

INTRODUCTION & SUMMARY

The state of Virginia imposes a 4.3% sales tax on meals, and localities such as counties, cities, and towns typically include their own, dedicated meals tax on top of that. In many cases, this results in the total tax on prepared meals increasing to 10% or more.

While counties across the state were formerly bound by the Dillon Rule, which requires any tax referendum be voted on by residents). Now counties, cities, and towns can simply add or increase a meals tax if the locality chooses to adopt a change in the annual budget.

Costs are rising for restaurateurs and hoteliers concurrently on a number of fronts, from utilities to credit card swipe fees to food and labor costs. The proposed tax increases around Virginia will impact local citizens and businesses who are already struggling.

In order for the revenues from the lodging and meals taxes to serve their purposes, efforts must be made to help develop tourism in the area. These tax increases make visiting Virginia more expensive and could encourage visitors to spend their money elsewhere.

VRLTA stands ready to work with our partners around the state to make Virginia's restaurant community one of the best in the country. However, raising these tax rates will make that expansion more difficult.

ONGOING INITIATIVES

As state and local governments look for alternative ways to replace ARPA funding, we've seen an uptick in new meals taxes across the Commonwealth.

Charlottesville

This increase in the meals tax will be the fourth increase in the past decade, following the 2015, 2019, and 2022 meals tax increases. If the proposed meals tax increase is passed, diners will be forced to pay a 13.5% tax on their meal.

Wytheville

After the recent meals tax increase was passed, diners will now be forced to pay a 14.3% tax on their meals.

Prince William County

In 2023, the Prince William County Board of Supervisors approved a 4% meals tax increase, forcing diners to pay a 10% tax on their meal. This move coincided with a 70% pay raise the board approved for themselves.

Richmond

Diners in Richmond currently pay a 13.5% tax on their meal. Earlier in 2024, the city faced a lot of backlash for assessing massive penalties for late payments, which restaurant owners say were assessed erroneously and without notice.

FIGHTING THE VIRGINIA MEALS TAX INCREASES

An unfocused practice that takes advantage of those who can least afford it

KEY TAKEAWAYS:

Local Pockets Pinched

While often sold as a tax on tourists and out-of-town visitors, the biggest impact is felt locally. According to the National Restaurant Association, **70% of checks between \$15 - \$25 were paid by local citizens**. For checks less than \$8, that number rises to 85%.

A Predatory Practice

Not only do these tax increases affect a broad cross-section of local citizens, but the pain is felt most deeply by the poor and effectively prices them out of being able to dine out with their families. According to the Bureau of Labor Statistics Consumer Expenditure Survey, **households with annual incomes of less than \$30,000 are spending 9.3% of their pre-tax income on restaurant food**, four full percentage points above the national average. This means that meals taxes have a disproportionately larger impact on lower-income households.

Hurdles for Local Businesses

The restaurant industry was one of the hardest hit by COVID - and the hurdles keep coming. Inflated food costs, workforce shortages, and credit card swipe fees are just a few of the uphill battles the restaurant industry are currently fighting. These exploitative meals tax initiatives can be a blow that some small/locally-owned businesses won't recover from.

A Decrease in Restaurant Spending

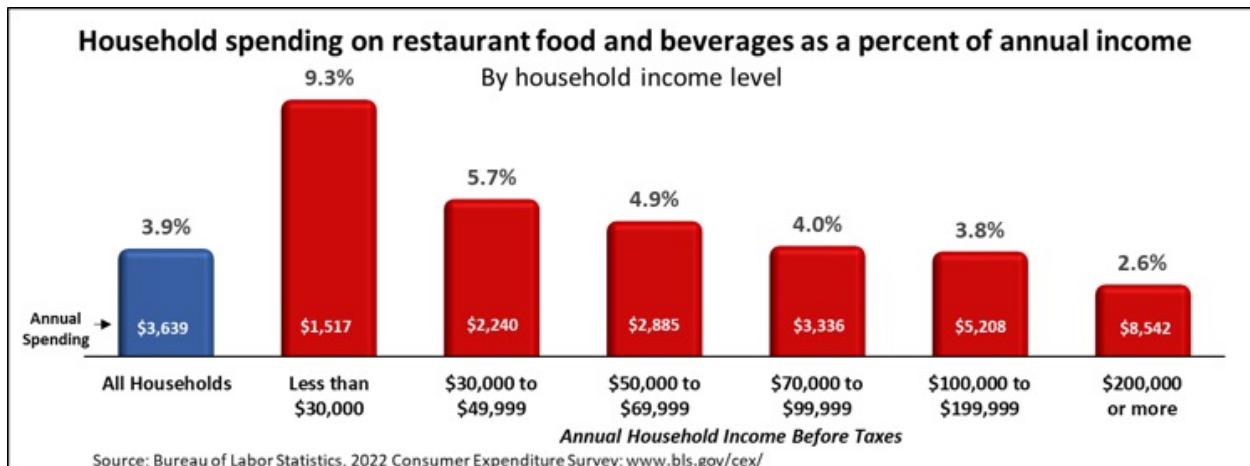
According to a survey taken by the National Restaurant Association in March 2024 seeking out the top challenges for restaurants today, **sales volume was voted the second-biggest challenge facing the industry at 26%** (trailed only workforce development at 29%). This mark is a massive increase over the two previous surveys, where sales volume was a challenge for 8% of restaurateurs (March 2023) and 4% of restaurateurs (March 2022), respectively. These trends are indicative of how rising costs are pushing away guests from Virginia's dining destinations.

Increasing the Meals Tax Disproportionately Impacts Lower-Income Local Residents

April 2024

Lower-income households devote the largest proportion of their income to restaurant food and beverages

- The ability to purchase food and beverages from restaurants is an integral part of life for many Americans: 56% of adults say restaurants are an essential part of their lifestyle, according to a National Restaurant Association survey.
- According to the Bureau of Labor Statistics, the average U.S. household spent \$3,639 on restaurant food and beverages in 2022, which represented 3.9% of its pre-tax income.
- Among households with an annual income of less than \$30,000, spending on restaurant food and beverages represented 9.3% of their pre-tax income or more than double the national average. As a result, sales taxes on restaurant food have a disproportionately larger impact on lower-income households.



Local customers represent a majority of restaurant sales

- The assertion that increases in the meals tax will be primarily paid by travelers and visitors is not supported by the data. Although tourism is important for many restaurants, the vast majority of restaurant sales come from local customers.
- Overall, 7 out of every 10 dollars spent in restaurants comes from local customers. For quick-service and fast-casual restaurants, local customers are responsible for more than 75% of annual sales.

