



County of Fairfax, Virginia

MEMORANDUM

DATE: March 10, 2022

TO: Board of Supervisors

FROM: Bryan J. Hill *Bryan Hill*
County Executive

SUBJECT: Options for Personal Property Taxes on Vehicles

As we move forward into FY 2023, I want to explain options and a recommendation developed by staff to mitigate unprecedented increases in Personal Property Taxes on vehicles for tax year (TY) 2022. Based on the significant financial impact of these options, this information is presented in advance of the Board discussion as part of the March 15 Budget Committee meeting.

It should be noted that the numbers presented throughout this document represent the best available information at this time and incorporate assumptions about trends for the upcoming fiscal year. The Department of Tax Administration (DTA) continues to monitor weekly the volume, as well as the value, of vehicles currently in the County.

For the purposes of the Personal Property Tax, vehicles in Fairfax County are assessed using the J.D. Power (formerly National Automobile Dealers Association) pricing guide as of January 1. This valuation guide is used by all localities in the Commonwealth of Virginia as their primary source. Vehicles in the County are assessed at 100 percent of the clean trade-in value.

As discussed during the County Executive's presentation of the FY 2023 Advertised Budget Plan, based on the impact that the pandemic has had worldwide on supply chains and the manufacturing of technological components, we are seeing tremendous impacts on vehicle values and Personal Property Tax projections. Most vehicles typically depreciate annually. However, currently new cars are in limited supply and used cars have appreciated in value. Our conservative projections as we were building the FY 2023 budget proposal indicated increases in the average vehicle levy of approximately 15.5 percent, based on November 2021 values. Staff typically builds the revenue forecast for the advertised budget using those preliminary November values from J.D. Power and applies them to the vehicles in the County as of that point in time. Staff then uses historical trend data for depreciation and proration of the November J.D. Power values to project the expected January 1 values. Additional assumptions for the value and volume of vehicles that would move in and out of the County, as well as new vehicle purchases and additions from omitted assessments throughout the fiscal year are also made to arrive at a projection for the total vehicle tax levy.

Due to the unprecedented circumstances brought on by the pandemic, used car prices did not decline in late fall/early winter, but appreciated even more, as indicated by the actual January 1 values from J.D. Power. Actual vehicle values from J.D. Power as of January 1, 2022, now indicate an increase of at least 33 percent (as compared to the previous estimate of 15.5 percent) in the projected average vehicle levy in the County. A sampling of used car values is included in the chart below for your information.

Make/Model	Year	Value 2021	Value 2022	% Increase
Honda Civic	2016	13,125	17,575	33.9%
Honda Accord	2017	15,150	20,875	37.8%
Honda CR-V	2020	24,925	33,175	33.1%
Hyundai Tucson Utility	2016	12,325	16,625	34.9%
Lexus RX Utility	2015	20,550	24,675	20.1%
Toyota Corolla	2018	15,050	21,600	43.5%
Chevy Suburban	2016	24,850	32,200	29.6%
Chevy Equinox	2017	11,100	15,200	36.9%
Chevy Cruze	2018	11,725	16,450	40.3%
Chevy Silverado	2019	31,375	36,250	15.5%
Ford Fusion	2016	9,475	13,575	43.3%
Ford 150 Crew Cab	2016	34,250	38,400	12.1%

These increases – combined with the declining impact of state Personal Property Tax Relief Act (PPTRA) of 1998 funds (which have been frozen at \$211 million since FY 2007) – will have a significant impact on Personal Property Tax bills.

As the Board is aware, the vehicle portion of the Personal Property Tax is comprised of two parts, (1) the portion paid by citizens locally and (2) the portion which is reimbursed by the Commonwealth of Virginia to the County as a result of the PPTRA. The PPTRA reduces the Personal Property Tax paid on the first \$20,000 of the value for vehicles owned by individuals. County staff must determine the reimbursement percentage annually based on the County’s fixed reimbursement of \$211 million and an estimate of the number and value of vehicles that will be eligible for tax relief. Since the PPTRA reimbursement was capped in FY 2007, when the reimbursement rate was 70 percent, the PPTRA rate has declined as the County’s assessment base has grown. As mentioned in the FY 2023 Advertised Budget Plan, the PPTRA rate is preliminarily estimated at 49 percent for FY 2023, down from 57.5 percent in FY 2022. Based on the updated January 1, 2022 vehicle values, the PPTRA percentage would have to drop to 42 percent.

The table below illustrates the impact this would have on a typical tax bill for a personal use vehicle. The average taxpayer share was \$229 in FY 2022 and was originally estimated (in the Advertised Budget) to increase to \$317 for FY 2023. However, based on the updated January 1, 2022 values, the projected taxpayer share in FY 2023 is \$415, an increase of \$186 over the prior

year. Due to the diminishing benefits of the PPTRA offset, the impact of the increased assessed values are exacerbated and extend beyond the assessment increase alone. For example, if the PPTRA reimbursement rate remained at the current 57.5 percent, the projected increase of \$186 would be reduced to \$75.

	Personal Use Vehicle FY 2022	Personal Use Vehicle FY 2023 Advertised	Change from Previous Year	Personal Use Vehicle FY 2023 Updated (Jan. 1, 2022 values)	Change from Previous Year
Average Assessed Value	\$11,778	\$13,599	\$1,821 or 15.5%	\$15,663	\$3,885 or 33.0%
Tax Rate per \$100 of assessed value	\$4.57	\$4.57	--	\$4.57	--
Total Tax Bill	\$538	\$621	\$83 or 15.5%	\$716	\$178 or 33.1%
State Share (based on PPTRA rate)	\$309 @ 57.5%	\$304 @ 49.0%	(\$5)	\$301 @ 42.0%	(\$8)
Taxpayer Share	\$229	\$317	\$88 or 38.4%	\$415	\$186 or 81.2%

Because of the unprecedented nature of these increases, a budget committee meeting for March 15, 2022 is scheduled to discuss staff recommendations to mitigate the impact on vehicle owners. It should be noted that jurisdictions across Virginia are also proposing ways to address this issue.

Available Options

1. **Reduce the Personal Property Tax Rate.** The current tax rate is \$4.57 per \$100 of assessed value. This rate has been in effect since FY 1988. The tax rate also applies to other tangible personal property such as business furniture, fixtures, computers, etc. (It should be noted that House Bill 1239, which addresses creating a new class of tangible personal property to include most automobiles, motorcycles, and passenger trucks for rate purposes, is currently being considered in the legislative review.) Lowering the tax rate would apply not only to vehicles, but also to other personal property, which would impact projected total revenues. For example, in order to offset the additional revenues projected beyond those assumed in the FY 2023 Advertised Budget, the tax rate would need to be reduced to \$3.97 per \$100 of assessed value. However, this would also reduce business personal property tax revenues by almost \$18 million. In addition, if the tax rate is reduced for FY 2023, when vehicle values normalize in future years and resume their normal depreciation, the tax rate will likely need to be reevaluated. **This option is not recommended.**
2. **Use a different assessment valuation method.** Localities are required to use a recognized pricing guide to value automobiles. As mentioned earlier, Fairfax County uses the J.D. Power pricing guide and applies the Trade-in Value, consistent with other jurisdictions such as Prince

William County and the City of Alexandria. Some jurisdictions in Virginia use the Retail Value, while others use the Loan Value. For example, Arlington and Loudoun counties use the Loan value. In general, the Retail Value is the highest, the Trade-in is in the middle, and the Loan value is the lowest. At this point, staff does not have enough information to estimate the impact on a typical bill if the County were to switch to a lower assessment valuation method such as the Loan Value. **As a result, this option is not recommended.**

3. **Apply an assessment ratio.** Section 58.1-3503(B) of the Code of Virginia allows an assessment ratio to be used, with the concurrence of the Board of Supervisors. This option is provided for the County to react to unusual or extenuating circumstances whereby 100 percent of the assessed market value may not be considered as a fair market value and a valuation lower than 100 percent may be determined to be more appropriate. Such a ratio must be applied uniformly, meaning that even if a particular vehicle has depreciated in the pricing guide, the assessment ratio must be applied to that vehicle uniformly by classification. Using a lower assessment ratio will result in a reduction in the assessed values and the impact on the vehicle tax bills. In addition, unlike the option of reducing the tax rate, a lower assessment ratio will only apply to vehicles, thus minimizing the impact on business personal property tax revenues. A lower assessment ratio could be endorsed by the Board for the current tax year (TY 2022), without a future commitment. This is important, given the uncertainty of the new and used car market and the likelihood that normal vehicle depreciation would resume in the future. This option is well tailored to the temporary nature of these assessment increases. Based on DTA's analysis of market data, and among the options available to the County, this option provides the most reasonable and effective means of determining fair market value for the affected vehicles. **Staff recommends lowering the assessment ratio for Tax Year 2022.**

Staff Recommendation

In order to partially offset the impact of the increased vehicle assessments, staff recommends using an **assessment ratio of 85 percent** in tax year 2022 (FY 2023). This would result in an effective average assessed value increase of 13 percent.

As indicated in the earlier table, with no changes to the Personal Property tax rate or the methodology utilized to value vehicles for purposes of assessing the Personal Property tax, the typical vehicle tax bill would increase by \$186, compared to the previous fiscal year. The following table illustrates the impact of using an assessment ratio of 85 percent. If the PPTRA reimbursement rate remained at the current 57.5 percent, the projected increase of \$78 would be reduced to \$29.

	Personal Use Vehicle FY 2023 Jan 1, 2022 Values No Ratio	Personal Use Vehicle FY 2023 Jan 1, 2022 Values 85% Ratio
Average Assessed Value	\$15,663	\$13,314
Tax Rate per \$100 of assessed value	\$4.57	\$4.57
Total Tax Bill	\$716	\$608
State Share (based on PPTRA rate)	\$301 @ 42.0%	\$301 @ 49.5%
Taxpayer Share	\$415	\$307
Change from FY 2022	\$186 or 81.2%	\$78 or 34.1%

The County Executive’s presentation of the FY 2023 Advertised Budget Plan indicated that based on the updated January 1, 2022 vehicle values, additional revenues of \$83 million beyond what is included in the advertised budget could be realized. With the reduction of the assessment ratio from 100 percent to 85 percent, there would be no additional revenue above the level already assumed in the FY 2023 Advertised Budget Plan. It should be noted that, even with these proposed changes, the balance of \$79.26 million included in the proposed budget for the Board’s consideration remains.

Staff believes that this recommendation is a prudent approach of providing a relief to taxpayers and mitigating the unprecedented projected increases in car taxes. It is important to note that as supply chains rebound, it is likely that the upward pressure on vehicle values will begin to soften.

At the March 15, 2022 Budget Committee meeting, staff will present the recommended option as described above and will seek feedback from the Board. The required next steps to formally approve changes for FY 2023 will also be presented at the meeting.

cc: Christina C. Jackson, Chief Financial Officer and Director, Department of Management and Budget
Jay Doshi, Director, Department of Tax Administration