Response to Questions on the 2016 LOBs

Request By: Board of Supervisors **Relevant LOB(s):** N/A

Question: Provide information regarding the Business, Professional and Occupational License (BPOL) Tax including a brief history / explanation of current state maximum rates, Fairfax County rates and a comparison with surrounding jurisdictions.

Response:

The BPOL tax became a revenue source at the state level following the War of 1812. Except for a reduction in the tax rate for Research and Development firms, state maximum rates have not changed since 1978. A 1978 report to the Governor and General Assembly by the Revenue Resources and Economic Commission, noted that these maximum rates reflect the relative differences in operating ratios between broad categories of similar activities, i.e., the gross profit ratios for similar business activities as reported by the Internal Revenue Service in Statistics of Income: Business Income Tax Returns, 1970.

Fairfax County's authority to levy a BPOL tax dates back to 1952; however the County first exercised its taxing authority in 1967 when it imposed a Retail Merchants Tax. A business license tax was levied on all types of businesses beginning in FY 1970. Attachment 1 provides a summary of Code Amendments to the BPOL Tax in Fairfax County.

Staff located three studies relating to Fairfax County's BPOL Tax. In 1982, Fairfax County hired John L Knapp, to study the equity of the County's BPOL Tax rates. That study concluded that because the BPOL tax is passed on to the consumer any attempt to adjust tax rates for business' profitability are unnecessary. The Executive Summary of this study is provided in Attachment 2.

In 1993, KPMG Peat Marwick completed a study of the County's business taxes including BPOL, Business Personal Property and the Consumer Utility Tax. The study outlined options for reform or replacement of the BPOL Tax. The Executive Summary of the KPMG study is provided in Attachment 3.

In 1994, the Business Tax Study Group and comprised of private sector officials released a report on the BPOL Tax. The study resulted in several changes to the BPOL ordinance (summarized in Attachment 1.) The Executive Summary of the Business Tax Study report is provided in Attachment 4.

Rate Comparison
Attachment 5 provides the State maximum BPOL rate by category, BPOL rates of all Northern Virginia localities and selected other large jurisdictions in Virginia.

In addition, the publication *Virginia Local Tax Rates, 2014* published by the Weldon Cooper Center for Public Service provides the median tax rate for a few business categories by type of locality. That information is reproduced below with state maximums and Fairfax County's rate added for comparison.

Maximum and Median BPOL Tax Rates Per $100 in 2014
Compared to Fairfax County's Rates

		Median Rates*			
Business Category	**State Maximum Rate**	**Cities**	**Counties**	**Towns**	**Fairfax County Rate**
Contracting	$0.16	$0.16	$0.12	$0.13	$0.11
Retail	$0.20	$0.20	$0.15	$0.14	$0.17
Repair, Personal Services & Business Services	$0.36	$0.36	$0.20	$0.18	$0.19
Financial, Real Estate & Professional Occupations	$0.58	$0.58	$0.32	$0.25	$0.31
Wholesale**	$0.05	$0.12	$0.05	$0.05	$0.04

*Median rates were calculated by the Weldon Cooper Center for Public Service, Virginia Local Tax Rates, 2014
**The median city rate of $0.12 is above the state maximum of $0.05 because many cities operate under grandfather clauses that allow them to impose a higher rate.

Fairfax County
History of Business Professional Occupational License Code Amendments

1964 - Virginia General Assembly authorized all counties to impose a local business license tax.

1967 - Fairfax County imposes a Retail Merchants Tax.

October 1, 1969 - Fairfax County adopts a comprehensive BPOL tax on businesses effective for FY 1970. The ordinance includes the taxation of Research and Development (R&D) firms.

July 1970 - The Board eliminates taxation on two of the three categories of R&D including electronic and physical science research service and science research and development service.

July 1973 -The Board removes the third category (economic and social science research services) of R&D from taxation.

November 28, 1988 - The Board removes the exemption for R&D firms and taxes these firms at a rate of $0.31/$100 of gross receipts effective January 1, 1989.

January 29, 1990 - The Board approves amendments to the BPOL ordinance that 1) excludes from the definition of gross receipts amounts paid by advertising agents for any customer for advertising space, radio time, television time, electrical transcription, pressings, art work, engraving, plate, mats, print, printing stock and postage; and 2) licensing advertising agents and firms as a business service rather than a professional, specialized occupation.

FY 1991 - While no change in the local ordinance was required, the state created a uniform definition of a motor vehicle dealer's gross receipts for BPOL whereas, automobile dealers are allowed to exclude trade-ins from their gross receipts beginning in FY 1991.

April 27,1992 - The Board approves an amendment that temporarily reduces the tax rate on Real Estate brokers from $0.31/$100 of gross receipts to $0.01/$100 in FY 1993 and FY 1994; $0.10/$100 in FY 1995; and back to $0.31/$100 in FY 1996 and beyond.

July 27, 1992 - The Board approves an amendment that separates gross receipts from management fees and sales commissions of Real Estate Brokers. The tax on management fees is reduced from $0.31/$100 of gross receipts to $0.01/$100 in FY 1993 and FY 1994; $0.10/$100 in FY 1995; and to $0.19/$100 in FY 1996 and beyond.

September 21, 1992 - The Board adopts an amendment to exempt from BPOL taxation non-profit businesses with an Internal Revenue Code 501 (c) (6) designation from the IRS. Previously, only membership dues collected by trade, business, professional, services, or civic associations were exempt from BPOL taxation.

February 22, 1993 - The Board adopts an amendment that clarifies taxation of craft show merchants. Craft show promoters are not to be taxed on the proceeds of the craft show merchants, but are taxed on their commissions at $0.20 per $100. Individual craft show merchants are taxed on their sales (if sales at a rate of $0.17 per $100).

May 17, 1993 - The Board adopts an amendment to reduce the BPOL tax rate on gross receipts from federally funded Research and Development from $0.31 per $100 to $0.03 per $100, the maximum rate allowed following approval of state legislation during the 1992 Virginia General Assembly.

July 12, 1993 - The Board adopts an amendment that excludes from the definition of gross receipts the pass-through funds of any money lender organized, registered and doing business as a cooperative association.

April 18, 1994 - Based on a recommendation of the Business Tax Study Group, the Board adopted an amendment that levies a flat $30 fee for businesses with gross receipts between $10,000 and $50,000 rather than a tax rate based on gross receipts. Those businesses with gross receipts less than $10,000 continued to have no BPOL tax liability.

November 21, 1994 - Following the Business Tax Study Group recommendations, the Board adopts changes to the BPOL ordinance in order to equalize service rates, align the tax burden with cash flow for builders and developers and increase administrative efficiency and simplify filing. The approved amendments reduced the number of tax rate categories from 17 to ten. In addition, exemptions were adopted for income generated from subleasing property if the revenue was incidental to the company's primary business activity.

September 9, 1996 - Following legislation that required statewide uniformity of BPOL ordinances, the Board approved amendments that included the exemption of certain nonprofit organizations and a change in the tax threshold which exempted firms with gross receipts between $50,000 and $100,000 from the BPOL Tax, but charged a flat fee of $50.

November 24, 1997 - The Board adopts an amendment to provide for a three-year phase-out of the BPOL Tax on all gross receipts solely derived from the design, development, or other creation of software for lease, sale, or license in the following manner: 33 1/3 percent excluded in FY 1999; 66 2/3 percent excluded in 2000 and 100 percent excluded in FY 2001 and beyond.

THE EQUITY OF THE FAIRFAX COUNTY BUSINESS, PROFESSIONAL, AND OCCUPATIONAL LICENSE TAX

by

John L. Knapp, Ph.D. Economic
Consultant

March 1982

Executive Summary

The statutory incidence (legal liability for payment) of the business, professional, and occupational license tax (BPOL tax) is clearly upon business firms. Economic incidence—the final distribution of the tax burden after the process of shifting the burden has been completed—is more difficult to measure. Nonetheless, the determination of economic incidence is crucial for any examination of tax equity. This study describes and analyzes many theories about the economic incidence of the BPOL tax and concludes that the long-term economic incidence of the BPOL tax is similar to that of a general sales tax which is borne by consumers. If this is the case, then attempts to adjust the tax rate for business firms' ability to pay as measured by some indicator of profitability are unnecessary. Such a viewpoint is not the one implicit in the state guidelines for a BPOL tax. .

The state guidelines, which establish maximum rates for four major classifications of business, are based on the implicit assumption that rates should be adjusted for (1) business firms' use of the market, and/or (2) profitability, both of which are measured by operating ratios. "Operating ratio" is defined as follows:

$$\text{operating ratio} = \frac{\text{gross receipts - cost of goods}}{\text{gross receipts}}.$$

Based on an analysis of U.S. Internal Revenue Service (IRS) data, this study concludes: (1) operating ratios are not a good indicator of profitability; (2) operating ratios vary over time; (3) operating ratios for different forms of business organization, (proprietorship, partnership, and corporation) within the same industry vary, and a major reason for this variation is the manner in which businesses report items on their income tax returns; (4) operating ratios vary among subcategories of business which are grouped under the same general industry; and (5) operating ratios vary by size of firm even after allowance *for* industry and form of business organization.

Fairfax County has several options in regard to the BPOL tax in addition to the status quo. A tabular summary of the options is shown below:

	Total Revenue Based on 1980 Gross Receipts[a]	Numberof Present 14 CategoriesPaying[b]		
		More Tax	Less Tax	Same Tax
Status quo	$ 8,879,260			14
<u>Conformity with state guidelines</u>				
Option 1. Maximum rates .	13,601,377	14	0	0
Option 2. Proportionate rates, no increase in total revenue	8,838,550	6	8	0
Option 3. Proportionate rates, no tax increase for any category	3,562,859	0	13	1
<u>Nonconformity with state guidelines</u>				
Option 4.--Uniform rate ($0.16) for all business classes	8,745,822	2	11	1
Option 5.--Limited subclassifications	<13,601,377	Depends on number of classes and operating ratios		
Option 6.—Numerous subclassifications	<13,601,377			

Source: Table 7.

a/ Excludes license taxes on rental owners, wholesalers, and utilities since they are not covered by state guidelines of the 14.

b/ In 1980, there were no firms in 2 of the 14 categories; those without taxable sales were premium stamp suppliers and vending machine operators.

When it commissioned the study, the Board asked several-specific questions:

1. <u>"Can BPOL rates be more equitable?"</u> The answer depends on the theory of economic incidence which is accepted. In my view, in the long-run, the tax is borne primarily by consumers. If this is the case, then there is no need to adjust the tax rate for business firms' ability to pay as measured by some indicator of profitability and a uniform rate (Option 4) would be preferable.

Creation of many tax rates for particular types of business (Options 5 and 6) would simply cause greater administrative complexity without making the tax more equitable. Although the state guidelines permit numerous subclassifications within each of the four broad classes, I feel that such subclassifications would violate the spirit and intent of the guidelines. The staff work which was the. basis for the guidelines contained no suggested maximum rates for subcategories, and when the staff examined the IRS data base which presumably would be the basis for establishing subcategories, the staff questioned the feasibility of using it for precise adjustment. Furthermore, a major reason for enacting the guidelines was the desire to eliminate relatively high tax rates that some localities had imposed on narrow business categories. By establishing four broad categories, the General Assembly simplified BPOL tax structures and, removed some of the perceived inequities. Establishment of numerous sub-categories would be a policy in an opposite direction from the guidelines ' approach.

An alternative to the status quo or a uniform rate would be to abandon Fairfax County's present fourteen business tax categories in favor of the four "categories in the state guidelines (Option 1, 2, or 3). The state guidelines represent a compromise between the common business attitude that the tax is borne completely by business and the economic theory assumption that most of the tax is shifted to consumers. Thus, the guidelines establish the four major categories on the basis of profitability, but there is no attempt to vary rates within major categories. Although I would prefer that the same rate be used for all types of businesses, I feel that the state guidelines can be tolerated, since products and services within very broad classes of consumption are treated equally. Moreover, the guidelines crudely approximate a tax on value added. Value added may be considered a broad measure of market use.

Implementation of the guidelines could be accomplished by using state maximum rates (Option 1), proportionate rates with no increase in revenue (Option 2), or proportionate rates with no tax increase for any category (Option 3).
Since Options 1 and 2 would involve tax increases for some businesses, and since in the short-run a portion of the economic incidence is borne by businesses, the Board might wish to make rate adjustments over several years rather than all at once.

2. "Are the [present Fairfax County] rates within the guidelines established by the General Assembly?" The answer is "yes." Therefore, the status quo could be continued.

3. "Can a relationship between the tax and the profitability of various business categories be established?[11]- The answer is "no", since economic incidence is not a direct function of profitability. Furthermore, operating ratios, the basis for establishing different rates for a classified gross receipts tax, are a poor measure of profitability since they include many costs that are subtracted in deriving net income, and they depend to some extent on the tax accounting procedures employed.

4. The Board also "..requested that the study include a review of the proper groupings, i.e., businesses which cannot pass along costs should not be placed in the same category with those which can." The inability to shift the tax would be a short-run phenomenon depending primarily on consumers' responsiveness to an increase in price. This will depend on many factors including the size of the item in consumers' budgets, the existence of substitutes, and the time and travel cost of shopping elsewhere. These factors will vary for individual firms, even those of the same size and in the same industry. Thereis no source that contains the type of information desired by the Board.

COMPARATIVE STUDY OF FAIRFAX COUNTY BUSINESS TAXES

Submitted to:

**Fairfax County
and the
Fairfax County Chamber of Commerce**

Presented By:

**Policy Economics Group
KPMG Peat Marwick**

September, 1993

EXECUTIVE SUMMARY

The Policy Economics Group of KPMG Peat Marwick conducted this study of business tax policy for Fairfax County and the Fairfax County Chamber of Commerce to accomplish the following three objectives:

- to provide an objective and comprehensive comparison of Fairfax County's overall business taxes on selected industries with those of competitor jurisdictions;
- to evaluate current Fairfax County business taxes with a focus on the Business Professional and Occupational Licensing (BPOL) tax, the utility consumer tax, and the personal property tax on equipment; and
- to assess the implications of major business tax policy alternatives for Fairfax County on a revenue neutral basis.

Methodology

The Business Tax Competitiveness Model developed by the Policy Economics Group of KPMG Peat Marwick is a key analytical tool that has been used to perform the analysis of current and alternative Fairfax County business tax policies.

The Business Tax Competitiveness Model calculates before and after-tax rates of return on a prototype investment by a representative firm in each industry. Balance sheets and income statements for the representative firms are based upon actual financial data for each industry. The Model projects income and taxes over a thirty year period. Effective tax rates are calculated as the measure of overall tax burdens on investment The effective tax rate is the difference between pretax and after-tax rates of return divided by the pretax rate of return on investment. The effective tax Tate is the widely-accepted measure of business tax burden since it accounts for the time value of money over the life of an investment The impact of tax law provisions that are sensitive to timing, such as tax depreciation rules and property tax assessment policies, are properly measured.

The study includes eight industries that were selected because of their significance to the economic development of Fairfax County. It is important to note that these results are limited to the jurisdictions and industries that are included in the study. Given the small sample of industries and jurisdictions, the results cannot be generalized to all industries and jurisdictions in the U.S. The eight industries are:

- Management Consulting and Public Relations
- Engineering and Architecture
- Printing and Publishing
- Computer Manufacturing
- Wholesale Trade
- Retail Trade
- Leasing
- Computer Services

Eight comparison jurisdictions have been included in the study. These jurisdictions are generally perceived to be attractive locations for the service and high-technology businesses that form the core of the Fairfax County economy. The eight competitor jurisdictions are:

- Montgomery County, Maryland
- DeKalb County (Atlanta), Georgia
  Raleigh, North Carolina
- San Jose, California
- Charlotte, North Carolina
- Indianapolis, Indiana
- Austin, Texas
- Princeton, New Jersey

The Business Tax Competitiveness Model has also been used to examine the implications of business tax policy alternatives to the BPOL tax.

Key Findings

<u>Comparative Business Tax Analysis</u>

- Based upon the quantitative analysis of the sample industries and jurisdictions included in the study, structural issues have been identified relating to three specific Fairfax County business taxes:

  - the Business Professional and Occupational Licensing tax;
  - the personal property tax on equipment; and
  - the utility consumer tax.

- These three taxes are sources of concern regarding the competitiveness, efficiency and equity of the Fairfax County business tax structure.

- Business tax burdens vary across industries depending upon a variety of factors. For example, industries that have disproportionate shares of computers and other equipment will tend to have relatively high effective tax rates in jurisdictions such as Fairfax County, which include personal property in the property tax base. Industries with low profit margins will have above-average tax burdens under a gross receipts tax.

Of the eight industries included in the study, retail trade, engineering and architectural services and leasing have relatively high effective tax rates in Fairfax County. Effective tax rates on the two manufacturing industries are relatively low in Fairfax County.

Retail trade and engineering and architectural services are disproportionately burdened by the BPOL (gross receipts) tax and the utility consumer tax.

<u>Evaluation of Current Fairfax County Business Taxes</u>

- Competitiveness, economic efficiency (uniformity across industries), and equity are three key criteria for evaluating state and local business tax policy.

- Structural issues relating to these three criteria have been analyzed with respect to the Fairfax County BPOL tax, utility consumer tax and personal property tax on business equipment.

- The imposition of a gross receipts tax by local governments as a general business tax is relatively uncommon. In addition to Fairfax County, only two of the eight competitor jurisdictions - DeKalb County, Georgia and Charlotte, North Carolina - impose a gross receipts business tax.

- The BPOL tax ranks low in terms of uniformity. The gross receipts tax base tends to result in cascading or multiple taxation as business-to-business transactions as well as final sales to consumers are included in the tax base. Effective tax rates vary considerably and tend to be highest on businesses with high ratios of cost of goods sold to gross receipts.

- The BPOL tax raises equity concerns because it burdens small businesses or startup businesses which operate on relatively low profit margins and are therefore especially sensitive to these concerns.

- The study industries with the highest effective tax rates under the BPOL tax are retail trade, engineering and architectural services, and computer services. These industries play a very important role in the service-based Fairfax economy.

- The personal property tax on business equipment is an issue of special importance to businesses in an era in which information technology is key to maintaining a competitive edge. For example, faster depreciation for computers to reflect more rapid technological advances could improve the competitiveness and economic efficiency of Fairfax County business taxes.

- The utility consumer tax has an uneven impact across industries since it depends upon how intensively an industry uses energy and telecommunications services. Retail trade, printing and publishing and wholesale trade have the highest effective tax rates under the utility consumer tax.

- With respect to the BPOL tax, a number of administrative and legal issues have been identified relating to nexus (jurisdiction to tax), allocation of receipts of multi-jurisdictional businesses, and classification of firms which operate more than one line of business. Although resolution of these issues is beyond the scope of this study, these issues merit further study.

<u>Assessment of County Business Tax Policy Options</u>

- Four revenue-neutral alternatives have been identified for consideration. These options are illustrative alternatives and should not be construed as KPMG Peat Marwick recommendations.

  - reform of the BPOL tax by restructuring tax rates to better reflect the relationship of net income to business receipts;

  - replacement of the BPOL tax with a county corporate income tax with a rate of 6 percent;

  - replacement of the BPOL tax with an additional 0.7 percent local sales tax rate;

  - replacement of the BPOL tax with a tax applied to the gross income of businesses after subtraction of cost of goods sold.

- Option 1, the BPOL tax would be restructured so that the rate structure more closely relate to observed differences in profits-to-gross receipts As a result, the BPOL tax would be more neutral in its impact across industries. However, the BPOL tax would continue to impose an additional burden on businesses in Fairfax County that would not be experienced by businesses in most competitor jurisdictions.

- Under Option 2, the BPOL tax would be replaced with a county corporate income tax with a rate of 6 percent. This option would be more efficient in relating the tax burden to a firm's ability to pay. However, local corporate income taxes are relatively uncommon and the combined state-local tax rate of 12 percent would be among the highest in the U.S. A local corporate income tax could have a significant adverse impact on Fairfax County's image as a place to locate businesses.

- Under Option 3, the BPOL tax would be replaced with an additional local sales tax at a rate of 0.7 percent. Although the BPOL tax is often viewed as a business tax and the sales and use tax is viewed as a consumer tax, both taxes are similar in that they use gross receipts as the tax base. The sales and use tax has two advantages. First, the structure of the sales and use tax is designed to reduce cascading or multiple taxation. Second, the state sales and use tax statutes and regulations provide a relatively clear framework for defining the tax base so as to minimize compliance issues related to interpretation of the tax law. However, they differ significantly in terms of the extent to which services are included in the tax base.

- Option 4 which would substitute gross income for gross receipts as the business tax base would be more equitable than the current gross receipts base since business purchases of goods would not be double-taxed. However, simply using gross income would create new inequities because of the differences in accounting across industries.

Attachment 4

EXECUTIVE SUMMARY:

BUSINESS TAX STUDY GROUP

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REPORT AND RECOMMENDATIONS

FAIRFAX COUNTY, VIRGINIA

SEPTEMBER 14, 1994.

SEP 2 6 1994

EXECUTIVE SUMMARY: BUSINESS TAX STUDY GROUP

SEPTEMBER 14, 1994

BACKGROUND:

Since the fall of 1993, a Study Group comprised of private and public officials has been analyzing business taxes in Fairfax County. This group, chaired by Supervisor Robert B. Dix, Jr., Hunter Mill District, was formed to build upon the initial findings of a Comparative Study of Fairfax County Business Taxes presented by the Policy Economics Group of KPMG Peat Marwick. This study was a public/private venture jointly commissioned by the Board of Supervisors and the Fairfax County Chamber of Commerce.

On December 6, 1993, the Initial Report and Recommendations of the Business Tax Study Group was presented to the Board of Supervisors. As noted in the December report, the Study Group made the following recommendations:

I. Replacement of BPOL with a corporate income tax was not a desirable alternative, and replacing BPOL with a BPOL-type levy on gross income could in fact create even more challenges than exist today.

II. Possibility of replacing the current BPOL levy with an increase in the local option portion of the sales tax by approximately one-half cent should be left on the table for further consideration.

In recommending this, the Business Tax Study Group wants to emphasize that it views BPOL as an undesirable tax which, in the long run, should be replaced or phased-out. The Business Tax Study Group recognizes however that this is a complex issue and the Study Group will continue to review and consider all available options in pursuit of this goal.

The local sales tax proposal was transmitted to the State for their consideration as they conduct, a state-wide study of BPOL taxes pursuant to a mandate from the 1994 General Assembly. A copy of this letter, dated December 20, 1993, is attached to the Executive Summary.

Additionally, two other proposals were transmitted to the State for their review, along with the local sales tax issue. This includes the possibility of establishing a local option administrative appeal procedure for BPOL similar to the present boards of equalization: and, a request that the State committee carefully review the present statutory exemptions to BPOL, such as those granted to insurance companies, insurance agents, publishers, broadcasters and manufacturers.

As a general rule, the Business Tax Study Group supports the State effort to establish greater statewide uniformity in the administration of the BPOL tax. It is also the consensus of the Study Group that businesses should not have to pay the tax during the review of a legitimate appeal. If the appeal is upheld however, the appropriate penalties and interest should accrue to the original due date.

III. Additionally, two specific proposals first raised' in the Study Group's December 6, 1993, report have now been ' formally adopted in Fairfax County. The first was an amendment to the taxable threshold for BPOL taxes adopted by the Board of Supervisors on April 11, 1994. This amendment authorized businesses with gross receipts between $10,000 and $50,000 to be taxed at a flat rate of $30.00, rather than on a percentage of gross receipts. While this action had some revenue loss, it should improve the economic climate for many small businesses. Of 9,749 business accounts affected, it was estimated that 76% experienced an average tax reduction of approximately $39.

The second Study Group recommendation was that the depreciation of business computer equipment be accelerated for personal property tax purposes. This proposal recognized the prevailing market conditions for computer equipment and helped support the competitive advantage of the County for economic development. This proposal was formally endorsed by the Board of Supervisors, and the depreciation schedule was 'changed in the summer of 1994 after an-extensive study by the Office of Assessments. The changes will officially take effect in 1995 (FY 1996).

CURRENT REPORT:

IV. <u>Finally, the group also committed to further study possible reforms to the current BPOL structure, evaluating business categories, classifications, definitions and exemptions</u>. <u>The present report is a product of the group's continuing study in this area</u>. The focus of the current report is on BPOL taxes only. The Study Group has reviewed the Business Utility Tax and decided not to propose any changes to the current law.

To the highest extent possible, the charter of the study group was to keep its proposals revenue neutral. This goal was not completely achievable as a number of progressive recommendations could result in the potential loss of approximately $1.0 million in General Fund revenue. This is approximately 1.8% of the BPOL revenue estimate in the <u>FY 1995 Adopted Budget Plan</u>. However, it is important to note that BPOL revenue collections at the end of FY 1994 were stronger than anticipated. If this trend continues in FY 1995, BPOL revenue collections in excess of the budgeted estimate could offset the loss from the Study Group proposals.

A final caveat should be noted in this regard. Responsible estimates of the revenue impact have been attempted throughout this study. However, in a couple of cases there was simply insufficient data from which to make a complete analysis. Thus, half of the $1.0 million reduction is a "soft" estimate. In this case it was necessary to make revenue extrapolations from very small data sets. Therefore, the reliability of these estimates cannot be established prior to implementation. The other half of the estimated revenue loss stems from the proposed tax rate - changes. These estimates are substantiated by available data.

NEW PROPOSALS:

1. Amend Section 4-7-22, Renting .By Owners-- adopt new exemption which eliminates a BPOL requirement on gross receipts earned, from subleasing property where the sublease revenue is incidental to the company's primary business activity. This, would be deemed non-taxable miscellaneous income. Applicable only where a tenant (non-owner) sublets rented space to another occupant. Rental receipts of the property owner would still be fully subject to BPOL.
Potential impact = $(452,000).

2. Amend Section 4-7-1 B (1)-- adopt new exemption which excludes from taxable revenue general and administrative (G&A) intra-company reimbursements or transfer payments. This exclusion would generally involve companies that simply have their "headquarters" here, and have no other specific sales made or services rendered from the Fairfax location.
An example of this is an internal division "paying" corporate headquarters for G&A services. Applies only to internal company transfer payments. Does not apply to payments between separate corporate entities, subsidiaries or partnerships. Existing state code exemption already deals with inter-company payments between affiliated corporations. Potential impact = $(130,955).

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3. Rate Chancres Collapses the existing 17 separate categories into only 10. Of the current 17 categories, 11 will have no rate change, 3 will have a lower rate, and 3 will have a tax increase. Potential impact = $(438,557).

Three categories receive lower tax rate (Business Services, Personal Services, Telephone Co.) which reduces the tax rate for approximately 3,451 business accounts.

Two categories receive a rate increase (Money Lenders, Repair Services). Also, Builders and Developers keep their existing tax rate but will now be taxed on gross receipts instead of gross expenditures. These changes will result in a tax increase for approximately 1,396 business accounts.

Combined .with the collapsed categories is improved clarification/modernization of businesses specifically listed.in each category.

Key benefits

- SIMPLICITY, CLARITY, AND PREDICTABILITY FOR BUSINESSES
- FACILITATES CUSTOMER SERVICE
- HELPS EQUALIZE "SERVICE" RATES
- HELPS EFFICIENCY OF ADMINISTRATION
- BRINGS TAX BURDEN IN SYNC WITH CASH FLOW
  (builders & developers)
- 71% OF' THE 4,847 ACCOUNTS AFFECTED WILL GET TAX REDUCTION

TIMING

- 17 individual categories would be retained for 1995, but all tax rate changes can be made and implemented as of January 1, 1995.
- Total collapse into 10 categories (i.e., form taxpayers use, data on computer screens) would be completed by 1996 due to computer programming requirements.

-- CATEGORY AND RATE CHANGE SUMMARY --

Business Categorv	Existing Rate	Proposed Rate	Greatest Est. Tax Chancre	' Average Est. Tax Change	% Change
Research & Development	. 03	. 03			
Wholesale Merchants	.04	. 04			
Builders & Developers	.05	.05	$ 10,972	$ ' 429	33.11%[1]
Real Estate Brokers	.10	. 10[2]			
Contractors	.11	.11			
Retail Merchants	.17	.17			
Retail/Wholesale Merchants	.17	.17			
Business Services	.20	.19	$(13,243)	$(211)	(5.00)%
Personal Services	.22	.19	$ (144,233)	$(258)	(13.64)%
Repair Services	.18	.19	$ 6,814	$ 58	5.56 %
Money Lenders	.16	.19	$ 11,494	$ 535	18.75 %
Utilities	.24	.24			
Telephone Co. ' s	.26	.24	$(19,903)	$ 7,434	(7.69)%
Amusements .	.26	.26			
Hotels/Motels	.26	.26			
Renting By Owners	.26	.26			
Professional & Specialized	.31	.31			

Builders and Developers are currently taxed per $100 of gross, expenditures. Study Group proposal is to tax them on gross receipts instead. Current data suggests that aggregate receipts for this category exceed aggregate expenditures by roughly 33%. THIS SHOULD DEFER THE TAX LIABILITY SO THAT IT BECOMES IN SYNC WITH BUSINESS CASH FLOW.

For 1994, Real Estate Brokers are still taxed at $0.01 per $100 of gross receipts. Under current law this will increase to $0.10 in 1995 and back to $0.31 in 1996. This future rate structure for brokers is retained by the Study Group proposal.

NEW PROPOSALS, continued:

(THESE PROPOSALS CODIFY AND CLARIFY EXISTING LAW OR ADMINISTRATIVE PRACTICE; OR HAVE NEGLIGIBLE REVENUE IMPACT)

4. Further amend Section 4-7-1-- Consolidates and clearly identifies the exclusions, exemptions and special definitions in one 'main section:

   A. Codifies the need for apportionment among other jurisdictions and spells out the type of taxes that factor into apportionment formula.

   B. Codifies existing administrative policy to exclude from taxation receipts from gifts, miscellaneous dividends and interest income.

   C. Proposes new exemption for the .miscellaneous sale of capital assets when such receipts are incidental to the business activity of the person. (Estimated revenue loss is negligible).

   D. Proposes special definition for businesses leasing or renting aircraft to classify them as a Wholesale Merchant. This is a business recruitment initiative.

5. Amend Section 4-7-11, Penalties-- .

   A. Incorporate State law whereby "upon nonpayment reasonable attorney's or collection agency fees may be recovered by the County." Such fees shall not exceed 20% of the delinquent tax bills.

   B. Reflect 1994 State law change by adding section which halts collection activity while taxes are being appealed to the Office of Assessments.

6. Amend Section 4-7-22, Renting bv Owners-- changes the rental threshold for BPOL (i.e., from 2 to 4 before liable).

7. Amend Section 4-7-30, Telephone Companies-- instead of taxing a telephone company only on their 'Local Exchange' gross receipts, wording has been changed. Tax basis would- now be on "all sales of goods or services to the ultimate consumer with an exclusion of all receipts from long distance telephone calls." Supports the County's ability to tax- the local' receipts generated by cellular telephones.

8. Produce an Informational Booklet on BPOL-- Law and Administration. This should be a joint project between the County and the Fairfax County Chamber of Commerce.

FY 2016 BPOL Rate Comparisons (per $100 of Gross Receipts)

	Amusement	Builders and Developers	Business Service Occupations	Consultant/ Specialist	Contractors
State Max	**$0.36**	**$0.16**	**$0.36**	**$0.36**	**$0.16**
Fairfax County	$0.26	$0.05	$0.19	$0.31	$0.11
Vienna	flat rate	$0.12	$0.22	$0.22	$0.12
Falls Church	flat rate	$0.16	$0.36	$0.36	$0.16
Fairfax City	$0.00	$0.16	$0.27	$0.27	$0.16
Arlington	$0.25	$0.16	$0.35	$0.36	$0.16
Loudoun	$0.21	$0.13	$0.17	$0.17	$0.13
Prince William	flat rate	$0.13	$0.21	$0.13	$0.13
Herndon	$0.21	$0.13	$0.21	$0.40	$0.13
Alexandria	$0.36	$0.16	$0.35	$0.35	$0.16
VA Beach	$0.36	$0.16	$0.36	$0.36	$0.16
Henrico	$0.20	$0.15	$0.20	$0.20	$0.15
Chesterfield	$0.19	$0.14	$0.20	$0.20	$0.14
Richmond	$0.36	$0.19	$0.36	$0.36	$0.19
Average Rate if Levied, w/o Fairfax County	**$0.27**	**$0.15**	**$0.27**	**$0.28**	**$0.15**

FY 2016 BPOL Rate Comparisons
(per $100 of Gross Receipts)

	Rent of House/ Condo	Repair Service	Research & Development	Retail Merchants	Telephone Companies	Wholesale Merchants
State Max	**$0.00**	**$0.36**	**$0.03**	**$0.20**	**$0.50**	**$0.05**
Fairfax County	$0.26	$0.19	$0.03	$0.17	$0.24	$0.04
Vienna	$0.17	$0.22	$0.00	$0.17	$0.50	$0.10
Falls Church	$0.38	$0.36	$0.00	$0.19	$0.50	$0.08
Fairfax City	$0.27	$0.27	$0.03	$0.20	$0.50	$0.05
Arlington	$0.28	$0.35	*see note	$0.20	$0.50	$0.08
Loudoun	$0.16	$0.16	$0.03	$0.17	$0.50	$0.05
Prince William	$0.00	$0.21	$0.03	$0.17	$0.50	$0.05
Herndon	$0.05	$0.21	$0.00	$0.13	$0.50	$0.05
Alexandria	$0.50	$0.35	$0.00	$0.20	$0.50	$0.05
VA Beach	$0.00	$0.36	$0.00	$0.20	$0.50	$0.12
Henrico	$0.00	$0.20	$0.00	$0.20	$0.50	varies
Chesterfield	$0.00	$0.20	$0.10	$0.19	$0.50	$0.10
Richmond	$0.58	$0.36	$0.00	$0.20	$0.58	$0.22
Average Rate w/o Fairfax County	**$0.30**	**$0.27**	**$0.05**	**$0.18**	**$0.49**	**$0.08**

*Arlington does not have a Research and Development classification. Those activities are classified as Professional or Specialized with a tax rate of $0.36/$100.

FY 2016 BPOL Rate Comparisons
(per $100 of Gross Receipts)

	Hotels and Motels	Money Lenders	Personal Service Occupations	Professional and Specialized	Real Estate Brokers
State Max	$0.36	$0.58	$0.36	$0.58	$0.58
Fairfax County	$0.26	$0.19	$0.19	$0.31	$0.31
Vienna	$0.22	$0.52	$0.22	$0.52	$0.52
Falls Church	$0.07	$0.52	$0.36	$0.52	$0.52
Fairfax City	$0.40	$0.40	$0.27	$0.40	$0.40
Arlington	$0.36	$0.36	$0.35	$0.36	$0.36
Loudoun	$0.23	$0.16	$0.23	$0.33	$0.33
Prince William	$0.26	$0.33	$0.21	$0.33	$0.33
Herndon	$0.26	$0.20	$0.21	$0.40	$0.40
Alexandria	$0.35	$0.35	$0.35	$0.58	$0.58
VA Beach	$0.36	$0.58	$0.36	$0.58	$0.58
Henrico	$0.20	$0.20	$0.20	$0.20	$0.20
Chesterfield	$0.20	$0.20	$0.20	$0.20	$0.20
Richmond	$0.36	$0.58	$0.36	$0.58	$0.58
Average Rate if Levied, w/o Fairfax County	$0.27	$0.37	$0.28	$0.42	$0.42