

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. Patron Vivian E. Watts

3. Committee House Finance

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

2. Bill Number HB 956

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

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.

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.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026.

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.

The Department of Taxation ("the Department") considers this bill as routine, and does not require additional funding.

This legislation does not require significant changes to the Department's systems and is not impacted by the first phase of the Integrated Revenue Management System (IRMS) replacement project. No resource constraints or implementation considerations are anticipated.

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.

2025 BPOL Out-of-state Deduction Workgroup

2025 House Bill 1743 (*2025 Acts of Assembly*, Chapter 192) required the Department to convene a workgroup to review the local BPOL deduction in Virginia for receipts attributable to out-of-state business, including a review of:

- Current policy and methodology of the deduction set forth in Subsection B 2 of *Virginia Code § 58.1-3732*;
- 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 deduction and to enforce compliance; and
- Any impact to such deduction from other existing provisions of law.

The workgroup was required to 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 legislation required the Department to submit a report of the findings and recommendations of the workgroup to the Joint Subcommittee on Tax Policy and to the Chairs of the Senate Finance and Appropriations and House Appropriations Committees by October 1, 2025. In its report, the Department noted that the workgroup did not achieve consensus on whether the deduction should be amended. Specifically:

- The workgroup did not reach consensus on whether it is necessary to expand the deduction to address constitutional concerns, and
- The workgroup did not reach consensus on whether there would be other benefits to expanding the deduction.

The report also noted that other areas of disagreement were:

- Whether expanding the deduction would reduce or increase the administrative burden on taxpayers,
- Whether the impact on localities is a concern in expanding the deduction, and
- Because the workgroup did not agree on whether to amend the deduction, it did also not address how any changes to the deduction would best be structured.

Even though the workgroup did not agree on whether the deduction should be amended, the workgroup did agree that consistency, clarity, and fairness are all vital to the administration of BPOL and should be central to any action taken to change the deduction administratively or legislatively. The Department's report can be found at the following location: <https://rga.lis.virginia.gov/Published/2025/RD541>.

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 (i) a net income tax, as defined in 15 U.S.C. § 383, or (ii) if such state or country does not levy a net income tax as defined in 15 U.S.C. § 383, a business activity tax such state or country does levy, the measure of which is based in whole or in part on gross or net income or receipts.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026.

cc: Secretary of Finance

Date: 01/26/2026 VB
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