

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 31, 2006
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: BUDGET MEMO #85 : BUSINESS LICENSE (BPOL) TAX RATES IN NEIGHBORING JURISDICTIONS

This is in response to a Council request for information regarding Business License (BPOL) tax rates in other jurisdictions. Business License tax rates vary according to type of business. The minimum tax is \$50 on business with less than \$100,000 in receipts. The City's BPOL rates have generally been set at the state maximum rates.

The state maximum rates were established in the State Code in late 1970's and were based on a State study of federal data which compared profit margins in certain classes of businesses with the gross receipts of those classes of businesses. While the rates are based on "averages" (there are clearly exceptions), in general the rate structure 30 years later still appears reasonably valid. Attempts to get the State to restudy the rate caps using updated federal data has not succeeded at the General Assembly level.

As a result of the State rate structure, higher margin businesses (such as professional firms and business services) received the highest rates and lower margin firms (such as retailers and wholesalers) received the lowest rates. The BPOL tax has many similar characteristics to a Value Added Tax (VAT) in that the businesses where employees make up a large portion of their costs (office based businesses) tend to add more value to the products of those businesses produced in the City, and also tend to have the higher BPOL rates. The exception to this is the property rental BPOL rates which are not permitted in most jurisdictions in the State and where the City has been grandfathered and allowed to keep the BPOL tax on property gross receipts.

In the business tax area, BPOL taxes have been the fastest growing local tax revenue source in the City (see budget memo #26). Since FY 1999, BPOL taxes have increased 78.5% or an average of 9.8% per year, and have helped partially counter the trend where commercial property taxes have declined as a share of total property taxes.

While the City's BPOL rates are higher than our surrounding jurisdictions, we have not found it to be a deterrent to business moving to or expanding in the City, nor a disincentive for businesses to stay in the City. Also the City has crafted some targeted incentives such as the research and development gross receipts exemption, and the recent elimination for almost all business start-ups of the taxation of estimated gross receipts in the first two years of business operations.

Business license tax rate per \$100 gross receipts*

	Alexandria	Arlington	Fairfax	Loudoun	Prince William	State Maximum
Amusement & Entertainment	0.36	0.25	0.26	0.21	0.21	0.36
Professional	0.58	0.36	0.31	0.33	0.33	0.58
Renting of Residential Property	0.5	0.28	0.26	0.16	na	**
Renting of Commercial Property	0.35	0.43	0.26	0.16	na	**
Financial Services	0.35	0.35	0.19	0.17	0.33	0.58
Personal, Business, & Repair Service	0.35	0.35	0.19	0.23***	0.21	0.36
Retail Merchants	0.2	0.2	0.17	0.17	0.17	0.2
Filling Stations	0.2	0.1	0.17	0.17	0.17	0.2
Contractors	0.16	0.16	0.11	0.13	0.13	0.16
Wholesale Merchants	0.05	0.08	0.04	0.05	0.05	0.05

* The tax does not apply to business receipts with gross receipts of \$100,000 or less.

** Jurisdictions not having tax in place by January 1, 1973 are restricted from assessing the BPOL tax on rental property. Other jurisdictions may not increase rates.

** *Loudoun County charges:
 \$0.05 for aircraft leasing
 \$0.15 for Computer Information Online Service Providers
 \$0.15 for Global Satellite Based Imaging & Mobile Data Services
 \$0.03 for Federally Appropriated Research & Development