

Section 8

Merchants' Capital Tax, 2006

The merchants' capital tax accounted for 0.1 percent of tax revenue for counties and 2.5 percent for towns in fiscal year 2005. No cities employ the tax. The relative importance of the merchants' capital tax varies in the localities that collect it. For information on individual localities, see Appendix C.

The *Code of Virginia*, §§ 58.1-3509 and 58.1-3510, provides that localities may impose a local tax on merchants' capital. Localities also have the option to exempt specific merchants from part or all of the tax. 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.¹ A number of localities impose both of these taxes; but these localities do not use the BPOL tax for retail sales. 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 reducing the nominal rate, the assessment ratio, or both.

The merchants' capital tax is used by 46 Virginia counties. The other 49 counties and all of the cities use the BPOL tax in lieu of the merchants' capital tax. Those counties employing the merchants' capital tax generally have one or more incorporated towns that are business centers and that impose the BPOL tax. This precludes the counties from using the BPOL tax within the town boundaries. In contrast, counties can impose the merchants' capital tax within town boundaries even if a town has a BPOL tax. Most of the towns that tax business use the BPOL tax. Only seven of the responding towns reported authorizing the use the merchants' capital tax.

Table 8.1 shows 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 \$2.06 per \$100 of assessed value. The median is \$1.04 and the first and third quartiles are \$0.72 and \$3.11, respectively. The unweighted mean of the nominal tax rate for towns is \$0.67 per \$100 of assessed value. The median is \$0.75, and the first and third quartiles are \$0.31 and \$1.00, respectively.

Merchants' Capital Tax Rate

Nominal Rate/\$100	Number of Localities		
	Counties	Towns	Total
Up to \$0.74	13	3	16
\$0.75 to \$1.49	15	3	18
\$1.50 to \$2.99	6	0	6
\$3.00 to \$4.49	8	0	8
\$4.50 and over	4	0	4
Total	46	6	52

A majority of the localities that impose the merchants' capital tax compute the assessment of capital on a percentage of the original cost. Of the 46 counties and six towns listed in Table 8.1, 42 report using original cost as a basis for assessment. Information on nominal tax rates of towns that

¹ An exception is made in regard to daily rental taxes. Localities with a BPOL ordinance are permitted to impose a daily rental tax that is included in the *Code* under the merchants' capital tax (see § 58.1-3510.1).

did not respond to the survey can be found in the Virginia Department of Taxation's publication, *Local Tax Rates: Tax Year 2004*.² Please note that the rates in the Virginia Department of Taxation's publication are for the 2004 tax year; it is the most recent information available for towns that did not respond to the Cooper Center survey.

Table 8.2 lists the components of the merchants' capital tax imposed by the localities. Of the 46 counties that impose the tax, all report imposing the inventory tax component of the tax. Twenty-two impose the rental vehicle tax, and 27 report imposing a daily rental tax.



² The survey is available on the web at: http://www.tax.virginia.gov/Web_PDFs/LocalRatesSurvey2004.pdf (8/30/2006).

Table 8.1
Merchants' Capital Tax, Basic Features, 2006

Locality	Tax Assessment: In-House (In) or Contract (C)	Nominal Tax Rate (per \$100)	Assessment Method	Assessment Percentage (%)
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	In	\$3.95	Original Cost	20
Appomattox	In	\$1.00	Original Cost	85
Bedford	In	\$1.10	Original Cost	20
Bland	In	\$0.89	Original Cost	100
Brunswick	In	\$1.20	Original Cost	100
Buchanan	In	\$2.00	Original Cost	10
Buckingham	In	\$1.00	Depreciated Cost	100
Carroll	In	\$2.30	Original Cost	30
Charles City	In	\$2.80	Original Cost	100
Charlotte	In	\$3.20	Original Cost	10
Craig	In	\$3.50	Original Cost	25
Dickenson	In	\$10.50	Original Cost	10
Essex	In	\$3.75	Original Cost	5
Floyd	In	\$3.50	Original Cost	15
Franklin	In	\$1.08	Original Cost	100
Giles	In	\$0.75	Original Cost	100
Grayson	In	\$6.70	Original Cost	10
Hanover	In	\$1.90	Original Cost	10
Highland	In	\$1.00	Merchant's Inventory	20
King & Queen	In	\$0.65	Original Cost	100
Lancaster	In	\$1.00	Original Cost	50
Lee	In	\$1.41	Fair Market Value	30
Louisa	In	\$0.65	Original Cost	100
Lunenburg	In	\$1.20	Original Cost	40
Madison	In	\$0.86	Original Cost	100
Mecklenburg	In	\$0.72	Original Cost	100
Montgomery	In	\$3.50	Original Cost	20
Northampton	In	\$6.25	Original Cost	10
Northumberland	In	\$1.00	Original Cost	50
Orange	In	\$0.40	Original Cost	100
Pittsylvania	In	\$2.75	Original Cost	30
Prince Edward	In	\$0.70	Original Cost	100
Pulaski	In	\$4.80	Original Cost	\$1-\$300,000=22% \$300,001-\$20,000,000=5% >\$20,000,000=1%
Richmond	In	\$3.50	Original Cost	50
Rockingham	In	\$0.87	Original Cost	67
Russell	In	\$0.65	Original Cost	20
Scott	In ^a	\$0.72	Original Cost	100
Shenandoah	In	\$0.60	Original Cost	100
Smyth	In	\$0.40	Original Cost	100
Southampton	In	\$0.50	Fair Market Value	100
Stafford	In	\$0.50	Original Cost	100
Sussex	In	\$1.00	Original Cost	100
Tazewell	In	\$4.30	Original Cost	20
Westmoreland	In	\$0.50	Original Cost	100
Wise	In	\$2.85	Fair Market Value	45
Wythe	In	\$0.56	Original Cost	100

^a Scott County allows the business to estimate its inventory and compares the estimate with the Form 1040, Schedule C.

Table 8.1 Merchants' Capital Tax, Basic Features, 2006 (continued)

Locality	Tax		Assessment Method	Assessment Percentage (%)
	Assessment: In-House (In) or Contract (C)	Nominal Tax Rate (per \$100)		
Towns (Note: Towns that answered "not applicable" for all items in this table are excluded. For a listing of town respondents and non-respondents, see Appendix B.)				
Charlotte Court House	In	\$1.00	Fair Market Value	100
Drakes Branch	C	\$1.10	Original Cost	10
Iron Gate	C	\$0.15	Fair Market Value	35
Jonesville	C	\$0.25	Fair Market Value	100
Monterey	In	\$1.00	Merchant's Inventory	20
New Castle	In	\$0.50	Fair Market Value	100

Table 8.2**Merchants' Capital Tax Provisions About Taxation of Inventories, Rental Vehicles, and Rental Property, 2006**

Locality	Inventory Tax	Rental Vehicle Tax	Rental Property Tax
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	Yes	Yes	Yes
Appomattox	Yes	No	No
Bedford	Yes	Yes	Yes
Bland	Yes	Yes	Yes
Brunswick	Yes	No	No
Buchanan	Yes	No	No
Buckingham	Yes	No	No
Carroll	Yes	Yes	Yes
Charles City	Yes	Yes	Yes
Charlotte	Yes	Yes	Yes
Craig	Yes	No	Yes
Dickenson	Yes	No	No
Essex	Yes	Yes	Yes
Floyd	Yes	No	No
Franklin	Yes	No	Yes
Giles	Yes	No	No
Grayson	Yes	No	No
Hanover	Yes	Yes	Yes
Highland	Yes	No	No
King & Queen	Yes	Yes	Yes
Lancaster	Yes	Yes	Yes
Lee	Yes	Yes	Yes
Louisa	Yes	Yes	Yes
Lunenburg	Yes	No	Yes
Madison	Yes	Yes	Yes
Mecklenburg	Yes	Yes	Yes
Montgomery	Yes	Yes	Yes
Northampton	Yes	No	No
Northumberland	Yes	No	No
Orange	Yes	No	No
Pittsylvania	Yes	No	Yes
Prince Edward	Yes	No	No
Pulaski	Yes	Yes	Yes
Richmond	Yes	No	No
Rockingham	Yes	Yes	Yes
Russell	Yes	No	No
Scott	Yes	Yes	Yes
Shenandoah	Yes	No	No
Smyth	Yes	No	No
Southampton	Yes	No	No
Stafford	Yes	No	Yes
Sussex	Yes	Yes	No
Tazewell	Yes	Yes	Yes
Westmoreland	Yes	Yes	Yes
Wise	Yes	Yes	Yes
Wythe	Yes	Yes	Yes
Towns (Note: Towns that answered "not applicable" for all items in this table are excluded. For a listing of town respondents and non-respondents, see Appendix B.)			
Charlotte Court House	Yes	Yes	Yes
Cheriton	Yes	No	No
Drakes Branch	Yes	No	No
Elkton	Yes	No	No
Monterey	Yes	No	No
New Castle	Yes	No	No
Timberville	Yes	No	No