

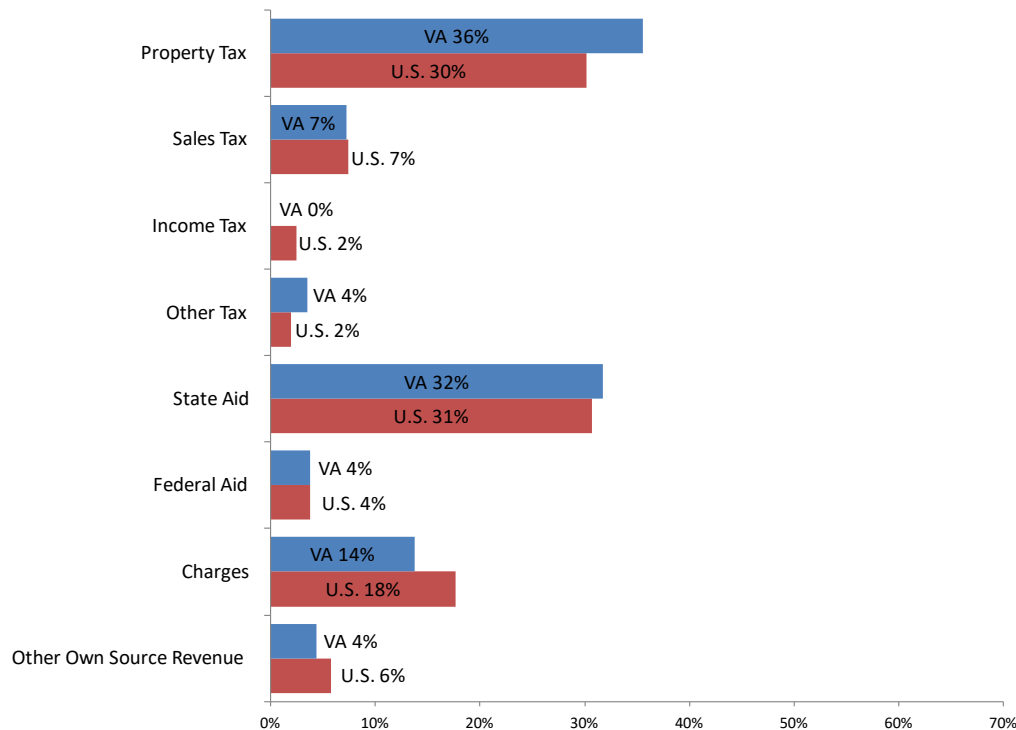
Virginia

Highlights

The State of Virginia relies on a diverse tax mix, but the largest sources of state tax revenue are the individual and corporate income taxes and the state sales and use tax. The local tax base is roughly representative of the nation as a whole (figure VA-1). Property taxes make up the majority of local tax revenue, but localities collect a variety of other taxes, including utilities charges, sales and use taxes, excise taxes, and business licensing taxes.

Virginia does tax tangible personal property, including inventories, which few states tax. In 2017, personal property made up 8.4 percent of the Commonwealth's property tax base (Watson 2019).

Unlike most states, Virginia does not provide state-funded real property tax relief, and most of its property tax relief is local option (Bowman 2008). The only property tax relief mandated statewide is a full exemption from taxation on real property for disabled veterans with a 100 percent service-connected permanent and total disability and an exemption for surviving spouses of members of the armed forces killed in action.



Property Tax Reliance

The effective tax rate for the median value owner-occupied home in Virginia is at 0.8 percent, well below the national average. However, total property tax collections as a share of combined state-local revenue are 15th in the nation (table VA-1).

Table VA-1
Selected Virginia Property Tax Statistics, 2019¹

	Virginia	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,770	\$1,758	18
Property tax percentage of personal income	3.0%	3.1%	21
Total property tax as percentage of state-local revenue	18.1%	16.6%	15
Median owner-occupied home value ²	\$273,100	\$217,500	13
Median real estate taxes paid for owner-occupied home ²	\$2,234	\$2,471	24
Effective tax rate, median owner-occupied home ³	0.8%	1.1%	33

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2015-2019.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

For property tax purposes, any property not subject to “use value assessment” must be assessed at 100 percent of fair market value. Virginia permits local governments with a comprehensive land use plan to use “land use value” (or use value) assessments, rather than market value assessments, for agricultural, horticultural, forest, and open space land. Commentators have noted that golf courses qualify under the statutory definition of “open space property.” More than 11 million acres in Virginia are subject to use value assessment (which is about 40 percent of the state’s total acreage) (Kulp 2019).

Local governments are responsible for assessing property and levying and collecting property taxes (table VA-2). Virginia’s public school districts are not independent governmental units and depend on tax revenues levied by counties and municipalities. Localities are largely unconstrained in the tax rates that they can set. Many cities and counties do not have a full-time assessor and contract with private parties who perform the assessments. Cities with a population over 30,000 are required to do general reassessments every two years, and counties with populations over 50,000 must assess every four years; below these population thresholds, counties may elect to assess less frequently.

Limits on Property Taxation

A locality may not increase the real estate tax levy by more than 1 percent after a general reassessment or in general unless it provides public notice and holds public hearings. That notice must include, among other things, the percentage difference between the tax rate that the locality proposes to impose, and the tax rate that, when applied to the current assessed values, would generate the same tax levy as last year.

Property Tax Relief and Incentives

State law permits local governments to grant both exemptions and tax-deferral benefits to elderly and disabled persons. Over two-thirds of cities, counties, and towns offer such a relief plan to the elderly, disabled, or both (Kulp 2019). Localities are also permitted to create circuit breakers for the nonelderly and grant deferrals of large year-on-year property tax increases, but very few localities provide either one. Certain surviving spouses of members of the armed forces killed in action are also entitled to a property tax exemption.

Virginia provides several property tax incentives for economic development including enterprise zones and tax increment finance.

Table VA-2
Property Tax Features of State Governments, United States, 2020

Feature	Virginia	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	18
Circuit breaker property tax relief program	No	31

Sources: Significant Features of the Property Tax

Key Property Tax History

The current version of the Virginia Constitution became effective in 1971 and was the first wholesale revision of the foundational law since 1902. This version made some significant changes to the property tax. In addition to providing for use value taxation for the first time, the 1971 Virginia Constitution permitted municipalities to grant property tax exemptions to the elderly. This permission was extended in 1977 to cover exemptions for disabled persons. In both cases, the authorization to provide

exemptions was restricted to those persons who were “deemed by the General Assembly to be bearing an extraordinary tax burden on said property in relation to their income and financial worth.” Beginning in 2011, however, the Constitution was amended to eliminate this requirement and instead provide localities with the discretion to impose income or financial-worth limitations on the exemptions.

The commonwealth relies heavily on tangible personal property taxes on motor vehicles with the “car tax” accounting for between 63 and 73 percent of local personal property tax collections in 2017. The Personal Property Tax Relief Act of 1998 included a phased repeal of the car tax with the state reimbursing localities for tax loss; however, the state stopped short of eliminating the tax, and froze the state reimbursement at 70 percent of the car tax. Virginia then capped the state reimbursement at \$950 million and in 2006, set each locality’s share of the reimbursement at the 2005 level, and required localities to reduce the local car tax rate so that local revenue from the tax plus the state reimbursement would roughly equal what the local government would have received based on its valuation method and pre-rebate local motor vehicle tax rate (Kulp 2018).

In the 1990s, Virginia’s system for funding schools became the subject of litigation. In *Scott v. Commonwealth* (1994), public school students and local school boards claimed that the state’s system of funding public schools denied children in some districts the same educational opportunity as children in wealthier school districts (SchoolFunding.Info). The Virginia Supreme Court ruled that the school finance system was constitutional because the state constitution did not mandate equal funding or programs.

Recent Developments

Following a highly publicized national search and contest, Amazon selected northern Virginia as one of two winning locations for its second headquarters (HQ2). State and local tax incentives figured into Virginia’s bid for the development including TIF revenue from property taxes. Arlington County pledged a portion of incremental revenue from the Crystal City, Potomac Yard, Pentagon City TIF district to fund infrastructure improvements for the project as part of a package of local incentives. Amazon’s development is expected to generate \$28 million in incremental revenue over 10 years (Arlington County 2019). In February 2019, the governor signed legislation to provide \$550 million in cash incentives for the creation of 25,000 new jobs with an average wage of \$150,000, to be paid out four years after the jobs are created beginning in 2024. The legislation provides for up to an additional \$200 million if Amazon creates an additional 12,850 jobs in a second phase of development. The cost of the incentives was to be offset by income tax revenue generated by the new jobs (Martz 2019).

An analysis by the *Washington Post* found that housing prices in the region spiked following Amazon’s announcement in November 2018. According to Terry Clower, director of the Center for Regional Analysis at George Mason University, “this is a market response to the Amazon HQ2 announcement, with investors competing with residents for a shrinking number of homes for sale. The price gains we foresee do not reflect an overall bubble in housing prices but rather reflect the specific circumstances of our current market” (Telford et al. 2019). In 2021, Amazon pledged \$125 million for the construction of 1,000 affordable housing units near Washington Metropolitan Area Transit Authority stations (Schweitzer 2021).

In recent years, Virginians have approved the expansion of property tax relief programs via ballot. In 2017, a constitutional amendment was signed into law allowing localities to offer an additional property tax exemption, this time for the real property of surviving spouses of police, firefighters, and EMTs killed in the line of duty (State Tax Today 2017). In November 2018, voters approved two ballot measures related to property taxation. Question 1 amended the state constitution to allow local governments to provide exemptions for improvements that mitigate or prevent flooding. Question 2 expanded the tax exemption for disabled veterans so unremarried surviving spouses will qualify even if they move to a different homestead within the state (Collins et al. 2019). Totally and permanently disabled veterans may receive an exemption on one automobile after voters approved Question 2 at the ballot in November 2020.

An evaluation of Virginia's business incentives by the Joint Legislative Audit and Review Commission (JLARC) found the commonwealth's enterprise zone program produced minimal economic benefit. The report found that enterprise zone benefits were untargeted and had "little effect on employment, income, and other economic indicators" (JLARC 2020).

Resources

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