



CHMURA ECONOMICS & ANALYTICS

# Evaluation of Virginia's BPOL Tax and Industry Profitability

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# Background

- BPOL = business, professional and occupational license [tax]
- VA law authorizes localities to impose license tax on businesses and professionals
- Calculating taxes
  - Tax rates calculation against gross receipts\*
  - Tax rates relative to total profits (need to measure **tax burden**). Also known as **Effective Tax Rate**.
    - Effective tax rate (%) = BPOL taxes / total profits
- VA Retail Federation interest
  - How BPOL compares to current profit margins of all industry sectors

\*Exception is wholesale where BPOL can be based on either gross receipts or total profits.

# 1978 VA General Assembly Set Rate Caps Based on Business Classifications

- Set max rates after studying *industry profit margins*
- But tax still collected based on receipt
- Implicit assumption is that businesses should pay equal taxes as a percentage of profits rather than gross receipts
- Rates have not been revised for 30 years

# Conclusions

- VA retailers pay a higher percentage of profits than the industry average
- Widespread differences in effective BPOL tax rates by industry and county/city

# 64% of VA Localities Collect BPOL Taxes (Fiscal Year 2007)\*

- All 39 cities collect BPOL
- 47 of 95 counties collect BPOL
- BPOL accounts for 6.4% of tax revenue for VA cities
- BPOL account for 4.0% of all tax revenue for VA counties

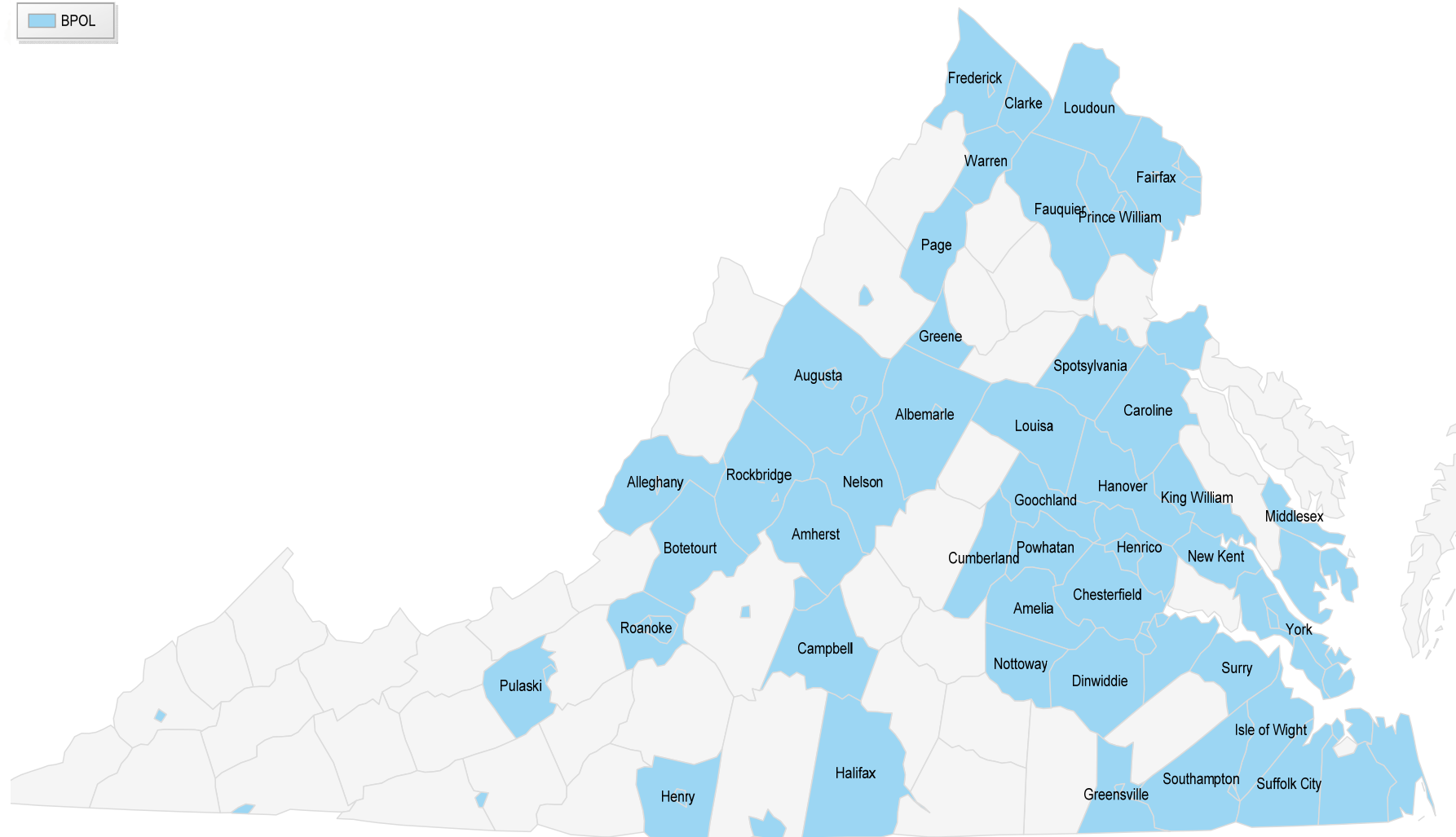
\*Source: Weldon Cooper Center for Public Service.

# BPOL Business Categories Vary Across Localities

- VA law doesn't define categories
- 80 localities have 5 major categories shown below
  - Contractors
  - Retailers
  - Finances, real estate and professional services
  - Repair, personal and business services
  - Wholesale
- 6 localities use 9 categories; some have less than 4; some have no BPOL
- Relative importance of BPOL ranked after real estate, personal property tax, and sales tax

# Localities in Blue Impose BPOL Taxes

BPOL



# Average BPOL Tax Rate per \$100 Gross Receipts Vary by Industry, 2008

- Contractors (\$0.14 per \$100)
- Retailers (\$0.17 per \$100)
- Finance, real estate and professional services (\$0.39 per \$100)
- Repair, personal and business services (\$0.26 per \$100)
- Wholesale (\$0.03 per \$100 Gross Receipt)

Note: Some localities charge wholesale BPOL based on gross purchase



# BPOL Taxes Vary By City and County

Table 4.1: BPOL Tax Summary in Virginia (2008)

Business Sector	Virginia Average (\$ per \$100 of Gross Receipts)	Virginia City Average (\$ per \$100 of Gross Receipts)	Virginia County Average (\$ per \$100 of Gross Receipts)	State Maximum Rate (\$ per \$100 of Gross Receipts)
Contracting	0.14	0.16	0.13	<b>0.25</b>
Retail	0.17	0.20	0.16	<b>0.25</b>
Repair	0.26	0.34	0.21	<b>0.36</b>
Personal Services	0.26	0.35	0.22	<b>0.36</b>
Business Services	0.26	0.34	0.21	<b>0.36</b>
<b>Finance</b>	<b>0.39</b>	<b>0.53</b>	<b>0.31</b>	<b>0.58</b>
Real Estate	0.38	0.51	0.31	<b>0.58</b>
<b>Professional Services</b>	<b>0.39</b>	<b>0.54</b>	<b>0.31</b>	<b>0.58</b>
Wholesale Gross Receipts	0.00	0.01	0.00	<b>0.25</b>
Wholesale Gross Purchases	0.07	0.14	0.04	<b>0.31</b>

Source: Weldon Cooper Center for Public Service, University of Virginia

# Effective BPOL Tax Varies

Table 5.1: Effective BPOL Tax Rate - Virginia

	Nominal BPOL Tax Rate (\$ per \$100 of Gross Receipts)	Effective BPOL Tax	
		Rate (\$ per \$100 of Profits)	Estimated Profit Margin
Professional and Technical Service	0.39	13.99	3%
Healthcare and Social Assistance	0.30	3.89	8%
Arts, Entertainment and Recreation	0.26	3.69	7%
Administrative and Waste Service	0.26	3.06	8%
Transportation and Warehousing	0.26	2.57	10%
Accommodation and Food Service	0.26	2.53	10%
Management of Companies and Enterprises	0.26	2.42	11%
Other Services	0.16	2.22	7%
Construction	0.14	2.16	6%
<b>Retail Trade</b>	<b>0.17</b>	<b>1.56</b>	<b>11%</b>
Information	0.18	0.77	24%
Real Estate and Rental and Leasing	0.37	0.71	52%
Finance and Insurance	0.13	0.32	40%
Wholesale Trade	0.03	0.24	12%
Agriculture, forestry, fishing and hunting	0.00	0.00	23%
Educational Services	0.00	0.00	7%
Government	0.00	0.00	18%
Manufacturing	0.00	0.00	8%
Mining	0.00	0.00	20%
Utilities	0.00	0.00	35%
<b>Industry Average</b>	<b>0.16</b>	<b>0.90</b>	<b>18%</b>

Source: IMPLAN Pro 2007 and Chmura Economics & Analytics

# Within Retail Industry, Effective BPOL Rates also Vary

Table 5.2: Effective BPOL Tax Rate - Virginia Retail Industries

	Nominal BPOL Tax Rate (\$ per \$100 of Gross Receipts)	Effective BPOL Tax Rate (\$ per \$100 of Profit)	Estimated Profit Margin
Electronics and appliances	0.17	18.27	1%
Motor vehicle and parts	0.17	5.89	3%
Health and personal care	0.17	3.99	4%
Food and beverage	0.17	2.91	6%
Miscellaneous	0.17	2.55	7%
General merchandise	0.17	2.52	7%
Sporting goods- hobby- book	0.17	1.82	10%
Furniture and home furnishing	0.17	1.47	12%
Building material and garden	0.17	1.34	13%
Clothing and clothing accessory	0.17	0.88	20%
Gasoline stations	0.17	0.87	20%
Direct and electronic retail sale	0.17	0.47	37%
<b>Retail Average</b>	<b>0.17</b>	<b>1.56</b>	<b>11%</b>

Source: IMPLAN Pro 2007 and Chmura Economics & Analytics

# Variation by Locality: Retail

Table 6.2: Localities with Highest & Lowest Effective BPOL for Retail

	BPOL Tax Rate Average (% Profit)	BPOL Tax Rate Retail (% Profit)
Falls Church	1.47	2.64
Fairfax City	0.90	2.61
York	0.84	2.44
Covington	1.24	2.34
Waynesboro	1.20	2.31
Harrisonburg	1.04	2.27
Portsmouth	0.92	2.24
Bristol	0.66	2.23
Frederick	0.86	2.23
Newport News	0.97	2.20
Greensville	0.90	0.71
Bedford	0.69	0.70
Botetourt	0.48	0.54
Amelia	0.51	0.50
Nottoway	0.20	0.49
Middlesex	0.32	0.46
Goochland	0.56	0.37
Amherst	0.58	0.00
Hanover	0.10	0.00
Louisa	0.04	0.00

**Virginia State**

**Average**

**0.90**

# Impact on Growth?

- Virginia specific studies on taxes, job creation, business expansion do not exist
- National studies (Romer and Romer, 2007) show tax increases have a “large, rapid and highly statically significant negative impact on output.”
  - Reduces investment
  - Reduces gross domestic product

# 1995 Tax Executive Institute Filed Brief: Repeal BPOL Taxes

- BPOL based on gross receipts is “blind” to businesses ability to pay tax
- Unfair without considering profits versus gross receipts
- Biased against new businesses because they often don't earn profits in first year
- Inconsistent across jurisdictions prevents adoption of best practices

# 2001 Joint Subcommittee of VA General Assembly

- 18 month study: VA state and local tax structure
- Assessed current tax code, heard testimony
- Some suggested repealing BPOL and replace with increased sales or corporate income taxes
- Faced with worsening economic conditions, decided not to enact dramatic change in VA tax codes...no change to BPOL

# Alternatives to BPOL?

- Replace it with other taxes?
- Consider creating consistency across jurisdictions
- Some potential improvements are clear
- Tax profits rather than gross receipts
- Create consistency across industries
- Exempt start ups