

JLARC: Basing BPOL on net income has serious local implications

Local government revenue would take a devastating hit if the Business, Professional and Occupational License tax were based on net income instead of gross receipts.

That was the most sobering finding of a Joint Legislative Audit and Review Commission study released on Monday. The 2011 General Assembly charged JLARC with studying the impact of changing the tax from one based on gross receipts to net income. BPOL is imposed in 38 cities, 49 counties and 124 towns. The levy raised more than \$680 million in FY12.

Some of the key findings from the JLARC report included:

- 60 percent of businesses pay only a small fee or no tax;
- 90 percent of BPOL revenue is generated by businesses with more than \$1 million in annual gross receipts;
- Statewide, BPOL revenue would have been cut by 95 percent in 2012 - to \$37 million - if the tax were based on net income.

The proposal studied by JLARC was prompted by a perceived lack of fairness for businesses that generate low or no profits in a particular year. According to JLARC, large companies, retail and wholesale businesses, C-corporations, and businesses with low or no profits would benefit the most under the net income approach.

However, the average BPOL tax rate would have to shoot up to 5 percent (500 basis points) on business income to achieve revenue neutrality. Certain businesses would see their tax bills climb by an average of 40 percent, particularly repair, personal and business service providers; high profitability businesses; and sole proprietorships. The current maximum BPOL rate for certain businesses is 0.58 percent (58 basis points).

In addition, the study noted that tax form preparation under a net income model would be more cumbersome for businesses, requiring more local government resources to collect and verify information. New information requirements could delay tax collections.

JLARC did note that the maximum BPOL rates have not been updated since 1978, and could be adjusted to better correspond to current levels of profitability across industry sectors.

In 2011 the General Assembly passed legislation - SB 1408 (<http://1.usa.gov/1fFqFvl>) - allowing localities to exempt businesses from BPOL that lose money and are unprofitable during the taxable year.

Also in 2011, the General Assembly enacted HB 1587 (<http://1.usa.gov/19TCgTt>), which permits any county, city or town to provide relief from license taxes to any business locating in such county, city or town for the first time, for the first two years after such location.

Read the entire JLARC report at: <http://1.usa.gov/19OSXvd>.