

Impact of BPOL on Business

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Background on BPOL

- ❑ BPOL = business, professional and occupational license [tax]
- ❑ Originally instituted to pay for the War of 1812
- ❑ VA law authorizes localities to impose BPOL
- ❑ Tax is calculated against gross receipts
- ❑ VA 1 of 5 states who levy some type of gross receipts tax



General Assembly Set Rate Caps

- ❑ Set max rates after studying *industry profit margins*
- ❑ But tax still collected based on gross receipts
- ❑ Rates have not been revised for over 30 years
- ❑ Many localities charge the max rates
- ❑ BPOL tax rates based on 5 broad categories of businesses and some localities will define them in greater detail
 - Contractors; Retailers; Financial, Real Estate and Professional Services; Repair, Personal and Business Services; Wholesale



Background on Merchant's Capital

- ❑ Merchants' Capital Tax is an inventory tax
- ❑ Virginia is 1 of 13 states with inventory taxes
- ❑ Locality cannot charge both Merchant's Capital and BPOL



95% of VA Cities & Counties Collect BPOL & Merchant's Capital Taxes (FY 2011)

- ❑ All 39 cities collect BPOL
- ❑ 48 of 95 counties collect BPOL
- ❑ BPOL accounts for 6.22% of tax revenue for VA cities
- ❑ BPOL accounts for 3.79% of tax revenue for VA counties
- ❑ Businesses are levied different tax rates based on which of the following 5 major categories
- ❑ 40 of 95 counties collect Merchant's Capital
- ❑ MCT accounts for .13% of tax revenue for counties

Source: Weldon Cooper Center; Local Tax Rates, 2012



VRF Study (2009)

- Virginia Retail Federation (VRF) commissioned Chmura Economics & Analytics to conduct an evaluation of the VA's BPOL tax and industry profitability
- Analysis considered tax burden from two competing perspectives—tax rates levied against gross receipts versus total profits.
- Study concluded:
 - VA retailers pay a higher percentage of profits than the industry average
 - Widespread differences in effective BPOL tax rates by industry and county/city



Conclusions

- BPOL Business Categories Vary Across Localities
 - 80 localities have 5 major categories
 - 6 localities use 9 categories
 - Some have less than 4

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- The effective BPOL tax rate is used to measure tax burdens on businesses
 - Calculating taxes
 - Current tax rates calculations are against gross receipts
 - Effective tax rates are relative to total profits
 - $\text{Effective tax rate (\%)} = \text{BPOL taxes} / \text{total profits}$

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- The Virginia retail sector had an effective tax rate of 1.56% of profits which is higher than the industry average
 - In 83% of the localities collecting BPOL taxes, retail businesses paid a higher effective BPOL tax than the industry average



Impact on Growth

- Long criticized by tax experts because it is like sales taxes that are levied at every point along the production chain.
- Leads to tax pyramiding.
- “Blind” to businesses ability to pay tax
- Unfair without considering profits versus gross receipts – especially during a recession

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- ❑ Bias against new businesses because they often don't earn profits in first year
 - ❑ Creates serious equity issues
 - ❑ Adds unnecessary complexity to the tax code
 - ❑ Creates severe economic distortions