

**Alternatives for Eliminating the BPOL Tax**

Following are several alternatives for eliminating the BPOL tax and replacing the revenues currently generated from the tax. The estimates provided are, in large part, based on the results of a 2002 survey of local governments regarding the BPOL tax. Responses to the survey accounted for \$298,691,968 of the \$454,157,637 (or 66%) revenues generated from the BPOL tax in Fiscal Year 2001. Thus, estimates were extrapolated with 66% of the 2001 revenue data available.

Some of the alternatives are to replace the BPOL tax with a flat fee or another tax. These alternatives may need to include an annual rate adjustment to be revenue neutral in regard to replacing the BPOL tax. Such a rate adjustment could be used to compensate local governments for annual growth in the BPOL tax, which grew at an average annual rate of 4.5% between Fiscal Year 1994 and Fiscal Year 1999. The alternatives are:

I. Replace the BPOL tax with a uniform BPOL flat fee

The yearly fee for each business would be approximately \$1,336.

II. Replace the BPOL tax with a graduated BPOL flat fee

The yearly fee for each business would be determined by the business's gross receipts. As an example:

<u>Gross Receipts</u>	<u>Estimated Number of Businesses</u>	<u>Fee</u>	<u>Total Revenue</u>
\$0 - \$100,000	209,966	\$250	\$52,491,500
\$100,001 - \$250,000	42,516	\$500	21,258,000
\$250,001 - \$500,000	29,487	\$1,000	29,487,000
\$500,001 - \$1,000,000	23,332	\$2,000	46,664,000
\$1,000,001 - \$5,000,000	26,767	\$7,000	187,369,000
\$5,000,000 and over	<u>8,004</u>	\$15,000	<u>120,060,000</u>
	340,071		\$457,329,500

III. Replace the BPOL tax with an increase in the net income tax on corporations and a uniform BPOL flat fee on all businesses

This proposal would increase the corporate net income tax by 4%. BPOL would be assessed as a uniform flat fee on all businesses. Under this proposal and proposals IV, V, and VI, the Commonwealth could collect the total corporate income tax and redistribute a portion back to local governments assessing BPOL. As an example:

Additional 4% income tax on corporations (total tax 10%):	\$240,000,000
Flat fee of \$630 for each business (\$630 x 340,071)	<u>214,244,730</u>
	\$454,244,730

IV. Replace the BPOL tax with an increase in the net income tax on corporations and a two-tiered BPOL flat fee

This proposal would increase the corporate net income tax by 4%. BPOL would be assessed as a two-tiered flat fee: \$50 on businesses with gross receipts of \$100,000 or less and a uniform flat fee on all businesses with gross receipts in excess of \$100,000. As an example:

Additional 4% income tax on corporations (total tax 10%):	\$240,000,000
Flat fee of \$50 for each business with gross receipts of \$100,000 or less (\$50 x 209,966)	10,498,300
Flat fee of \$1,565 for each business with gross receipts in excess of \$100,000 (\$1,565 x 130,106)	<u>\$203,615,890</u>
	\$454,114,190

V. Replace the BPOL tax with an increase in the net income tax on corporations and a graduated BPOL fee on all businesses

This proposal would increase the corporate net income tax by 4%. BPOL would be assessed as a graduated fee as determined by the business's gross receipts. As an example:

Additional 4% income tax on corporations (total tax 10%):	\$240,000,000
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<u>Gross Receipts</u>	<u>Estimated Number of Businesses</u>	<u>Fee</u>	<u>Total Revenue</u>
\$0 - \$100,000	209,966	\$125	\$26,245,750

\$100,001 - \$250,000	42,516	\$250	10,629,000
\$250,001 - \$500,000	29,487	\$500	14,743,500
\$500,001 - \$1,000,000	23,332	\$1,000	23,332,000
\$1,000,001 - \$5,000,000	26,767	\$2,250	60,225,750
\$5,000,000 and over	<u>8,004</u>	\$10,000	<u>80,040,000</u>
	340,071		\$215,216,000
GRAND TOTAL			\$455,216,000

VI. Replace the BPOL tax with an increase in the net income tax on corporations, a BPOL flat fee of \$50 on businesses with gross receipts of \$100,000 or less, and a graduated BPOL fee on businesses with gross receipts in excess of \$100,000

This proposal would increase the corporate net income tax by 4%. BPOL would be assessed as a fee of \$50 on businesses with gross receipts of \$100,000 or less and a graduated fee on businesses with gross receipts in excess of \$100,000. As an example:

Additional 4% income tax on corporations (total tax 10%): \$240,000,000

<u>Gross Receipts</u>	<u>Estimated Number of Businesses</u>	<u>Fee</u>	<u>Total Revenue</u>
\$0 - \$100,000	209,966	\$50	\$10,498,300
\$100,001 - \$250,000	42,516	\$250	10,629,000
\$250,001 - \$500,000	29,487	\$500	14,743,500
\$500,001 - \$1,000,000	23,332	\$1,250	29,165,000
\$1,000,001 - \$5,000,000	26,767	\$2,600	69,594,200
\$5,000,000 and over	<u>8,004</u>	\$10,000	<u>80,040,000</u>
	340,071		\$214,670,000
GRAND TOTAL			\$454,670,000

VII. Replace the BPOL tax with a sales and use tax

An additional sales and use tax of about nine-sixteenths would be needed to replace the BPOL tax. The revenue generated from this tax is estimated to be \$452.4 million.