

# Commission on Local Government

## Estimate of Local Fiscal Impact

2025 General Assembly Session | 2/10/25

In accordance with the provisions of 30-19.03 of the Code of Virginia, the staff of the Commission on Local Government offers the following analysis of legislation impacting local governments.

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### **HB 1743: License taxes; deduction for out-of-state receipts, effective date, report. (Patron: Vivian E. Watts)**

**Bill Summary:** License taxes; deduction for out-of-state receipts; work group; report. Provides that, for purposes of the license tax deduction for out-of-state receipts, such receipts shall be determined based upon the facts and circumstances of the taxpayer's business operation, 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 defines "income or other tax based upon income" as a net income tax, as defined in federal law, or any other tax the measure of which is based in whole or in part on gross or net income, or receipts. The bill has a delayed effective date with regard to such provisions of July 1, 2026. Finally, the bill directs the Department of Taxation to convene a work group to review the policies, methods, existing laws, and potential impacts of such license tax deduction and 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.

**Local Fiscal Impact:** Net Additional Expenditure:    x    Net Reduction of Revenues:    x   

### **Summary Analysis:**

**Number of Localities Responding: 5 Cities, 4 Counties, 2 Towns, 0 Other**

Localities estimated a negative fiscal impact ranging from \$120,000 to \$500,000 over the biennium.

Localities noted that the bill's fiscal impact is extremely difficult to quantify as it is currently written because it is difficult for localities to estimate the potential impact on revenues from business or professional license taxes. However, some localities expect the impact on BPOL taxes to be significant. Localities were able to state with more confidence that this would require more complex auditing and the potential need for more staff to complete such audits.

**Commission on Local Government**





Locality	Expenditure Narrative by Responding Localities
Albemarle County	The way the bill is written, it is not clear whether a business would be able to take deductions on local gross receipts taxes and income tax. The County is unable to quantify a number to measure the impact this bill would have on local revenues and expenditures as the County currently does not have gross receipts reported in a way that shows what is out-of-state versus in-state. The number would likely be significant, but it is impossible to predict. Additionally, the bill would require additional audit staff review, leading to increased expenditures.
Chesterfield County	This bill is not expected to have a significant impact on expenditures.
City of Alexandria	The fiscal impact of this legislation is unquantifiable. The legislation expands BPOL deductions for "gross receipts" in other states. Law already provides deduction for income taxes.
City of Harrisonburg, VA	The Commissioner of the Revenue Association opposed this bill because it is just not clear what the deductions would be based on. While direct fiscal impact is uncertain, it would create a need for more audit support staff for business reviews to determine if deductions were made.
City of Manassas	
City of Richmond	
City of Virginia Beach	After review, the City of Richmond has determined that additional staffing may be required as, "Such receipts shall be determined based upon the facts and circumstances of the taxpayer's business operations", potentially making the audit of such returns more involved. The recurring personnel expenditures above represent the cost of an additional 1.0 FTE in the role of Financial Regulatory Specialist, Senior.
Fauquier County	
Mecklenburg County	
Town of Christiansburg	I would not anticipate an increase in Town expenditures due to the proposed change.
Town of Rocky Mount	





Locality	Revenue Narrative by Responding Localities
Albemarle County	The way the bill is written, it is not clear whether a business would be able to take deductions on local gross receipts taxes and income tax. The County is unable to quantify a number to measure the impact this bill would have on local revenues and expenditures as the County currently does not have gross receipts reported in a way that shows what is out-of-state versus in-state. The number would likely be significant, but it is impossible to predict.
Chesterfield County	In FY24, Chesterfield County received over \$30 million in revenue from business and professional license taxes (BPOL). While the exact impact of HB1743 on these revenues is difficult to estimate, it is projected to be significant. BPOL taxes are the 5th largest revenue source for the general fund, making up over 5.5% of total revenues. The extent of the revenue loss will largely depend on the proportion of out-of-state business activities conducted by local businesses. Other logistical questions that may be answered through the bill's proposed work group also need to be resolved before the county can determine the full scope of the negative revenue impact. As amended, HB1743 has the potential to undermine revenue collection that supports vital county services, which could delay infrastructure projects and hinder economic growth.
City of Alexandria	The fiscal impact of this legislation is unquantifiable. The legislation expands BPOL deductions for "gross receipts" in other states. Law already provides deduction for income taxes.
City of Harrisonburg, VA	Unlikely to result in a loss of revenue, and also unlikely to materially increase revenue. The cost of auditing just increases.
City of Manassas	<p>Bill does not appear to provide any limitations on qualifying out-of-state receipts for deduction.</p> <p>Does the purchase of equipment or property qualify?</p> <p>If equipment purchased out-of-state qualifies, this bill appears to incentivize the acquisition of non-Virginia based equipment</p>
City of Richmond	After review, it is the City of Richmond's understanding that this amendment would apply only to taxes under Code of Virginia Chapter 37 - License Taxes. As Â§ 58.1-3732 Exclusions and deductions from "gross receipts" currently reads, "Any receipts attributable to business conducted in another state or foreign country in which the taxpayer (or its shareholders, partners, or members in lieu of the taxpayer) is liable for an income or other tax based upon income." These exclusions from gross receipts are already in effect. This bill, as proposed, simply adds language that clarifies the existing exclusion. However, we look forward to hearing the findings of the working group identified in Section 3 in the Fall of 2025 should this bill be adopted as currently drafted.
City of Virginia Beach	It is difficult to estimate the amount of lost BPOL tax revenue, but there would be an impact. It would take significant time to estimate an impact.



Locality	Revenue Narrative by Responding Localities
Fauquier County	This will be an approximate \$60k negative impact based on an estimated reduction of \$32 million in gross receipts.
Mecklenburg County	The County has very limited businesses that come under the business license tax and has generated no revenue from this source in the past three actual fiscal years, nor any in the current year. Therefore, this bill will not likely to impact our particular locality.
Town of Christiansburg	I would anticipate an increase to our BPOL revenue of approximately 5%, which would be \$175,000 annually. This is a bit of a guess as to the percentage of gross receipts generated out-of-state by our businesses.
Town of Rocky Mount	