

Department of Tax Administration

LOB #105:

VEHICLE TAX DISCOVERY AND COMPLIANCE

Purpose

The Vehicle Tax Discovery (TARGET) aspect of this LOB works to identify and assess vehicles that are inappropriately displaying out-of-state license plates and are not currently registered with DTA and therefore, not properly paying the appropriate personal property tax. DTA is charged with accurately assessing all vehicles normally garaged in Fairfax County, and not otherwise exempt by law. Compliance with this legal mandate also helps maintain a more equitable tax burden by ensuring that all residents pay their fair share of taxes.

The Compliance aspect of this LOB represents an audit program to ensure that only qualified personal use vehicles are receiving the state car tax subsidy as required by law. This helps ensure that the County is collecting the proper amount of local taxes from residents.

Description

Vehicle Tax Discovery is also known as DTA's TARGET program, a comprehensive process that involves the manual review and analysis of information reported to DTA from citizens, the Sheriff's Office, Police Department, or from DTA staff on potential tax evaders (vehicles spotted regularly in Fairfax County with out-of-state license plates).

After license plate tips are received, staff in this LOB manually researches information to identify the vehicle and vehicle ownership and determine whether or not a sufficient nexus to the County can be established to make and defend a car tax assessment. Under Virginia law, staff can make these assessments based on the "best information available" for the current and up to three prior years as may be appropriate.

Data that is used in the investigation may include records of the DMV from other states, online Virginia State Income taxes, the Virginia Employment Commission, County tax records, apartment tenant lists, and other proprietary data bases. DTA has access to this information under the Assessor's authority granted by Virginia Code § 58.1. All DTA employees are bound by strict confidentiality in accessing these records, subject to criminal penalties under Virginia Code § 58.1-3. If manual research shows enough evidence that a vehicle is normally garaged in Fairfax County, taxes are assessed and billed, to include the imposition of the No Plate Tax and penalty.

The Compliance program under this LOB represents audits conducted by DTA staff of Schedule C's provided by the Virginia Department of Taxation. Schedule C's are the business expense forms filed with state income tax records for individuals claiming certain business deductions, in this case mileage expenses. Virginia law stipulates that only personal use vehicles are eligible to receive the state car tax subsidy. Business vehicles are required to pay the full amount of local taxes. A person may have their vehicle registered in DMV as "personal use" and DTA's automated matching will flag such vehicle to receive the state car tax subsidy. At the same time, the owner may claim business deductions from the use of the same vehicle. If more than 50 percent of a vehicle's mileage is claimed for business use, the law requires that DTA deny the subsidy and collect full taxes from the vehicle owner. This ensures compliance with the law and maximizes the collection of local revenue.

Benefits

In addition to making sure that all vehicles garaged in Fairfax County are properly registered and taxed, this LOB provides Fairfax County residents an effective channel to communicate with their tax office in reporting vehicles that may be evading personal property taxation. Residents become disillusioned at paying taxes when these out-of-state plate vehicles are perceived as dodging their liability. This LOB is an effective way for the public to participate in the governmental process to help ensure everyone living in

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Fairfax County pays their fair share of taxes. DTA facilitates this process by providing a very simple online TARGET hotline where license plate tips can be received and the public can also receive status updates on the progress of investigations.

The additional revenue generated by this LOB provides Fairfax County funding which allows the County government to continue to effectively protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County.

The TARGET program assesses around 4,000 out-of-state vehicles each year, generating approximately \$1.9 million annually in General Fund revenue. Over the last three years, the Schedule C Compliance program has also added an average of \$450,000 per year in local car tax revenue.

Mandates

This LOB is fully mandated by the Constitution of Virginia, Article X; the Virginia Code §§ 46.2 and 58.1; and Fairfax County Ordinance Chapter 4.

Trends and Challenges

Fairfax County economics, demographics and reputation combine to attract people from all over the United States who make the County their home. Additionally, some neighboring states, such as Maryland, do not have an ad valorem car tax. As a result, there is a significant number of vehicles in the County with out-of-state plates. Most are just visiting, or have some statutory exception such as military or diplomatic status, but others are vehicles that are normally garaged and parked in Fairfax County. Under Virginia law, this makes them subject to the County's local car tax.

One challenge in the County's TARGET program is that the task of discovery, identification and substantiation of tax liability requires a considerable amount of manual research and documentation, and the audit trail is often inferential rather than unequivocally dispositive as to tax liability. It is not sufficient to merely report a license plate to DTA for taxation. In order to tax it, DTA must first identify the vehicle make, model, and owner, and then reasonably establish that the vehicle is present in the County on a regular basis.

An out-of-state vehicle can certainly be present within the County with no local tax liability. In fact, given the requirements of law, DTA only assesses for taxation about 15 percent of the vehicles actually tipped to the department each year. While all tips are researched, only about one-third have a reasonable and documented nexus to Fairfax County.

Aside from the challenge of handling the manual research, this LOB also faces a challenge of public misperception. Despite reporting a plate for taxation, there are many cases where the owner may not be liable, such as military personnel domiciled in another state but here on military orders. Likewise, college students from other states attending school locally are commonly exempt from taxation. Additionally, there is a transient population simply visiting from out of state. This often leads the public to incorrectly assume all of these vehicles are tax evaders.

Furthermore, in many cases despite having their vehicle assessed, vehicle owners at times choose to continue to display out-of-state plates. This also presents a challenge of public misperception. If a flagged vehicle continues to display out-of-state plates, the assumption is that DTA has taken no action, and this of course can cause frustration for the citizen making the initial report. The reality is that DTA does not have the legal authority to compel an owner to display Virginia license plates. Nevertheless, DTA will still assess such vehicles for local taxation once research establishes a nexus. To help combat this challenge, the Board of Supervisors adopted the No Plate Tax and Penalty authorized by state code. This means that out-of-state vehicles are assessed additional surcharges in addition to the local car tax as an inducement to the owner to properly obtain Virginia license plates.

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In the Car Tax Compliance program, DTA identifies residents erroneously claiming a business mileage deduction on their state income tax return, while also receiving the state car tax subsidy. This also presents a challenge of manual research, re-billing accounts imposing additional tax and then explaining the action to the taxpayer. This can result in lengthy and contentious discussions with individual taxpayers. With the growing popularity of Uber, a car sharing service, DTA may in the future experience an increase in the Car Tax Compliance program audit workload.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #105: Vehicle Tax Discovery and Compliance			
FUNDING			
Expenditures:			
Compensation	\$331,860	\$397,769	\$610,438
Operating Expenses	77,438	80,025	115,541
Total Expenditures	\$409,298	\$477,794	\$725,979
General Fund Revenue	\$41,350	\$40,086	\$40,656
Net Cost/(Savings) to General Fund	\$367,948	\$437,708	\$685,323
POSITIONS			
<i>Authorized Positions/Full-Time Equivalents (FTEs)</i>			
Positions:			
Regular	8 / 8	8 / 8	13 / 13
Total Positions	8 / 8	8 / 8	13 / 13

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
# of Tax Evader Vehicles Assessed	4,562	3,332	3,901	4,200	4,500
TARGET Tax Levy and Penalties (Tax Evaders)	\$1,309,385	\$1,005,730	\$1,902,029	\$1,700,000	\$1,800,000
# of Vehicles Audited (State Car Tax Subsidy)	799	1,360	4,013	3,500	3,500
Total Amount of Additional Car Tax Levy Assessed	\$188,464	\$275,936	\$865,168	\$600,000	\$600,000

This LOB assesses about one-third of the total tips reported to DTA. Efficiencies have been gained in reducing tip backlogs for research in part due to an internal reorganization that shifted additional staff from the Customer Service Call Center to assist in TARGET research. This has helped DTA better manage workload and reduce investigation backlogs. This is particularly important given new partnerships established with the Sheriff's Office and the Fairfax County Police Department to identify vehicles. At the same time, this staff retains expansion capacity to serve as overflow backup to DTA's Call Center.

With the state car tax subsidy compliance portion of this LOB, DTA has also reallocated personnel resources within the Personal Property Division. This is reflected in the surge in the FY 2015 program metrics. To further improve program efficiency, DTA is partnering with DIT to explore automation enhancements with the goal of streamlining the audit process.