

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 2, 2010
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER *J*
SUBJECT: BUDGET MEMO # 33 : GROSS RECEIPTS' TAX

This is in response to Councilman Krupicka's request for information regarding the process of granting a waiver of the gross receipts tax for retail establishments and the potential costs to the City of granting such a waiver to encourage retail development in targeted areas of the City.

State law allows localities to establish by ordinance one or more of the following areas: arts and cultural districts, technology zones, tourism zones, or local economic revitalization zones. Localities may provide tax incentives including the reduction of any type of gross receipts (BPOL) tax for up to twenty years in local tourism zones, and up to ten years in the other types of the special areas designated above. Localities can also create categorical carve outs (such as clothing sales within the retail category) within any BPOL category, and set a lower rate for the carve out.

The gross receipts (BPOL) tax is currently set at \$0.20 per \$100 gross receipts, the State maximum. Based on 2008 business license collections, it is estimated that if the City were to reduce the gross receipts tax for all retail businesses in the City, it would reduce revenues by approximately \$230,000 per \$0.01 reduction. The table below shows the effect of a decrease in the BPOL tax on three businesses by the amount of gross receipts.

Effect of decrease in Gross Receipts (BPOL) tax

Size of Business by Gross Receipts	Tax based on current rate of \$0.20 per \$100 gross receipts	1 cent reduction
\$250,000 (retail median)	\$500	\$25
\$500,000	\$1,000	\$50
\$1,000,000	\$2,000	\$100

Without setting more specific geographic parameters, it is not possible to determine the revenue cost to the City, although depending on the size and location of the zone and the amount of the tax reduction, the revenue loss could be modest. It should be noted that the Arlington retail rate is the same as Alexandria's \$0.20, and the Fairfax rate is \$0.17. In addition, Alexandria is the only jurisdiction where the payment of the gross receipts tax in the first two years of business is based on actual gross receipts and not on estimated gross receipts. This is a significant benefit to small start up business like retailers, as it provides targeted tax relief in the early years of a business's life.