FAIRFAX COUNTY
VIRGINIA



Food and Beverage Tax Draft Ordinance

Board of Supervisors Budget Committee Meeting

March 11, 2025

Overview

- Presentation at the September 17, 2024, Budget Committee meeting discussed options for revenue diversification, including Food and Beverage ("Meals") Tax
- FY 2026 Advertised Budget does not assume implementation of Food and Beverage Tax but recommends Board consideration
- Advertisement of a Food and Beverage Tax ordinance on March 18 will allow discussion of potential tax in context of FY 2026 budget

Outreach

Community Input and Continued Engagement Opportunities

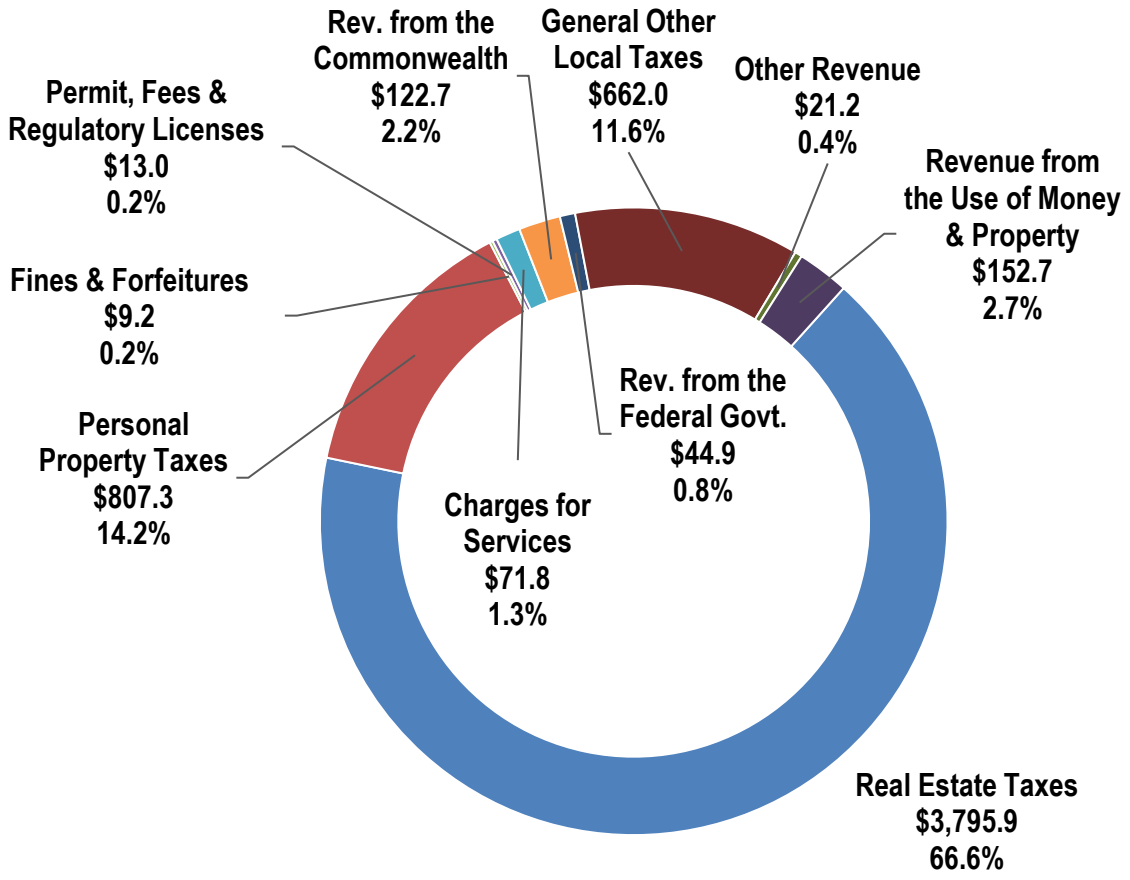
Ways to Provide Input

- Online Survey
  - Available in English, Spanish and Korean
- Email: FY26Budget@publicinput.com
- Phone: 703-890-5898 (Code #7574)
- Town Hall Meetings
  - Nine district budget town halls remain on the schedule
- Public Hearings
  - Formal opportunities on April 22-24 for residents to voice opinions directly to County leaders

Public Participation to Date

- Steady increase in engagement on the FY 2026 budget, including Food and Beverage Tax input
  - Over 1,500 participants have shared feedback via the Public Input platform
  - Participants have shared a broad range of feedback on the potential tax for Board members to consider
- Input opportunities will continue to be promoted throughout the FY 2026 budget process

FY 2026 General Fund Revenue



*$211.3 million reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property category

- FY 2026 Advertised Budget includes General Fund revenues totaling $5.70 billion
- Real Estate Taxes make up 67% of all General Fund Revenue
  - Residential properties make up more than 78% of the real estate assessment base
- Limited revenue growth is projected in the next few fiscal years
- Full-year impact of a Food and Beverage Tax at the maximum rate of 6% would be 3.6% of General Fund revenue

Food and Beverage ("Meals") Tax

- With some exceptions, applies to food and beverages (ready-to-eat) sold at restaurants, a defined term that includes lunchrooms, cafeterias, coffee shops, cafes, taverns, delis, pushcart operations, and hot dog stands
- There are no restrictions on the use of the tax revenue generated by the meals tax
- If implemented, recommend no earlier than January 1, 2026, due to lead time on County IT system development and for businesses to adapt

Examples

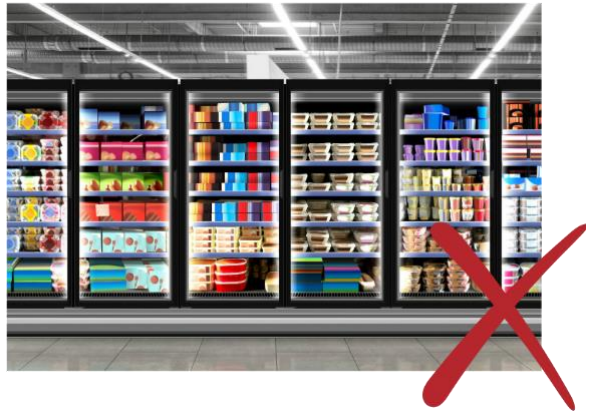












Impact on Residents

- It is estimated that approximately 34% of expenditures on meals are generated by visitors to the County based on visitor spending data from the Virginia Tourism Corporation
  - Approximately 267,000 individuals commute into the County on a daily basis
- Based on data from the U.S. Bureau of Labor Statistics 2023 Consumer Expenditure Surveys, the cost of a 1% Food and Beverage Tax to a household with income in the range of $100,000 to $149,999 is estimated at $49.07
  - Generates net annual revenue similar to one penny on the real estate tax rate, which equals $79.42 on the average residential tax bill

Tax Rate

- Counties in Virginia are limited to a Food and Beverage Tax rate of up to 6%
- Each 1% on the tax rate is projected to generate $35 million in annual gross revenue, excluding costs to administer the tax and any dealer discount
- If implemented, the tax rate for the first year would be adopted as part of the ordinance
  - Tax rate in future years would be set in the Tax Rate Resolution as part of the annual budget process
- Advertisement of a Food and Beverage Tax ordinance, if approved, would include the upper limit of the tax rate to be considered for FY 2026

Dealer Discount

- A portion of the tax collected can be utilized to offset the costs incurred by the seller that collects the tax on the County's behalf
- Maximum discount of 5% of the tax collected may be implemented and must be reflected in the ordinance
- Every seller who collects and remits the tax in a timely manner is eligible for the dealer discount
- Draft ordinance includes:
  - Initial 3% dealer discount
  - Dealer discount reduced to 1% beginning on January 1, 2028

Resources Required to Administer Tax

- Additional resources totaling $2.80 million and 21 positions would be required to administer a Food and Beverage Tax
  - Between 3,000 and 3,500 sellers with up to 40,000 filings per year
  - Monthly processing, compliance, and collection
  - Site visits to new businesses and possible delinquent sellers
  - Ensure compliance with tax laws and provide comprehensive education to businesses about their obligations and rights under the new tax
  - Support for all IT functions

	Positions	Fiscal Impact
Department of Tax Administration	19	$2.42 million
Department of Information Technology	2	$0.38 million
Total	**21**	**$2.80 million**

FY 2026 Fiscal Impact

Assumes January 1, 2026, Implementation

Tax Rate	Estimated Half Year Revenue	Less 3% Dealer Discount	Less Costs to Administer	FY 2026 Net Revenue
1%	$17,500,000	($525,000)	($2,800,000)	$14,175,000
2%	$35,000,000	($1,050,000)	($2,800,000)	$31,150,000
3%	$52,500,000	($1,575,000)	($2,800,000)	$48,125,000
4%	$70,000,000	($2,100,000)	($2,800,000)	$65,100,000
5%	$87,500,000	($2,625,000)	($2,800,000)	$82,075,000
6%	$105,000,000	($3,150,000)	($2,800,000)	$99,050,000

FY 2026 Net Revenue at Various Tax/Discount Rates

Assumes January 1, 2026, Implementation

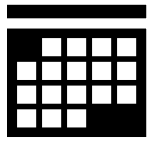
Tax Rate	Dealer Discount Rate		
	1%	2%	3%
1%	$14,525,000	$14,350,000	$14,175,000
2%	$31,850,000	$31,500,000	$31,150,000
3%	$49,175,000	$48,650,000	$48,125,000
4%	$66,500,000	$65,800,000	$65,100,000
5%	$83,825,000	$82,950,000	$82,075,000
6%	$101,150,000	$100,100,000	$99,050,000

Food and Beverage/Meals Tax Rates and Dealer Discount Rates in Neighboring Jurisdictions

Jurisdiction	FY 2025 Tax Rate	Proposed FY 2026 Tax Rate	Dealer Discount
City of Alexandria	5%	5%	--
Arlington County	4%	5%	--
City of Fairfax	4%	6%	3%
City of Falls Church	4%	TBA[1]	2%
Loudoun County[2]	--	--	--
Prince William County	4%	4%	3%
Town of Herndon	3.75%	4%	6%
Town of Vienna	3%	4%[3]	3%

[1] The City of Falls Church's FY 2026 Proposed Budget is scheduled to be presented March 24, 2025.
[2] Loudoun County does not have a Food & Beverage Tax; but a meals tax of between 3.5% and 5% is charged only within certain town limits.
[3] The Town of Vienna has deferred decision until August 2025 on a proposed increase in the Meals Tax from 3% to 4%. The increase is proposed to be in effect for ten years to finance the construction of an aquatics and fitness center.

Administrative Details



Monthly tax returns and payments would be due by the 20th of the following month



A penalty equal to 10% of the amount due would apply to late payments



Interest on outstanding taxes shall accrue at 5% per annum

Items and Establishments Subject to Tax



Hot or cold meals served at restaurants



Made to order meals served from delicatessen counters at grocery and convenience stores



Desserts, ice cream and smoothies



Beverage (alcoholic or non-alcoholic) sold as part of a meal

Examples of establishments impacted by food and beverage tax	
Amusement Parks	Distilleries & Wineries
Bakeries	Eateries & eating houses
Bars & Breweries	Food trucks & vendors
Billard parlors	Health clubs
Bowling alleys	Hot dog & Push carts
Buffets	Ice cream / yogurt shops
Cafes	Lunchrooms
Cafeterias	Mobile food services
Caterers	Movie theaters
Coffee shops	Nightclubs
Concession stands	Public & Private clubs
Confectionery	Restaurants
Convenience stores	Sporting Venues
Delicatessen	Skating rinks
Dining rooms	Taverns

Mandatory State Exemptions









- Grocery items, vending machines
- Factory sealed beverages sold alone
- Pre-packaged desserts, ice cream, and snack foods
- Any combination consisting entirely of beverages, grocery items, and snack foods sold separately
- Discretionary gratuities and gratuity charges added by the restaurant to the sales price to the extent the mandatory gratuity does not exceed 20%
- Alcoholic beverages sold in factory sealed containers for off-premises consumption
- All non-factory sealed beverages including fountain drinks, coffee, sold alone
- Food purchased for human consumption as "food" defined in the Food Stamp Act, except for sandwiches, salad bar, prepackaged single-serving salads consisting primarily of an assortment of vegetables

Mandatory State Exemptions

Food and Beverages Sold By:






- Boardinghouses that do not accommodate transients
- Cafeterias operated by industrial plants for employees only
- Restaurants to their staff as part of compensation when no charge is made
- Volunteer Fire Dept. and emergency medical services agencies; nonprofit churches or other religious bodies; or educational, charitable organizations up to a certain threshold if the proceeds are used for certain purposes
- Churches that serve meals for their members as a regular part of their religious observances
- Public or private grade schools or institutions of higher learning to their students or employees
- Hospitals, medical clinics, convalescent homes, nursing homes, and day care centers
- Sellers at local farmers markets and roadside stands with an annual income that does not exceed $2,500
- Homes for the aged or infirm individuals, battered women, or addicts
- Age-restricted residences with restaurants, not open to the public, where meals are included in rental fees

Mandatory State Exemption

Food and Beverages Provided By:



- Public or private nonprofit charitable organization or establishment to elderly, infirm, or needy individuals or individuals with blindness or other disabilities
- Private establishments that contract with the appropriate agency of the Commonwealth of Virginia to offer food, food products, to elderly, or needy individuals

Industry Outreach Plan



Collaborate with Office of Public Affairs to develop brochures in multiple languages and educational videos



Host virtual and in-person town hall meetings to inform and educate the sellers



Conduct outreach by collaborating with associations and performing site visits and virtual meetings



Partner with the Health Department to serve as ambassadors to share information, educate businesses about upcoming changes, and refer them to DTA

Timeline

- March 18, 2025 – Authorization to Advertise
- April 22, 2025 – Public Hearing on Ordinance
  - Opportunity for testimony during April 22-24 public hearing on budget
- May 6, 2025 – Board decision during budget markup
- January 1, 2026 – Earliest potential effective date

Discussion