

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 8, 2018
TO: VICE MAYOR JUSTIN WILSON
FROM: KENDEL TAYLOR, DIRECTOR OF FINANCE
SUBJECT: MEALS TAX REBATE



This memorandum is in response to your request for staff comment regarding a situation in which the City of Richmond is considering offering a Meal's Tax rebate, or seller's commission, to restaurants as compensation for collecting the trustee tax on behalf of the City. While this is permissible under Virginia law, it is not required. Though Richmond has not yet adopted an ordinance, Richmond staff anticipate that a seller's commission of 1.5% may be adopted for FY 2019, potentially increasing to 3% in FY 2020. The rebate would apply to cash and credit card payments. City of Richmond staff have expressed concern about the precedent this may create, possibly spilling over to their Transient Lodging Tax and Admissions tax.

City of Alexandria staff share the same concern, were a rebate to be considered for processing Alexandria's Meals Tax. It is hard to envision a seller's commission for one, and not the other. This type of rebate would also reduce the revenue from this tax type, both from the anticipated rate increase that has been proposed to be dedicated to the Affordable Housing Initiatives Account in the Affordable Housing Fund and from revenue that remains in the General Fund. As noted above, a seller's commission is allowable under Virginia law. A similar process is used, for example, with the State Sales Tax as a compliance tool. Alexandria does not currently have, nor does staff anticipate any issues with compliance.

Assuming the proposed rate increases, a 1.5% rebate would reduce revenue by approximately \$572,000 in FY 2019. At 3%, this would reduce revenue by more than \$1.1 million annually (\$725,000 Meals Tax; \$398,000 Transient Lodging Tax; and \$20,000 Admissions Tax). For perspective, the current Meals Tax process has been in place in the City of Alexandria for more than 40 years without a seller's commission, and staff does not believe that it is warranted now.

CC: The Honorable Mayor and Members of City Council
City Manager Mark Jinks
Deputy City Manager Laura Triggs
Kevin Greenleaf, Assistant Director, Finance Department