

**DEPARTMENT OF TAXATION
2001 Fiscal Impact Statement**

1. Patron Shuler

2. Bill Number HB 2275

3. Committee House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. Title Business, Professional and Occupational
License Tax: Elimination of the Fee;
Uniform Threshold; and Uniformity
of Tax Rates among Classifications

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would change the structure of the local Business, Professional and Occupational License (BPOL) tax to require that all counties, cities and towns (a) eliminate the license fee by 2004; (b) exempt businesses with gross receipts of less than \$100,000 from any license taxation by January 1, 2004; and (c) impose a rate not to exceed twenty cents per \$100 on all businesses with gross receipts in excess of \$100,000.

The effective date of this bill is not specified. Localities are required to have a schedule of the rate reductions available to taxpayers by January 1, 2002. The other provisions of the act become effective January 2004.

6. Fiscal Impact Estimates are: Not Available. (See Line 8.)

7. Budget amendment necessary: No

8. Fiscal implications:

There would be no revenue impact to the state. The magnitude of the impact of the structural changes proposed in this bill is unknown, as there is wide variance among localities in the application of the rates.

9. Specific agency or political subdivisions affected:

All localities that impose the BPOL tax.

10. Technical amendment necessary: None.

11. Other comments:

The Business, Professional and Occupation License (BPOL) tax is a tax on businesses for the privilege of engaging in business at a definite place of business within a Virginia locality. The BPOL tax is a local option tax. Currently, approximately 52 counties, 40 cities and 33 towns impose some form of the BPOL tax. In FYE 1999, the BPOL tax generated in excess of \$385 million dollars in revenue for those localities. Statewide, the tax accounted for a median of 5.14 percent of local revenues, in some localities it amounted to 9 percent of local revenues.

Current BPOL Law

The measure or basis of the BPOL tax generally is the gross receipts of the business. "Gross receipts," means the whole, entire, total receipts, without deduction. The BPOL tax is a tax on gross receipts, not net income. The fees and the tax rates set forth below are the maximum amounts that a locality may assess businesses. Some localities do not assess at the maximum rate permitted by state law, and many localities do not impose the tax. The locality may not assess a license tax on gross receipts upon which it charges a license fee.

Fee: Any locality may charge a license fee in an amount not to exceed:

- ! \$100 for any locality with a population greater than 50,000
- ! \$50 for any locality with a population of 25,000 but no more than 50,000
- ! \$30 for any locality with a population smaller than 25,000

Tax: Localities may not impose a license tax on a business with gross receipts:

- ! less than \$100,000 in any locality with a population greater than 50,000
- ! less than \$50,000 in any locality with a population of 25,000 but no more than 50,000.

Under this bill, the license fees would be eliminated, and a uniform license tax threshold of \$100,000 in gross receipts would be created for all localities regardless of population.

Classification Rates For Tax

- ! Contracting; sixteen cents per \$100 of gross receipts
- ! Retail sales; twenty cents per \$100 of gross receipts
- ! Financial, real estate and professional services, fifty-eight cents per \$100 of gross receipts
- ! Repair, personal and business services, and all other businesses; thirty-six cents per \$100 of gross receipts.

Under this bill, these different rates would be eliminated, and replaced by a uniform rate of twenty cents per \$100 of gross receipts for all businesses.

Uniform Ordinance Provisions

The 1996 amendments to the BPOL law included the uniform ordinance provisions that facilitate uniform administration of the BPOL tax across the state and include:

- ! situs rules for the attribution of gross receipts
- ! due dates for filing BPOL local applications
- ! provisions for the imposition of penalties and interest
- ! statutes of limitations for assessment and collection
- ! a local administrative appeal procedure
- ! a procedure to appeal audit assessments to the state Tax Commissioner
- ! provisions regarding written rulings, record keeping and audits.

Role of the Department of Taxation

Since 1996, when uniform ordinance provisions were enacted to amend the current BPOL statutes, the department has been responsible for ruling on appeals of BPOL tax audit assessments and issuing official written opinions on non-appeal questions. The 1996 amendments were intended to bring about uniformity in the administration of the local BPOL tax and to institute common procedures within localities for appealing BPOL assessments. The procedures for appealing BPOL assessments include the right to appeal certain assessments to the state Tax Commissioner.

This bill does not change the uniform ordinance provisions cited above. The Department of Taxation would continue its role of ruling on BPOL appeals and issuing advisory opinions. Furthermore, this bill does not alter the exclusions, exemptions and deductions in current law, nor does it affect certain special categories identified in current law.

This bill would impose the new structure on those localities that currently operate under a grandfather provision, which allows them to maintain a higher rate structure if that structure was in effect January 1, 1978.

cc: Secretary of Finance

Date: 1/14/01/slr

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