

Task Force #2 HJR 60 (2002)

Local Taxes Issue

- 3. Eliminate BPOL, machinery and tools, and merchants' capital tax---replace with increase in the corporate income tax.**
- 4. Increase the threshold at which the BPOL tax applies.**
- 5. Eliminate the BPOL tax.**
- 8. Allow localities to continue to exercise their current authority to levy BPOL and merchants' capital taxes.**

The business, professional and occupational license tax (Va. Code §§ 58.1-3700 through 58.1-3735), also known as the BPOL tax, and the merchants' capital tax (Va. Code § 58.1-3509 through 58.1-3510.3) are local taxes imposed on businesses. According to the Code of Virginia, a locality may impose within its jurisdiction either of the taxes but not both. However, the BPOL tax does not apply within the limits of an incorporated town unless the town grants the authority to do so (Va. Code § 58.1-3711).

All 39 cities in the Commonwealth imposed the BPOL tax in 2001 along with 44 of the 95 counties and 104 of the incorporated towns. None of the cities and only 49 of the counties impose the merchants' capital tax. Furthermore, only 13 towns authorize the use of the merchants' capital tax. The BPOL tax is by far the more popular of the two taxes among the localities.

It has been suggested that the BPOL tax be repealed (and presumably the merchants' capital tax) and that the lost revenues be replaced with (i) a flat fee, (ii) an increase in the state corporate income tax rate with the revenues from the increased rate going back to localities, or (iii) a combination of the two.

Attached are the following: (i) a chart showing selected revenue estimates for Fiscal Years 2003 and 2004; (ii) a detailed BPOL tax survey report prepared by representatives of the commissioners of the revenue; and (iii) a summary report of that same survey prepared by the commissioners of the revenue.