DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement

1. **Patron** Vivian E. Watts

2. **Bill Number** HB 1743
   House of Origin:
   _____ **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

   Second House:
   X **In Committee**
   _____ **Substitute**
   _____ **Enrolled**

3. **Committee** Senate Finance and Appropriations

4. **Title** License taxes; Deduction for out-of-state receipts

5. **Summary/Purpose:**

   The bill would provide that, beginning July 1, 2026, the local license tax deduction for receipts attributable to out-of-state business shall be determined based upon the facts and circumstances of the taxpayer's business operations, without regard to the amount of income, receipts, or revenue ultimately computed as taxable under the methodology used by the state or country to which such receipts are attributable. The bill would also require the Department of Taxation ("the Department") to convene a workgroup to study the deduction and the bill's impact thereon.

   Under current law, any receipts attributable to business conducted in another state or foreign country in which the taxpayer is liable for an income or other tax based upon income are deductible from gross receipts or gross purchases for license tax purposes.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

   Administrative Costs

   This bill may have an unknown impact on local administrative costs.

   This bill would have no impact on state administrative costs.

   Revenue Impact

   This bill would have an unknown impact on local revenues but would not impact state revenues. The bill would expand an existing license tax deduction and would therefore decrease local license tax revenues but the extent of any such decrease cannot be estimated based on available data.

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

Department of Taxation
All localities

10. Technical amendment necessary: No.

11. Other comments:

Local License Taxes

Business, professional, and occupational license taxes ("BPOL") are 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.

Deduction for Out-of-State Taxes

Current law provides a deduction from a taxpayer's gross receipts or gross purchases for any receipts attributable to business conducted in another state or foreign country in which the taxpayer is liable for an income or other tax based upon income.

The Department considered the scope of the deduction for out-of-state taxes in Public Documents 18-170 and 22-117. In Public Document 18-170, the Department clarified that a business would be eligible for the deduction for gross receipts for states in which the business was liable for a tax based upon income, regardless of whether the tax is called an income tax. In Public Document 22-117, the Department determined that allowing the deduction for any taxes not imposed on or measured by net income would have the effect of broadening the deduction beyond the clear statutory language.

Proposal

The bill would provide that, beginning July 1, 2026, the local license tax deduction for receipts attributable to out-of-state business shall be determined based upon the facts and circumstances of the taxpayer's business operations, without regard to the amount of income, receipts, or revenue ultimately computed as taxable under the methodology used by the state or country to which such receipts are attributable.

The bill would define "income or other tax based upon income" as a net income tax, as defined in 15 *U.S.C*. § 383, or any other tax the measure of which is based in whole or in part on gross or net income, or receipts. 15 *U.S.C*. § 383 defines “net income tax” as any tax imposed on, or measured by, net income.

The bill would also require the Department to convene a work group to review (i) the current policy of, methodology of, and any concerns regarding the deduction, (ii) any potential impact or administrative complexities to taxpayers, and (iii) any impact to the deduction from other existing provisions of law. The bill would require that the work group consist of representatives of the Virginia Municipal League, the Virginia Association of Counties, the Commissioners of the Revenue Association of Virginia, and the Virginia Chamber of Commerce and any other key business representatives as determined by the Department. The bill would require the Department to submit a report of the findings and recommendations, if any, of the work group to the Chairs of the House Committee on Finance, the House Committee on Appropriations, and the Senate Committee on Finance and Appropriations by October 1, 2025.

cc: Secretary of Finance

Date: 02/06/2025 VB
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