JLARC

JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

Technical Report: Impact of Changing the Basis of the BPOL Tax From Gross Receipts to Income

COMMISSION BRIEFING

October 15, 2013

Study Mandate

Study the impact of restructuring the local Business, Professional, and Occupational License (BPOL) Tax such that the basis of the tax is changed from gross receipts to net income.

For full text see Item 31 F of the 2012-2014 Appropriation Act

Research Activities

- Interviews
  - Staff at Department of Taxation, other tax experts
  - Industry representatives
  - Local Commissioners of the Revenue
- Data collection and analysis
  - Local, State, and federal tax records of all businesses subject to 2012 BPOL tax in 10 Virginia localities
- Literature review

In Brief

Using income as the basis for the BPOL tax could

- reduce local BPOL revenue by up to 95%
- considerably decrease the tax liability of businesses that currently pay the tax, but to varying degrees
- require an average BPOL tax increase of 40% on profitable businesses to maintain the same level of local revenue
- be far more difficult for businesses to understand and local governments to administer

BPOL Is Tax Imposed in Most Virginia Localities

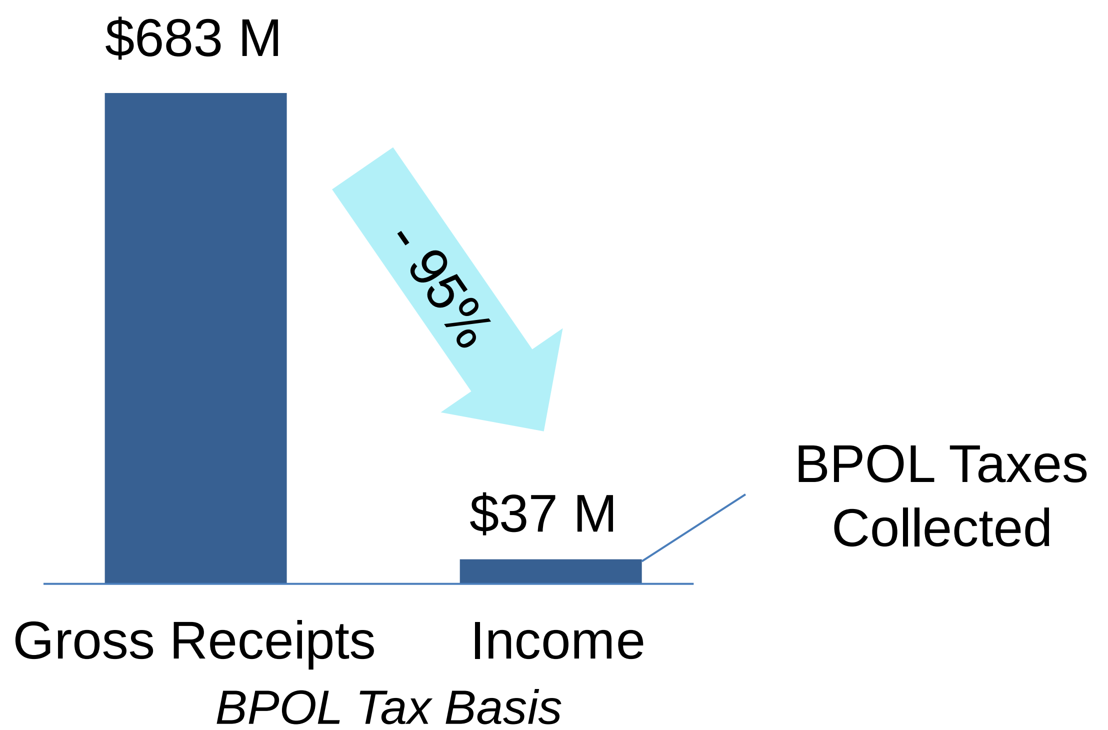
- Privilege tax in 39 cities, 49 counties, and 124 towns
- Based on gross receipts generated in locality
  - Pay tax regardless of profitability
- Applies to five industry sectors
- Tax rates vary among localities and industry sectors, subject to a statutory maximum

BPOL Tax Is Large Source of Local Revenue Paid by < Half of Businesses Subject to Tax

- BPOL raised $683 million in FY12
  - 4.2% of local revenue on average, but 9.5% for towns
- 60% of businesses pay a small fee or no tax*
- 90% of BPOL revenue is from businesses with > $1 million in gross receipts*

* Based on analysis of 2012 data in 10 localities.

Statewide BPOL Revenue Estimated to Have Been 95% Lower Using Income Basis, Current Rates (2012)

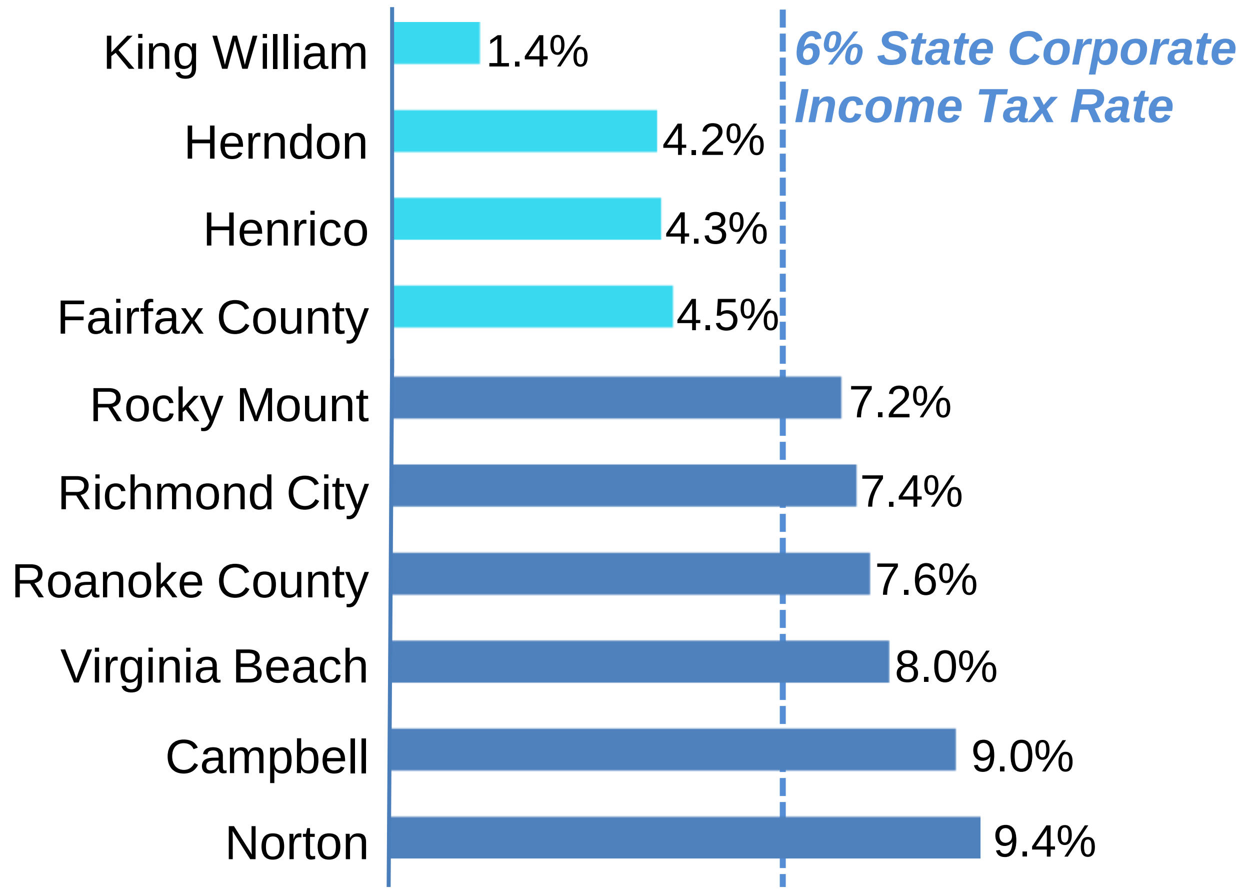


BPOL Tax Liability of All Businesses Would Decrease, to Varying Degrees*

- Average BPOL liability estimated to decrease by 90% or more
- Largest % tax reduction among
  - Retailers and wholesalers
  - Unprofitable or low-profitability businesses
  - C-corporations

* Based on analysis of 2012 data in 10 localities.

Average BPOL Tax Rate of 5% on Income Needed to Achieve Revenue Neutrality (2012)



Average Business Tax Liability Would Increase by 40% to Achieve Revenue Neutrality*

- Certain businesses would pay more to make up for taxes no longer paid by unprofitable businesses, especially
  - Repair, personal, & business service providers
  - High profitability businesses
  - Sole proprietorships
- Other businesses would still pay lower taxes
  - Retailers
  - Unprofitable or low profitability businesses
  - C-corporations

* Based on analysis of 2012 data in 10 localities.

Income Basis Would Be More Difficult to Comply With and Administer

- Tax form preparation more cumbersome for businesses, and more local government resources needed to collect and verify information
- Implementation could create new inequities
- Timing of information could delay tax collection

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