

Modernizing Virginia's Business Tax Code: Why HB 956 Clarifies the BPOL Tax and Strengthens Competitiveness

WHAT IS THE BPOL TAX?

The Business, Professional, and Occupational License (BPOL) tax is:

- Administered by most Virginia localities
- Based on gross receipts, not profits
- Structured with locally set rates that vary by business type

Because BPOL applies to total revenue, it creates unique challenges for businesses operating in multiple states

THE PROBLEM: OUTDATED LAW AMID MODERN TAX SYSTEMS

Virginia law currently allows businesses to deduct gross income earned and taxed in other states to avoid double taxation.

- **The challenge:** The governing language was enacted in 1996, which refers only to income taxes. Since then, many states have shifted to gross receipts taxes or hybrid business taxes.
- **The consequence:** Many businesses, tax professionals, and localities are left confused, leading to inconsistent interpretations and increased risk of disputes and litigation.



HOW DOES HB 956 PROVIDE A SOLUTION?



This bill modernizes and clarifies the BPOL statute by confirming that:

- Businesses can **deduct out-of-state receipts** if the business pays taxes there.
- The deduction applies whether the other state's tax is based on:
 - Net income
 - Gross receipts
 - Hybrid gross receipts system
- The deduction **does not apply to unrelated taxes** (e.g., sales tax, payroll tax)

WHY OUT-OF-STATE DEDUCTIONS MATTER



Out-of-state deductions are a key consideration for creating fair and workable tax laws for several reasons:

- **Avoids Double Taxation:** Prevents the same revenue from being taxed twice simply because a business operates across state lines.
- **Supports Interstate Commerce:** Reduces litigation risk and complexity, making Virginia a more attractive place to do business.
- **Preserves Constitutional Soundness:** The original deduction in 1996 was adopted to address federal constitutional concerns. Clarity today helps avoid future challenges.
- **Reflects Modern Tax Systems:** Businesses should not penalized because other states use different tax structures.

HB 956 matters now because the current law is almost 30 years old, state tax systems continue to evolve, and Virginia needs a tax code that is predictable, fair, and adaptable in order to remain competitive.

The Bottom-Line for Virginia: Support HB 956

HB 956 modernizes the BPOL tax without increasing rates or expanding the tax base.

- ✓ Prevents double taxation
- ✓ Reflects modern tax systems
- ✓ Reduces disputes and uncertainty
- ✓ Strengthens Virginia's business climate