

DEPARTMENT OF TAXATION

2025 Fiscal Impact Statement

1. **Patron** Vivian E. Watts

3. **Committee** Passed House and Senate

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

2. **Bill Number** HB 1743

House of Origin:

☐ **Introduced**

☐ **Substitute**

☐ **Engrossed**

Second House:

☐ **In Committee**

☐ **Substitute**

☒ **Enrolled**

5. **Summary/Purpose:**

The bill would require the Department of Taxation ("the Department") to convene a workgroup to review the local license tax deduction in Virginia for receipts attributable to out-of-state business.

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

The Department considers implementation of this bill to be routine and would not require additional funding.

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

Revenue Impact

This bill would have no impact on state or local revenues.

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 require the Department to convene a work group to review the local license tax deduction in Virginia for receipts attributable to out-of-state business, including a review of:

- current policy and methodology of the deduction;
- any constitutional or case law concerns regarding the existing laws governing such deduction;

- any potential impact on local government revenue as a result of determining such deduction based upon receipts subject to a net income tax or gross receipts tax in another state or foreign jurisdiction and alternatives to phase in any such potential impact;
- the potential administrative complexities or benefits for taxpayers and the support structure necessary to verify across local jurisdictions the applicable tax deduction and to enforce compliance; and
- any impact to such deduction from other existing provisions of law.

The bill would require the work group consist of individuals with experience in local license tax compliance and enforcement, including representatives of:

- the Virginia Municipal League,
- the Virginia Association of Counties,
- the Commissioners of the Revenue Association of Virginia,
- the Virginia Society of Certified Public Accountants,
- the Council on State Taxation,
- the Virginia Chamber of Commerce, and
- any other key business tax 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 Joint Subcommittee on Tax Policy and to the Chairs of the Senate Committee on Finance and Appropriations and the House Committees on Finance and Appropriations by October 1, 2025.

cc: Secretary of Finance

Date: 03/07/2025 VB
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