland uses 20 percent of merchant's inventory.

Table 9.1 (continued)

Locality	Tax		Value Used for Assessment and % of Value		
	Assessment In-House (I) Contract (C)	Nominal Tax Rate (per \$100)	Original Cost (%)	Fair Market Value (%)	Depreciated Cost (%)
Counties (continued)					
Northampton	I	6.25	10	...	...
Northumberland	I	2.00	50	...	...
Orange	...	0.40	100	...	...
Pittsylvania	I	2.75	30	...	...
Prince Edward	I	0.70	100	...	...
Pulaski	I	4.80	\$1-300,000= 22% \$300,001- \$20,000,000= 5% >\$20,000,000=1%	...	...
Richmond	...	3.50	50	...	...
Rockingham	I	0.87	67	...	...
Russell	...	0.65	20	...	...
Scott	...	0.72	100	...	...
Shenandoah	...	0.60	100	...	...
Smyth	I	0.40	100	...	...
Southampton	I	0.50	...	100	...
Stafford	...	0.50	100	...	...
Sussex	...	1.00	100	...	...
Tazewell	...	4.30	20	...	...
Westmoreland	...	0.50	100	...	...
Wise	I	2.85	...	45	...
Wythe	I	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.				
Branchville	...	0.61	...	100	...
Charlotte C.H.	...	1.00	...	...	...
Claremont	...	0.25	...	...	...
Drakes Branch	...	1.10	10	...	...
Eastville	...	0.25	...	100	...

... No response provided.

Table 9.1 (continued)

Locality	Tax		Value Used for Assessment and % of Value		
	Assessed In-House (I) Contract (C)	Nominal Tax Rate (per \$100)	Original Cost (%)	Fair Market Value (%)	Depreciated Cost (%)
Towns (continued)					
Glen Lyn	...	1.00	...	...	...
Iron Gate	...	1.00	...	35	...
Jonesville	...	0.25	...	100	...
La Crosse	...	1.25	...	...	...
Mineral	...	0.25	...	...	...
Pennington Gap	...	0.25	100	...	...
Strasburg	...	0.86	...	...	...
Virgilina	...	0.002	...	...	...
... No response provided.					