Virginia

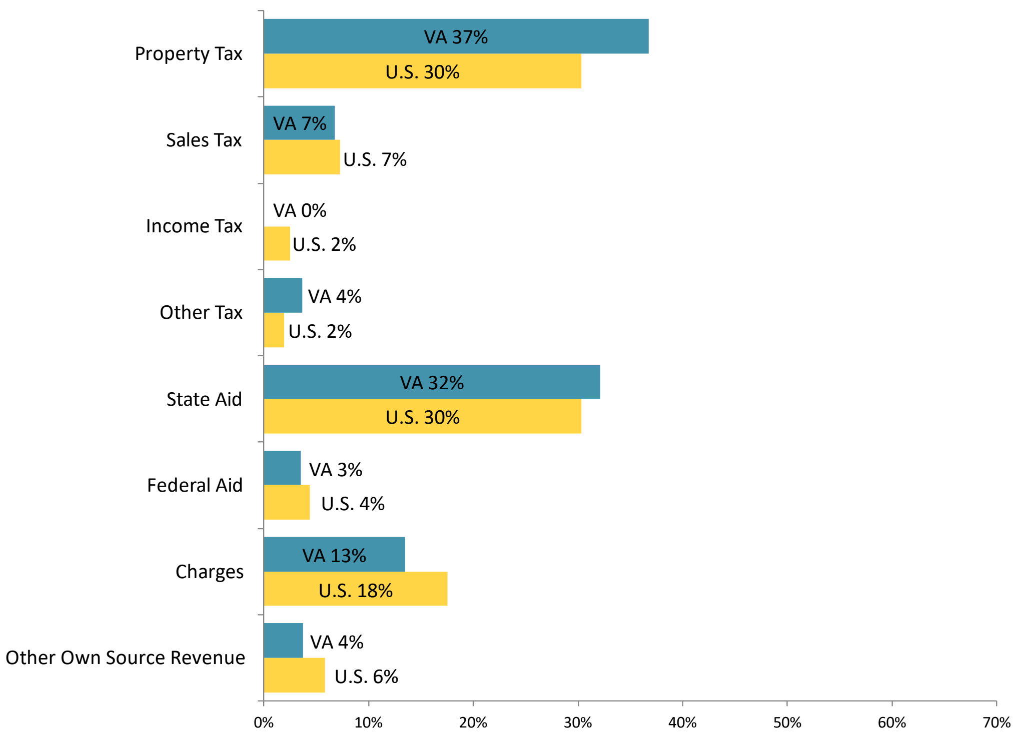
Highlights

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 some tangible personal property, including inventories, which few states tax. In 2020, personal property made up 8.1 percent of the Commonwealth's property tax base and 23.7 percent of property taxes levied (Virginia Tax 2022).

Unlike most states, Virginia does not provide state-funded real property tax relief, and most of its property tax relief is a local option (Significant Features of the Property Tax). 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.

Figure VA-1
Sources of Local General Revenue, Virginia and U.S., 2020



Source: U.S. Census via Significant Features of the Property Tax

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 17th in the nation (table VA-1).

Table VA-1
Selected Virginia Property Tax Statistics, 2020[1]

	Virginia	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,830	$1,810	*17*
Property tax percentage of personal income	3.0%	3.1%	*22*
Total property tax as percentage of state-local revenue	17.3%	16.6%	*17*
Median owner-occupied home value[2]	$282,800	$229,800	*13*
Median real estate taxes paid for owner-occupied home[2]	$2,304	$2,551	*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 2016–2020.

[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).

Virginia does not have statewide classification of real property, but does permits four cities—Poquoson, Richmond, and Roanoke—to apply different property tax rates to land and improvements; however, so far none of these cities has adopted split-rate taxation or a land value tax (Va. Code Ann. §58.1-3221.1) (Gordon 2023).

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 undertake a general reassessment 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. This is an example of "Truth in Taxation," a policy intended to require the same procedural steps for a revenue increase due to rising property values as for a revenue increase due to a change in the tax rate.

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. Fully disabled veterans and certain surviving spouses of members of the armed forces killed in action are also entitled to a property tax exemption.

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

Table VA-2
Property Tax Features of State Governments, United States, 2021

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	17
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

The City of Fredericksburg's denial of a property tax exemption for a church minister's residence (*Trustees of the New Life in Christ Church v. City of Fredericksburg*) will stand after the Virginia Supreme Court and the United States Supreme Court declined to review the case. Virginia exempts the "residence of the minister of any church." However, the city denied the exemption because the residents of the home were youth ministers and not ordained under the Presbyterian Church's Book of Church Order (Va. Code Ann. section 58.1-3606(A)(2)) (Hodges 2022).

Local governments in Virginia may now tax motor vehicles at a different rate than other tangible personal property since the state created a separate tangible property tax class. When Governor Glenn Youngkin signed HB 1239 into law in March 2022, he stressed the need for relief for taxpayers facing higher tangible personal property tax liability due to skyrocketing used car values (Virginia Office of the Governor 2022).

A new law adds an additional transparency requirement to the state's Truth in Taxation law, as described above. House Bill 1010 of 2022 requires some local governments proposing a tax rate that would increase the levy by 1 percent or more to publish notification of a public hearing on the increase separately (different day and different format) than the notification for the annual budget hearing. The final bill did not include a provision requiring a local referendum in these circumstances, which was initially part of Governor Youngkin's legislative agenda.

In *County of Isle of Wight v. International Paper Co.*, 881 S.E.2d 776 (Va. 2022), the Supreme Court of Virginia refused to reinstate a tax on machinery and tools after finding that the tax had been an integral part of a two-part measure that coupled increased taxes on machinery and tools with an "economic development retention grant" that credited taxpayers with the increase over the previous rate. This was intended to cover a deficit resulting from an earlier ruling in International Paper's favor on the correct measurement of depreciation, showing the revenue importance of the tax on machinery and tools. The court found this to be an unconstitutional non-uniform tax and denied the County's request to reinstate the earlier uniformly applied tax (Jardine 2023).

The creative attempt to establish an "economic development retention grant" was particularly interesting in Virginia, which has recently extended a number of tax incentives, including a major business facility job tax credit, and sales and use tax exemptions for specific materials and transactions. Tax incentives for data centers helped bring approximately 70 centers to Loudoun County alone (Schweitzer 2021). In 2022, the state established a property tax exemption for residential and mixed-use solar energy systems (Misbrener 2022). The Virginia legislature's Joint Legislative Audit and Review Commission, established by the General Assembly in 2016, was recognized by the Pew Charitable Trusts (2017) as leading other states with "a well-designed plan to regularly evaluate tax incentives."

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