

**DEPARTMENT OF TAXATION  
2022 Fiscal Impact Statement**

1. **Patron** Mark L. Keam

2. **Bill Number** HB 698

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** License taxes; Exemptions

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would authorize localities, for taxable years beginning on or after January 1, 2023, to exempt any class of taxpayers from license taxes and fees. The bill would require that such exemption be made by general law and be uniform upon taxpayers operating in the same line of business or trade but that localities shall have discretion to determine the classes of taxpayers that shall be exempted. The bill would not apply to any gas severance tax that is levied as a license tax.

Under current law, localities levying a license tax or fee are only authorized to exempt, by ordinance, license fees or license taxes on any business that does not have an after-tax profit for the taxable year and offers the income tax return of the business as proof to the local commissioner of the revenue.

If enacted during the regular session of the 2022 General Assembly, this bill would become effective July 1, 2022.

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

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

**8. Fiscal implications:**

Administrative Costs

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

Revenue Impact

This bill could have an unknown impact on local revenues in localities that choose to exercise the authority granted by this bill. This bill would have no impact on state revenues.

**9. Specific agency or political subdivisions affected:**

Localities that impose license taxes or fees

**10. Technical amendment necessary: No.**

**11. Other comments:**

Local License Taxes

Under current law, localities are authorized to impose license taxes upon local businesses. The Business, Professional and Occupational (“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 currently imposed in all 39 cities, 48 of the 95 counties, and many of the towns of the Commonwealth. The measure or basis of the BPOL tax generally is the gross receipts of the business. However, current law allows localities to assess the BPOL tax on either gross receipts or the Virginia taxable income of a business.

Under current BPOL law, any locality may charge a license fee in an amount not to exceed:

- \$50 for any locality with a population of 25,000 or greater
- \$30 for any locality with a population smaller than 25,000

The locality may not assess a license tax on gross receipts upon which it charges a license fee. Additionally, the locality 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.

Any business with gross receipts in excess of these thresholds may be subject to license tax at a rate not to exceed the rates set forth below:

- 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.

Exemption Authority

For taxable years beginning on or after January 1, 2012, any locality may exempt, by ordinance, license fees or license taxes on any business that does not have an after-tax profit for the taxable year and offers the income tax return of the business as proof to the local commissioner of the revenue. Eligibility for this exemption must be determined

annually and it is the obligation of the business owner to submit the applicable income tax return to the local commissioner of the revenue.

### Proposal

This bill would authorize localities, for taxable years beginning on or after January 1, 2023, to exempt any class of taxpayers from license taxes and fees. The bill would require that such exemption be made by general law and be uniform upon taxpayers operating in the same line of business or trade but that localities shall have discretion to determine the classes of taxpayers that shall be exempted. The bill would not apply to any severance tax that is levied as a license tax.

If enacted during the regular session of the 2022 General Assembly, this bill would become effective July 1, 2022.

### Similar Legislation

**House Bill 380** would prohibit any county, city, or town from imposing any license tax or fee, other than any severance tax levied as a license tax, in any taxable year beginning on or after January 1, 2023.

**House Bill 1084** would prohibit a locality from imposing a license tax on a director of a bank or trust company that is subject to the bank franchise tax.

cc : Secretary of Finance

Date: 1/20/2022 VB  
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