

BPOL Reduction Strategy
Ord. 2021-189
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Virginia was named the "Best State for Business" and Richmond needs to be the Best City in the Best State for businesses. We are not even competitive in the region for opening, running, or growing a business. Small businesses will be foundational to our recovery from the pandemic, and we must make strategic decisions to attract as many businesses as possible.

JLARC Study of BPOL in 2015 showed the following: By Industry Sector, the maximum rate allowed by the State, the City of Richmond is at the highest for all possible rates putting us as a minority of localities across the Commonwealth, thus reducing our competitiveness.

Table 1: Five Industry Sectors Are Subject to BPOL Tax up to Statutory Maximum Rate

Industry Sector	Maximum Rate Assessed (% of Gross Receipts)	% of Localities Charging Maximum Rate	Average Rate Paid (% of Gross Receipts)
Finance, real estate, and professional services	0.58 %	4 %	0.39 %
Repair, personal, business, and all other services	0.36	17	0.26
Retail	0.20	31	0.17
Contracting	0.16	37	0.14
Wholesale	0.05 ^a	73	0.07 ^b

^a Rate applied to gross purchases
^b Localities that based wholesale merchants on the basis of gross receipts before January 1 1984 can continue to do so, but these localities are prohibited from increasing the rates that were in place at the time
Source: JLARC staff analysis of § 58.1-3706 and § 58.1-3716 of the Code of Virginia, Weldon Cooper Center for Public Service, Virginia Local Tax Rates, 2012

Comparatively, the City of Richmond is almost triple the Business tax rates of Henrico, Chesterfield, and Hanover County. Hanover County advertises how much better they are to open a business than the city.

BPOL Tax	Chesterfield	Henrico	Richmond	Max. Allowed
Retail	\$0.19	\$0.20	\$0.20	\$0.20
Wholesalers	\$0.10		\$0.22	
Financial Services	\$0.20		\$0.58	\$0.58
Professional Services	\$0.20	\$0.20	\$0.58	\$0.58
Business Services	\$0.20		\$0.58	\$0.58
Contractors	\$0.14	\$0.15	\$0.19	\$0.16

Henrico County announced in March 2021, that they had completed their goal for increasing the threshold for businesses to only tax gross receipts for businesses that sell more than \$500,000 in goods. In contrast, the City of Richmond tax rate is applied for sales over \$100,000 at triple the rate.

By contrast, in Henrico County's FY2020 CAFR, their projected BPOL revenues were \$34,000,000, which was more than our projected revenue. Their actual BPOL revenues were \$39,626,918, a surplus of more than \$5 million. The City of Richmond projected \$31,000,000 for FY2021. Mathmatically, based upon the rates and thresholds for businesses, the Henrico County economy is more than three times the size of the City of Richmond with more larger revenue paying businesses.

Why does lowering the BPOL rate matter?

We have seen many new businesses move to the city over the last several years. However, many of them are operations centers. Meaning, if there is not a transaction or sale in that business, then the city does not make revenue from their relocation to our city. Business tax rates are a big factor in many business owner's minds, especially when there are such contrasts within a mile radius in tax rates.

Raising business tax rates does necessarily not generate more revenue, it can reduce it by deterring new investment of new businesses and placing an undue burden on those operating at tighter margins.

There is also the concern about small businesses, entrepreneurs, and minority businesses. When negotiating to attract a new business to move to the City of Richmond, frequently, negotiating the rate or start date for paying BPOL taxes is a viable option. However, for a small minority business owner, growing their business, they have no choice but to pay a tax rate triple the counties and at a lower threshold. Thus, our BPOL tax revenues are being carried on the backs of many of our small businesses.

The proposal before you today does not risk losing revenue or giving up revenue. It states that if there is a surplus in BPOL revenue from what was projected, then the amount of surplus is used to calculate a reduction in the rate to match the approved projected revenue amount. BPOL tax rates take effect on January 1st, thus the impact is for only 6 months of our fiscal revenues.

I believe that if we are to compete in the region to attract and support small business growth, private investment, and creating new jobs, we must compete with our peers in our tax rate. The burden on small local owned and operated businesses is too great and well known. This is a step in the direction to lower our rate and grow our economy.

Sources:

1. JLARC BPOL Study 2015 - <http://jlarc.virginia.gov/pdfs/reports/Rpt447.pdf>
2. Hanover County BPOL List - <https://hanovervirginia.com/locate-your-business/cost-of-doing-business/>
3. Richmond BizSense – Chesterfield Raises BPOL tax threshold – <https://richmondbizsense.com/2021/04/19/chesterfield-raises-bpol-tax-threshold-as-counties-adopt-fy22-budgets/>