

REVIEW OF BPOL ISSUES

- The Hanger/McDonnell Commission formed a working group to address issues relating to the BPOL tax.
 - The business community believes the BPOL tax should be repealed. Some objections raised at the working group meetings were: (i) because the tax is imposed on the gross receipts of businesses, the tax does not take into account the taxpayer's ability to pay; (ii) the tax does not favor economic growth; (iii) the tax is not equitable and broad-based due to the numerous exemptions from the tax; and (iv) the tax is difficult to administer.

As a whole, the business community believes that local governments need to be made whole in terms of lost revenue from any repeal of the BPOL tax.
 - Representatives of Virginia's local governments stated that the BPOL tax generated more than \$459 million in local revenue in fiscal year 2001 (BPOL tax revenues for the fiscal year ending June 30, 2002, were \$434.4 million).
 - These representatives indicated that the BPOL tax accounted for more than 4 percent of all locally generated revenue and that some localities relied on the tax for as much as 25.6 percent of their locally generated revenues (Farmville). All 39 cities, 53 of the 95 counties in the Commonwealth, and 36 towns impose the BPOL tax.
 - Local governments believe that the BPOL revisions passed by the 1996 General Assembly have improved administration of the BPOL tax. Under the 1996 legislation, taxpayers were given a right to appeal BPOL taxes to the Department of Taxation.
- Specific proposals for repealing and replacing the BPOL tax were made during the working group meetings.
 - Several replacement options for the BPOL tax were proposed by various members of the business community. They included replacing the tax with (i) one flat fee charged to all businesses, (ii) a graduated fee determined by gross receipts level, (iii) a sales tax, (iv) a combination of an increase in the corporate income tax with a fee charged to all businesses, and (v) a net income tax on business income (this would include corporations, partnerships,

proprietorships, limited liability companies and all other business entities).

- Specifically, two proposals provided for a repeal of the tax over 5 years and 10 years, respectively. The proposals provided for a rollback of the BPOL tax rates by an equal amount each year (ultimately down to \$0.00) and replacement of loss revenues to local governments through increases in the sales and/or corporate income taxes.
- In lieu of repealing the BPOL tax, the business community proposed an adjustment to the current tax on retailers, which is imposed at a rate of \$0.20 per \$100 of gross receipts. The business community proposed reducing the rate on retailers to \$0.10 per \$100 of gross receipts to take into account the smaller profit margins realized by retailers (in comparison to the profit margins realized by contractors and services providers).
- For various reasons, no agreements on BPOL were reached by the business community and local government representatives.