



County of Fairfax, Virginia

Supervisor Pat Herrity

Board Matter

April 9, 2019

Consideration Item -M&T Tax (Machinery and Tool) Offset

Background: Madam Chairman, The M&T tax on Fairfax Counties existing small-scale production businesses and startups is not only having an adverse financial burden on these businesses but also is discouraging expansion of the facilities. The existing tax structure is three times as high as some of our surrounding jurisdictions and is hurting our ability to grow this important business sector. As noted in the **Recast City LLC Small-Scale Production Report** “*A number of scaling production businesses noted that the business taxes in the County are depressing their opportunity to grow and such disparity in tax rates might encourage them to consider neighboring jurisdictions as the scale*” **furthermore** “*The County’s tax rate on this equipment, (\$4.57 per \$100 of assessed value), while competitive with some adjacent jurisdictions, is higher than Loudon County (\$2.75 per \$100 of assessed value), and may out compete the County for small-scale producers, especially as they scale.*”

Unlike Fairfax County, many jurisdictions have made a concerted effort to reduce the tax rate on M&T, giving them a distinct advantage in attracting and retaining small-scale production businesses. For example, we currently we have 8 breweries in Fairfax County compared to 32 in Loudon County and the numbers in surrounding jurisdictions continue to grow including expansions. Furthermore, the depreciation schedule on M&T is much more favorable in other areas compared to Fairfax County. For example, a \$100,000 capital investment would cost the owner \$27,000 up front which has a huge impact on the owners bottom-line. Our current depreciation schedule discourages expansion and growth and is only adding to the burden on small businesses in Fairfax County. Currently Fairfax County generates \$1.3 million annually in taxes from businesses owning M&T and while this is not a significant number in taxes generated it does have an impact on these businesses.

Motion: I move that we offset this tax burden with an investment of \$400,000 as part of the FY20 budget. I do not believe this to be a significant amount considering the return on investment we will receive with the location of additional businesses and increase in jobs that will be generated.

**SUPERVISOR PAT HERRITY
SPRINGFIELD DISTRICT
FAIRFAX COUNTY BOARD OF SUPERVISORS**

6140 Rolling Road
Springfield, VA 22152
703-451-8873 TTY 711 Fax 703-451-3047



County of Fairfax, Virginia

Supervisor Pat Herrity
Jointly with Supervisor Lusk, Supervisor Storck, and Supervisor Palchik
Board Matter
June 22nd, 2021
Machinery and Tools (M&T) Tax

Background: Mr. Chairman, the Machinery and Tools Tax (“M&T Tax”) on Fairfax County’s existing small-scale production businesses and startups is more than three times higher than a number of our surrounding jurisdictions. The combination of higher tax rate and a less favorable depreciation schedule is not only having an adverse financial burden on these businesses, but has also discouraged new business, and the expansion of existing facilities.

One of our efforts to diversify our tax base and fill empty commercial and retail space is attracting and growing small-scale producers. As noted in the County contracted **Recast City LLC Small-Scale Production Report** which was presented to the last Board, “*A number of scaling production businesses noted that the business taxes in the County are depressing their opportunity to grow and such disparity in tax rates might encourage them to consider neighboring jurisdictions as they scale*” **furthermore** “*The County’s tax rate on this equipment, (\$4.57 per \$100 of assessed value), while competitive with some adjacent jurisdictions, is higher than Loudoun County (\$2.75 per \$100 of assessed value), and may out compete the County for small-scale producers, especially as they scale.*”

Within the Northern Virginia Regional Commission area localities, the rates are as follows:

FAIRFAX COUNTY DTA SURVEY																							
TAX AND DEPRECIATION RATES IN NORTHERN VIRGINIA LOCALITIES																							
Jurisdiction	Furniture & Fixtures (F&F)							Tax Rate	Computer Equipment (CE)					Tax Rate	Machinery & Tools (M&T)							Tax Rate	Basis
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		Year 1	Year 2	Year 3	Year 4	Year 5		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		
Alex City	80%	70%	60%	50%	40%	30%	20%	\$4.75	65%	45%	30%	20%	5%	\$4.75	80%	70%	60%	50%	40%	30%	20%	\$ 4.50	OC
Arlington	80%	70%	60%	50%	40%	30%	20%	\$5.00	65%	45%	30%	10%	10%	\$5.00	80%	70%	60%	50%	40%	30%	20%	\$ 5.00	OC
Fairfax City	70%	60%	50%	40%	30%	20%	10%	\$4.13	65%	45%	30%	10%	2%	\$4.13	70%	60%	50%	40%	30%	20%	10%	\$ 4.13	OC
Fairfax County	80%	70%	60%	50%	40%	30%	20%	\$4.57	50%	35%	20%	10%	2%	\$4.57	80%	70%	60%	50%	40%	30%	20%	\$ 4.57	OC
Falls Church	80%	70%	60%	50%	40%	30%	20%	\$5.00	70%	50%	35%	10%	5%	\$5.00	80%	70%	60%	50%	40%	30%	20%	\$ 5.00	FMV
Leesburg	50%	40%	30%	20%	10%	10%	10%	\$1.00	50%	40%	30%	20%	10%	\$1.00	50%	40%	30%	20%	10%	10%	10%	\$ 1.00	FMV
Loudoun	50%	40%	30%	20%	10%	10%	10%	\$4.20	50%	40%	30%	20%	10%	\$4.20	50%	40%	30%	20%	10%	10%	10%	\$ 2.75	OC
Manassas	80%	70%	60%	50%	40%	30%	20%	\$3.60	50%	35%	20%	10%	5%	\$1.25	80%	70%	60%	50%	40%	30%	20%	\$ 3.60	OC
Manassas Park	80%	70%	60%	50%	40%	30%	20%	\$3.50	80%	70%	60%	50%	10%	\$3.50	80%	70%	60%	50%	40%	30%	20%	\$ 3.50	OC
Prince William	85%	75%	65%	55%	45%	35%	25%	\$3.70	50%	35%	20%	10%	5%	\$1.50	85%	75%	65%	55%	45%	35%	25%	\$ 2.00	OC
Note: Dumfries is part of Prince William County. Town of Herndon, Vienna are part of Fairfax County.																			M&T AVG Rate	\$4.01			
																			W/out Loudoun	\$ 3.70			
Basis: OC = Original Cost, FMV = Fair Market Value																							

While representing only \$1.3 million in our over \$4 billion total budget, the tax may have a significant impact on companies. As an example, the tax can be 27 percent of the cost of a

SUPERVISOR PAT HERRITY
SPRINGFIELD DISTRICT
FAIRFAX COUNTY BOARD OF SUPERVISORS
 6140 Rolling Road
 Springfield, VA 22152
 703-451-8873 TTY 711 Fax 703-451-3047

piece of equipment financed over 10 years. The high M&T tax may also discourage location of small-scale production companies in the County. Fairfax County currently has 10 breweries compared to 35 in Loudoun County – the M&T tax in Fairfax County is the reason often cited by industry for the lower numbers.

From our previous conversations with DTA, it would take about \$400,000 to adjust our M&T tax rate to Loudoun’s M&T rate, and another approximately \$400,000 to adjust the depreciation schedule. If we are to advance our diversification and placemaking efforts, we need to have a competitive M&T tax structure, including tax rate and depreciation schedule. The adjustments in the rate structure could be offset by the growth in both M&T tax, related sales tax, and jobs created by new and expanding small scale production businesses. Adjusting this tax structure would support our efforts to strengthen our local businesses as well as initiatives like “Made in Fairfax”.

Motion: Therefore Mr. Chairman, without objection we request that more information on the Machinery and Tools Tax be brought back before the Board as part of the FY 2023 budget discussion. We further ask without objection that DTA recirculate with the Board an analysis of the tax rates and depreciation schedules of the county and surrounding jurisdictions and the resulting tax impacts on an investment of \$100,000 over the 10 years by a business in each of the jurisdictions.

**SUPERVISOR PAT HERRITY
SPRINGFIELD DISTRICT
FAIRFAX COUNTY BOARD OF SUPERVISORS**

6140 Rolling Road
Springfield, VA 22152
703-451-8873 TTY 711 Fax 703-451-3047