

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRAURY 14, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO # 4: PROPOSED BUSINESS LICENSE TAX RELIEF

As background for the discussion of the business license tax relief proposal that is paired with the transportation add-on tax on non-residential commercial properties, attached you will find:

- (1)* BPOL Background and Tax Relief Proposal
- (2)* Graphic of Proposed BPOL Tax Relief
- (3)* Examples of Net Tax Impact of BPOL Reductions and Commercial Add-on Tax
- (4)* Impact of Commercial Add-on Tax on Varying Commercial Building Values
- (5) BPOL License Count by Category of Business and Gross Receipt Totals
- (6) Comparison of Alexandria, Arlington and Fairfax County BPOL rates

*Previously provided to Council at February 8 budget presentation

**CITY OF ALEXANDRIA
PROPOSED BUSINESS LICENSE (BPOL) TAX RELIEF**

BPOL Background:

- Proposed BPOL Tax Relief to be paired with the adoption of the transportation add-on tax on non-residential commercial properties. If the transportation add-on tax is not adopted, this BPOL tax relief would not be proposed for adoption.
- BPOL has been in place in Virginia for nearly two centuries, and is levied by nearly every county, city and town in Virginia.
- BPOL taxes provide about **\$30 million in GF revenue** to the City annually from over **11,000** business license holders (note a “business” is defined as anywhere from a large corporation to a person working part-time out of their house).
- Of these **11,000** business license holders, about **5,000** pay a gross receipts based tax. The remaining **6,000** generally pay \$50 per year for a business license as they gross \$100,000 per year or less.
- BPOL is based on gross receipts and the rate structure makes it a value added type tax (VAT).
- BPOL rates vary with wholesalers paying the least (5 cents per \$100 of gross receipts) and professionals paying the most (58 cents per \$100 of gross receipts).
- Alexandria is the only Virginia locality that has created a BPOL tax break by not taxing estimated receipts for small- and medium-sized businesses in the first two years of business, but taxing only actual receipts starting the second year of operation.

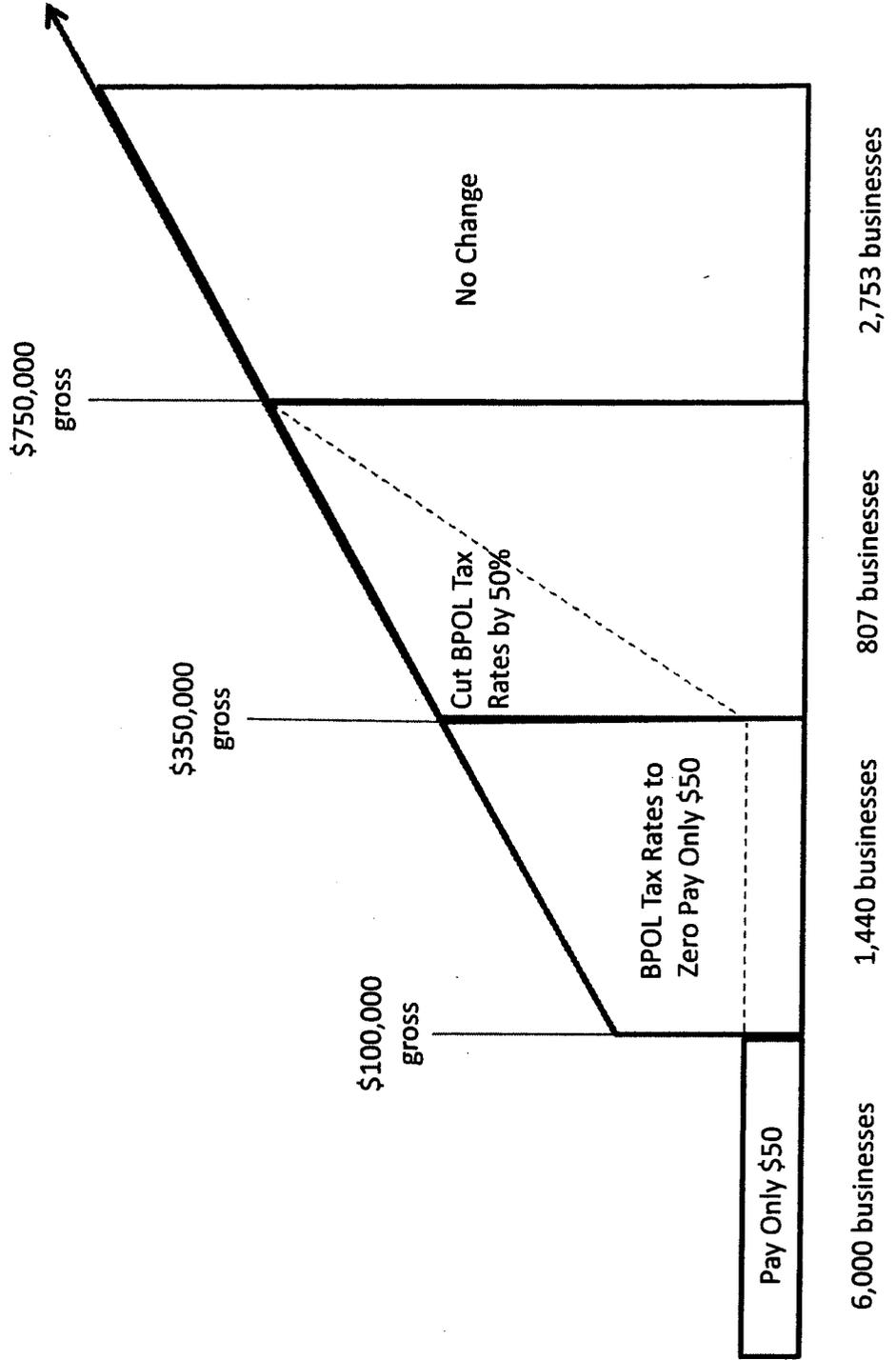
BPOL Tax Relief Proposal

- **\$2 million in benefits to businesses are proposed, with \$0.375 million being allocated to ACVA destination marketing and meetings attraction and with \$1.625 million being proposed for business license tax relief.**
- Based on studies, this investment in ACVA should produce a return-on-investment (ROI) for hotels, restaurants and retail stores at about \$40 million per year in increased tourist spending.
- The current threshold for paying the gross receipts tax is \$100,000 in Alexandria, Fairfax, Prince William, and \$200,000 in Loudoun.
- The first part of the proposal would be to **raise the threshold to \$350,000** which would become the highest exemption threshold in Virginia for localities that have a BPOL tax. Any business with a gross under this new threshold would still need to file and pay just the \$50 flat rate. **This would benefit 1,440 business license holders with an average savings of \$626.**
- Raising the threshold reduces the time and effort that a business needs to expend to prepare their BPOL filing.
- Businesses would be able to continue to have separate licenses for each physical location as well as for each type of business. (A hotel typically has business services and a restaurant license because the restaurant rate is lower.)

- The second part of the proposal would be to **cut the BPOL rate by 50% for businesses with a gross of between \$350,000 and \$750,000**. This would benefit **807 business license holders with an average savings of \$898**, and it also would reduce much of the impact of the “notch problem,” where one otherwise would pay no tax at \$X, but pay between \$500 and \$1,000 if one’s gross was \$X+1.
- The tax relief would be for payments made in 2012 on 2011 gross receipts amounts.
- **In total, some 2,247 small business license holders would benefit from this \$1.625 million in tax relief (\$723 average benefit with a benefit ranging from \$100 to \$2,175)**. This represents 45% of businesses that currently pay the gross receipts based tax.
- It is proposed that no tax relief be provided to: (1) commercial property owners who will likely be passing on the add-on tax to their tenants, (2) residential property rental businesses who would not be paying the transportation add on tax, and (3) public utilities, such as the electric and telecommunications firms.

2-8-11

City of Alexandria
Proposed Business License (BPOL) Tax Relief for Small Businesses



**CITY OF ALEXANDRIA
 EXAMPLES OF NET TAX IMPACT
 BPOL REDUCTIONS & COMMERCIAL ADD ON TAX**

Business Type (# Impacted)	Businesses with \$350,000 Gross Receipts	Businesses with \$700,000 Gross Receipts
Retail (346)	\$212 savings	\$176 cost
Restaurants (164)	\$212 savings	\$176 cost
Professionals (374) (i.e., accountants, etc.)	\$1,542 savings	\$1,155 savings
Business, Financial Personal Services (913) (i.e., governmental contractors, etc.)	\$737 savings	\$349 savings

2-8-11/Assumptions: Gross Receipts = \$350 Sq. Ft.; Real Estate = \$350 Sq. Ft.; actual savings or costs will vary based on individual business characteristics.

**IMPACT OF
COMMERCIAL ADD ON TAX**

<u>Commercial Building Value</u>	<u>Add On Tax @ 12.5¢</u>
\$0.5 million	+\$625
\$1 million	+\$1,250
\$3 million	+\$3,750
\$5 million	+\$6,250
\$10 million	+\$12,500
\$25 million	+\$31,250
\$50 million	+\$62,500

Number of Businesses Affected by Proposed Business License Tax Reduction (by category)

Businesses in Shaded areas are affected

	<\$100K	\$100K-\$350K	\$350K-\$750K	Above \$750K	Total
Builder/Developer	10	0	1	11	22
Contractors	213	70	33	292	608
Out of State Contractor Count	982	130	76	85	1,273
Total Builders	1,205	200	110	446	1,961
Amusements/Entertainment	24	3	2	13	42
Coin Operated Amusement Machine	5	0	0	-	5
Direct Seller Retail	3	0	0	-	3
Direct Seller Wholesale	1	0	0	-	1
Mfg/Process Sells Retail Count	13	2	0	3	18
Retail Merchants Count	939	220	126	463	1,748
Retail/Wholesale Merchants Count	34	9	4	17	64
Sell Items in Coin Oper Vend Count	11	1	1	3	16
Soliciting Agents for Goods	9	0	1	5	15
Total Retail	1,015	232	132	491	1,870
Restaurants	66	81	83	163	393
Business Services & Occupations	1,849	487	229	922	3,487
Financial Services & Occupations	105	31	18	68	222
Personal Services	556	95	53	194	898
Professional Occupations/Businesses	412	238	136	283	1,069
Repair Srvc & Occupations	171	53	34	105	363
Wholesale Merchants	47	20	10	72	149
Grand Total	5,450	1,440	807	2,699	10,396
Categories not affected by BPOL reduction	<\$100K	\$100K-\$350K	\$350K-\$750K	Above \$750K	Total
Rents, Commercial Property	259	147	58	133	597
Rents, Residential Property	42	36	10	81	169
Public Utilities	10	1	2	17	30
	311	184	70	231	796

Comparative Business License - Tax Rates per \$100 Revenue

Category	Arlington			Fairfax
	Alexandria	County	County	County
Contractors/Builders/Developers	0.16	0.16		0.11
Business Services	0.35	0.35		0.19
Financial Services	0.35	0.36		0.31
Personal Services	0.35	0.35		0.19
Professional Services	0.58	0.36		0.31
Repair Services	0.35	0.35		0.19
Retail Merchants	0.20	0.20		0.17
Restaurants	0.20	0.20		0.17
Wholesale Merchants*	0.05	0.08		0.04
Rents/Commercial Property	0.35	0.43		0.26
Rents/Residential Property	0.50	0.28		0.26

*Based on purchases for sale