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**Joint Board Matter with Chairman McKay, and Supervisors Smith,
Storck and Walkinshaw**

FY 2023 Consideration Item

Adjustment to Machinery & Tools Tax

Members of the Board,

As discussed by the Board of Supervisors and previously identified in Budget Guidance, the County continues to focus on creative economic development opportunities. The Board and staff have discussed small-scale production and how County policies, practices, and taxing structures could be adjusted to encourage new businesses, as well as promote the expansion of current ones. As an example, the tax rate on Machinery and Tools (M&T) owned by the County's businesses is higher than in several surrounding jurisdictions and includes a less aggressive depreciation schedule. We recently received a Budget Q&A providing the rates in several local jurisdictions.

Currently, the M&T tax rate in Fairfax County is \$4.57 per \$100 of assessed value. It is assessed at 80 percent of the original cost for the first year of ownership and 10 percent less each succeeding year, until it reaches a floor of 20 percent in the seventh year. Va. Code §58.1-3507 permits local governing bodies to carve out the M&T as a separate class of Personal Property tax. Localities can adopt a lower tax rate and a more favorable depreciation schedule. Fairfax County does not currently have a separate tax rate or depreciation schedule for M&T tax as Prince William County and Loudoun County do. It should also be noted that there have been no changes to depreciation schedules since FY 2004, when the schedule depreciating computer equipment was last adjusted.

Consistent with the longer-term focus on economic development opportunities as we emerge from the pandemic, we propose a Consideration Item for FY 2023 to adjust the M&T tax. The proposal is designed to provide an incentive for the type of small-scale production that is so important to economic vitality, the Made in Fairfax brand, and to community building, which small-scale producers such as breweries engender. While a very small portion of our overall tax base, the adjustment to these tax schedules to better align and compete with our largest surrounding jurisdictions can play a vital role in helping to support and to keep these local and vibrant businesses here in Fairfax County.

Consideration item:

We therefore propose that we change the M&T rate from \$4.57 per \$100 of assessed value to \$2.00 per \$100 of assessed value. The proposed depreciation schedule would assess at 50 percent of the original cost for the first year of ownership and 10 percent less each succeeding year, until it reaches a floor of 10 percent in the fifth year. The reduction of the County's M&T rate to \$2.00 per \$100 of assessed value and implementation of the revised depreciation schedule as outlined above would result in a revenue reduction of approximately \$1 million.

This relatively modest impact on County revenues can be accommodated within the balance available to the Board as the FY 2023 budget is considered.