

**DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement**

1. **Patron** Joseph P. McNamara

3. **Committee** House Finance

4. **Title** Local meals and prepared food and beverage taxes; Maximum rate

2. **Bill Number** HB 2004

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would, beginning January 1, 2028, cap the maximum allowable tax rate that counties and cities may impose on meals and prepared food and beverages at no more than four percent, unless a higher rate of no more than six percent is authorized via local referendum. The bill would limit the rate of tax in towns to the amount of any food and beverage tax imposed by the county in which the town is located but requires that no town shall impose any rate if, when added to the county food and beverage tax rate, such tax rate exceeds the four or six percent limit, as applicable.

Under current law, counties may impose a tax on prepared food and beverages at a rate not to exceed six percent. Cities and towns are currently permitted to levy a tax on meals with no limit on the rate.

If enacted during the regular session of the 2025 General Assembly this bill would become effective July 1, 2025.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. Fiscal implications:

Administrative Costs

This bill may have an unknown impact on local administrative costs but would have no impact on state costs.

Revenue Impact

This bill may have an unknown impact on local revenues but would have no impact on state revenues. Data from the Weldon Cooper Center for Public Service indicates that, as of 2024, the average meals tax rate levied in cities was 6.35 percent while the tax on food and beverages levied in counties averaged four percent.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: No.

11. Other comments:

County Food and Beverages Tax

Every county is authorized to levy a tax on food and beverages sold for human consumption, by a restaurant at a maximum rate of six percent of the amount charged for such food and beverages. The tax must not be levied on food and beverages sold: (i) through vending machines; or by: (ii) boardinghouses that do not accommodate transients; (iii) cafeterias operated by industrial plants for employees; (iv) volunteer fire departments and rescue squads, and nonprofit churches and organizations on an occasional basis, not exceeding three times per calendar year, as a fundraising activity; (v) churches to their members; (vi) nonprofit cafeterias in public schools; (vii) hospitals, nursing homes, medical clinics, convalescent homes; (viii) day care centers; (ix) home for the aged, infirm, handicapped, battered women, narcotic addicts, or alcoholics; and (x) age restricted apartment complexes.

The tax also may not be levied on (i) discretionary gratuities; (ii) mandatory gratuities and service charges that do not exceed 20% of the sales price; and (iii) alcoholic beverages sold in factory sealed containers. The tax does apply to prepared foods ready for human consumption sold at grocery stores and convenience stores.

City Meals Tax

Currently, any city or town having general taxing powers as established by charter may impose a local meals tax through the adoption of an ordinance by the local governing body. The tax does not apply to: 1) discretionary gratuities paid in addition to the sales price of the meal; 2) mandatory gratuities, to the extent they do not exceed 20% of the sales price; 3) food and beverages sold through vending machines; or 4) food and beverages purchased with food coupons or drafts issued through the Virginia Special Supplemental Food Program for Women, Infants, and Children. Similarly, the tax does not apply when food is sold or provided by: 1) restaurants as employee meals, considered compensation; 2) volunteer fire departments and rescue squads; nonprofit churches or other religious bodies; educational, charitable, fraternal, or benevolent organizations, on an occasional basis as a fundraising activity; 3) churches regularly serving meals for their members; 4) public or private elementary, secondary schools, colleges, and universities, to their students or employees; 5) hospitals, medical clinics, convalescent homes, nursing homes, or other extended care facilities to patients or residents; 6) day care centers; 7) homes for the aged, infirm, handicapped, battered women, narcotic addicts, or alcoholics; or 8) age-restricted apartment complexes or residences with restaurants, not open to the public, where meals are served and fees are charged for such food and beverages.

Proposal

This bill would, beginning January 1, 2028, cap the maximum allowable tax rate that localities may impose on meals and prepared food and beverages at no more than four percent, unless a higher rate of no more than six percent is authorized via local referendum. The bill would limit the rate of tax in towns to the amount of any food and beverage tax imposed by the county in which the town is located but requires that no town shall impose any rate if, when added to the county food and beverage tax rate, such tax rate exceeds the four or six percent limit, as applicable.

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cc: Secretary of Finance

Date: 01/15/2025 VB
HB2004F161