



August 19, 2011

The Honorable William D. Sessoms, Jr.
The Honorable City Council
City of Virginia Beach
2401 Courthouse Drive
Virginia Beach, VA 23456

Dear Mayor Sessoms, Vice Mayor Jones and City Council Members:

Virginia Beach City Council is being asked to consider changes to the way the Business, Professional and Occupational License Tax (BPOL) is imposed and perhaps to eliminate it as a city tax. While Virginia Beach Vision fully agrees that the BPOL tax is poorly structured and should ultimately be replaced with a more equitable tax on business, we recognized that it also represents a significant source of revenue for the city and believe it should only be restructured or eliminated if done in a revenue neutral format.

For FY 2010-2011, the Department of Management Services estimates the total BPOL Tax collected will be \$41.1 million. This represents approximately 9¢ on the current real estate tax. The 2011 Virginia General Assembly passed enabling legislation allowing local governments to restructure the way the BPOL Tax is levied from one based on a business's gross receipts to being based on the business's taxable income. While on its surface this appears a more reasonable option, it may well prove just the opposite. Many businesses using techniques such as bonus payments and accelerated depreciation will be able to hide "taxable income" and escape or greatly reduce their BPOL Tax burden. S-corporations, LLCs and partnerships have no corporate Virginia income tax and would escape the business tax altogether.

Another alternative being considered would be to move from a BPOL Tax to a flat fee for all businesses. Currently a flat fee of \$40 or \$50 is imposed on businesses with gross receipts under \$100,000. In 2010, this flat fee applied to 75% of all Virginia Beach businesses and generated \$1.2 million in tax revenues. The remaining 25% of businesses with receipts over \$100,000 paid the tax based on type of business and an applied tax rate. Those tax receipts generated \$39.8 million. If these businesses were moved into a flat fee status of \$50 each, the tax revenue loss to the city would be \$39.6 million.

We believe the BPOL Tax should be replaced with a more equitable tax and Virginia Beach Vision encourages the General Assembly to provide enabling legislation for such a tax alternative to local governments. Thus far, however, an appropriate alternative has not been

suggested. Without an equitable and sustainable replacement source of local revenue, Virginia Beach Vision cannot support the reform or elimination of the BPOL tax. The City simply cannot absorb the loss of the tax revenues generated by the tax.

Respectfully submitted,

A handwritten signature in black ink that reads "MJ Barrett". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Michael J. Barrett
President