

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Nicholas J. Freitas

3. **Committee** House Finance

4. **Title** Local License Taxes; Elimination of Authority to Impose

2. **Bill Number** HB 380

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would prohibit any county, city, or town from imposing any license tax or fee in any taxable year beginning on or after January 1, 2023. The bill does not apply to any severance tax that is levied as a license tax.

Under current law, localities are generally authorized to impose license taxes upon local businesses. The Business Professional and Occupational License (BPOL) tax is a tax on businesses for the privilege of engaging in business at a definite place of business within a Virginia locality.

This bill would be effective for taxable years beginning on or after January 1, 2023.

6. **Budget amendment necessary:** No

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

This bill could result in administrative costs to localities that currently impose a BPOL tax. It would have no impact on state administrative costs.

Revenue Impact

This will would result in an unknown negative revenue impact to localities that currently impose a BPOL tax. According to the Auditor of Public Accounts, business license taxes accounted for \$836,265,467 in local revenue for all counties, cities, and towns in Fiscal Year 2020. This bill would have no impact on state revenues.

9. **Specific agency or political subdivisions affected:**

All localities

10. Technical amendment necessary: No

11. Other comments:

BPOL Tax

Under current law, localities are authorized to impose license taxes upon local businesses. The BPOL tax is a tax on businesses for the privilege of engaging in business at a definite place of business within a Virginia locality. The BPOL tax is currently imposed in all 39 cities, 48 of the 95 counties, and many of the towns of the Commonwealth. The measure or basis of the BPOL tax generally is the gross receipts of the business. However, current law allows localities to assess the BPOL tax on either gross receipts or the Virginia taxable income of a business.

Under current BPOL law, any locality may charge a license fee in an amount not to exceed:

- \$50 for any locality with a population of 25,000 or greater
- \$30 for any locality with a population smaller than 25,000

The locality may not assess a license tax on gross receipts upon which it charges a license fee. Additionally, the locality may not impose a license tax on a business with gross receipts:

- less than \$100,000 in any locality with a population greater than 50,000
- less than \$50,000 in any locality with a population of 25,000 but no more than 50,000.

Any business with gross receipts in excess of these thresholds may be subject to license tax at a rate not to exceed the rates set forth below:

- Contracting - sixteen cents per \$100 of gross receipts
- Retail sales - twenty cents per \$100 of gross receipts
- Financial, real estate and professional services - fifty eight cents per \$100 of gross receipts
- Repair, personal and business services, and all other businesses - thirty six cents per \$100 of gross receipts.

Local Severance Taxes

Under current law, localities are generally prohibited from imposing a license tax or fee on any person engaged in the business of severing minerals from the earth for the privilege of selling the severed minerals at wholesale at the place of severance. However, localities are authorized to levy a severance tax that is capped at one percent of the gross receipts from the sale of coal or gases severed within such county.

A county or city may also levy an additional license tax on every person engaging in the business of severing gases from the earth at a rate not to exceed one percent of the gross

receipts from the sale of gases severed within such locality. The revenue received from the tax is paid into the General Fund, except for the localities that comprise the Virginia Coalfield Economic Development Authority. In those localities, 50% of the revenues are paid to the Virginia Coalfield Economic Development Fund.

Legislation enacted during the 2021 General Assembly extended the expiration date for local severance taxes from January 1, 2022 to January 1, 2024.

Proposal

This bill would prohibit any county, city, or town from imposing any license tax or fee in any taxable year beginning on or after January 1, 2023. The bill does not apply to any severance tax that is levied as a license tax.

If enacted during the regular session of the 2022 General Assembly, this bill would become effective January 1, 2023.

Similar Bills

House Bill 698 would authorize localities to exempt any class of taxpayers from license taxes and fees. The bill provides that such exemption shall be made by general law and shall be uniform upon taxpayers operating in the same line of business or trade and that localities shall have discretion to determine the classes of taxpayers that shall be exempted. The bill does not apply to any severance tax that is levied as a license tax.

House Bill 1084 would prohibit a locality from imposing a license tax on a director of a bank or trust company that is subject to the bank franchise tax.

cc : Secretary of Finance

Date: 1/20/2022 SK
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