



HB 1743

WORKING IMPACT ANALYSIS
VERSION 2.0

JUNE | 3 | 2025

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General Assembly Directs A Work Group To Study The BPOL Out-of-state Deduction

What is HB1743?

- HB1743 is a bill that was introduced in the General Assembly in 2025 that proposed to expand the scope of a deduction allowed under Virginia's BPOL (Business, Professional and Occupational License) tax for certain out-of-state receipts.
- It was subsequently amended to instead convene a Virginia Department of Taxation work group to examine the deduction. This group will review current policies, methods, laws, and potential impacts. They are required to submit their findings and any recommendations to the Joint Subcommittee on Tax Policy and the Chairs of the House and Senate Finance Committees by October 1, 2025.

What are the implications of this report?

- **Fiscal Impact:** Potential changes to local government revenue.
- **Business Fairness & Impact:** Effects on businesses with out-of-state activities.
- **Increased Complexity & Administrative Burden:** Challenges in verifying and enforcing the deduction.
- **Legal Considerations:** Current constitutionality and compliance with the Commerce Clause

We Need to Understand The Impact to Virginia Localities

Basic Scenario: Demonstrating How HB1743 Works

Example of Current vs. Future-State for the Business

IT Consulting company based in Arlington, VA, with customers in Arlington, VA and Seattle, WA

Total Gross Receipts \$1,000,000

Current-State (Pre-HB1743)

Gross Receipts Sitused to Arlington VA	\$600,000
Gross Receipts Sitused to Seattle, WA	\$400,000
*Deductions:	None
Taxable in Arlington	\$600,000

*WA receipts not eligible for deduction as it does not impose an income or income like tax; it does impose a gross receipts tax

Potential Future-State (Post HB-1743)

Gross Receipts Sitused to Arlington VA	\$600,000
Gross Receipts Sitused to Seattle, WA	\$400,000
*Deductions:	\$420,000**
Taxable in Arlington	\$180,000

*Washington State (WA receipts now deductible because it imposes a gross receipts tax)

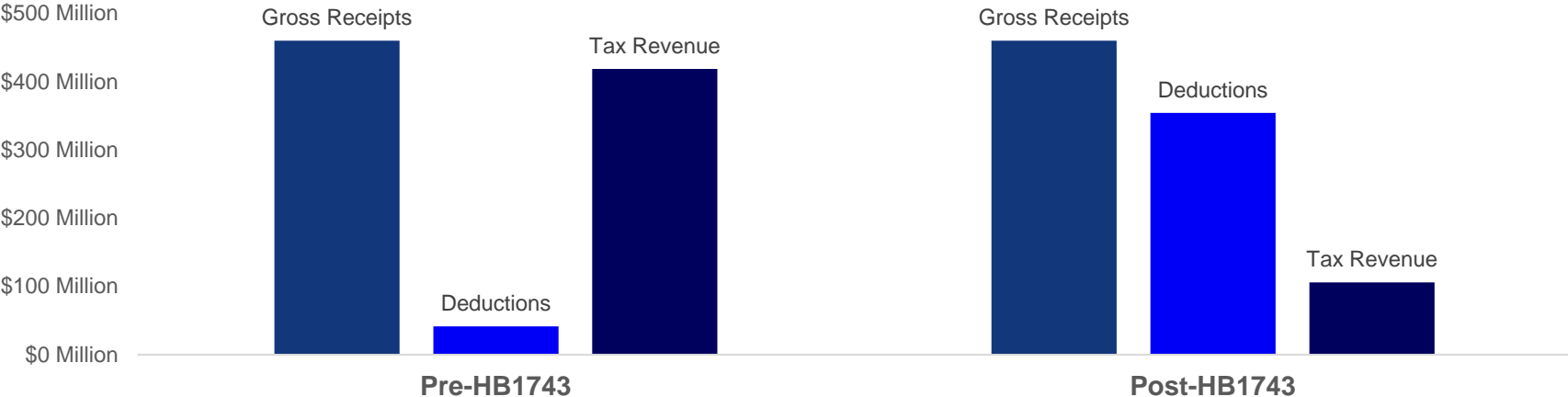
** Direct situs method used, assuming (i) workers in both offices work on all projects and (ii) 30% of receipts are from customers in VA and 70% from customers in WA

HB1743’s proposed expansion to out-of-state deduction would result in Virginia losing tax revenue from in-state economic activity.

Practical Virginia Locality Scenario

		Current			HB1743		
Situs based on Payroll Apportionment	Payroll Apportionment	Deductible (based on filing state income tax return)	Taxable Gross Receipts based on Payroll Apportionment	Deduction Amount	Deductible (based on expansion to include gross receipts like tax)	Taxable Gross Receipts based on Payroll Apportionment	Deduction Amount
VA	23%	Y	\$460,000,000		Y	\$460,000,000	
PA	6%	Y		\$27,600,000	Y		\$27,600,000
MD	3%	Y		\$13,800,000	Y		\$13,800,000
WA	68%	N		\$0	Y		\$312,800,000
Total Deduction				\$41,400,000			\$354,200,000
BPOL Tax Basis				\$418,600,000			\$105,800,000
Tax Revenue				\$1,465,100			\$370,300

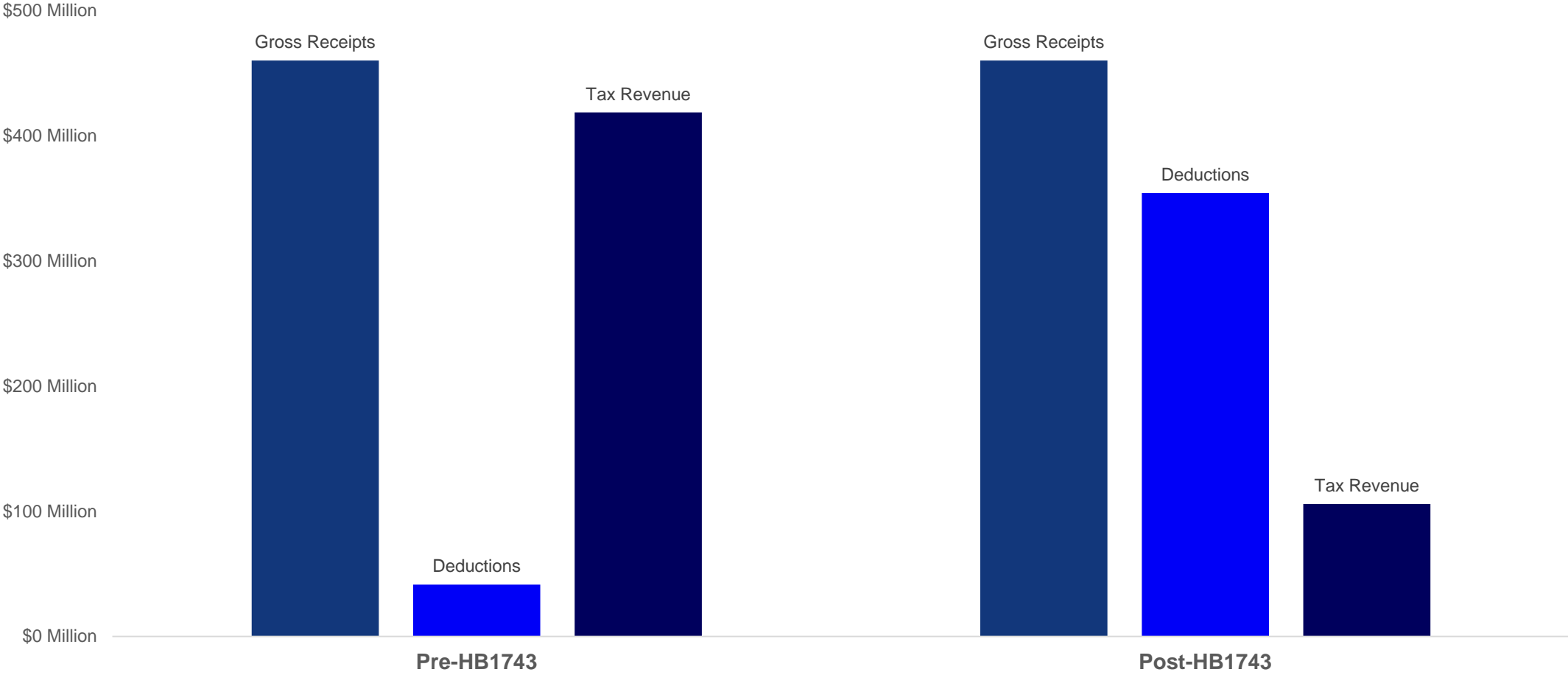
Example of Fiscal Impact of HB1743 to a VA Locality



**Revenue Loss of 75%
(\$1,094,800)**

Practical Virginia Locality Scenario: Visual Representation

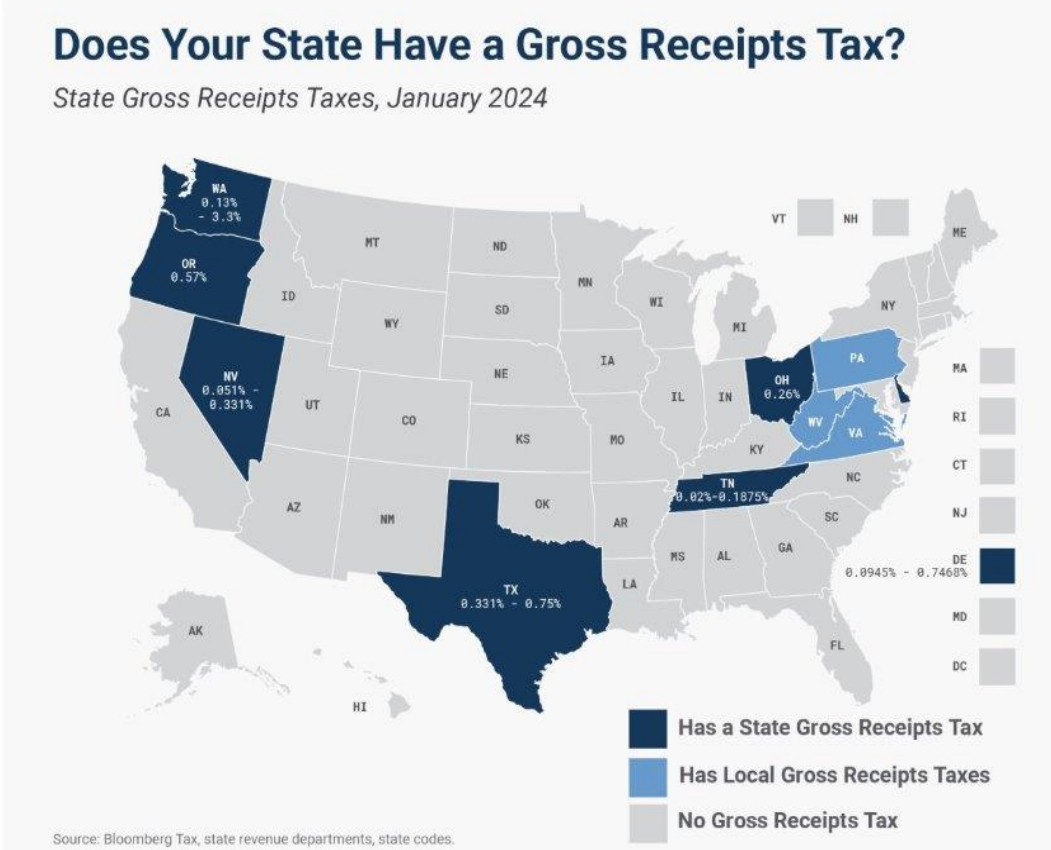
Example of Fiscal Impact of HB1743 to a VA Locality



Potential Fiscal Impact - Statewide

Based on FY25 data for **only 4** Arlington-based companies that use payroll apportionment & assuming Arlington share of Virginia GDP applies to the State...

Arlington VA GDP	\$41,000,000,000
VA State GDP	\$597,000,000,000
Share of Arlington of VA GDP	7%
Partial Estimate of HB1743 Impact on Arlington, VA*	\$4,200,000
Projected Calculation of HB1743 state-wide impact	\$60,000,000



Revenues Across Virginia May Decrease Annually By More Than \$60 Million

Fairness

"Virginia is committed to creating an environment where entrepreneurs and small businesses can thrive, grow and succeed."

-Gov. Glenn Youngkin

Large Nationwide Businesses

Already enjoy tax benefits and incentives designed to encourage business growth and are more likely to benefit from HB 1743 due to having significant interstate operations.

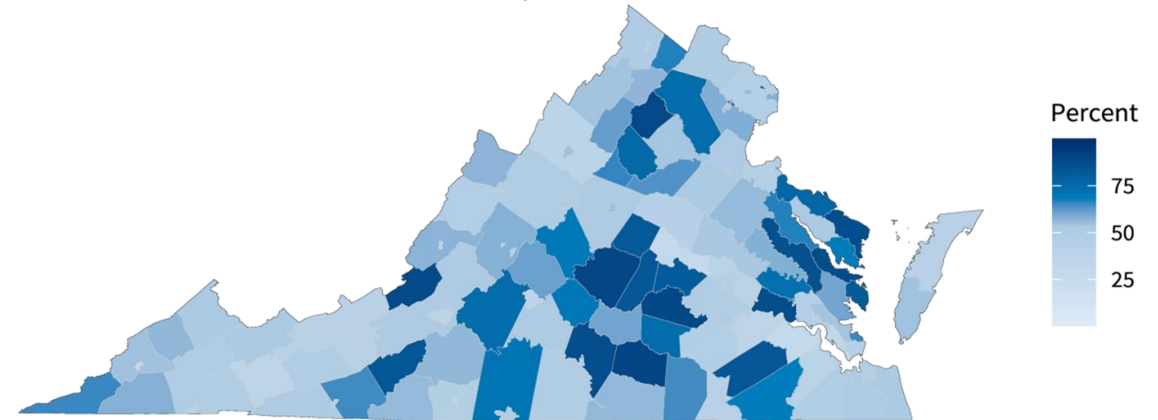
Including, but not limited to:

- Major Business Facility Job Credit
- Research and Development Tax Credit
- Virginia Economic Development Incentive Grant (VEDIG)
- Port of Virginia Economic and Infrastructure Development Grant

Small Businesses

818,450 small businesses in VA making up **99.5%** of VA businesses

1.6 million small business employees in VA making up **45.4%** of VA employees



Share of employees working at small businesses by county or independent city

Source of original data: [Statistics of US Businesses](#) (Census)

Large Businesses Already Enjoy Tax Benefits and HB 1743 Offers Minimal To No Benefit To Locally Owned & Operated Small Businesses

Increased Tax Complexity

State Mandate Creates Unfunded Local Burden

Additional Administrative Burden

The lack of uniformity in gross receipts tax thresholds across states leads to inequities particularly regarding eligibility for out-of-state deductions.

- For example, starting in 2025, Ohio's Commercial Activity Tax (CAT) will apply to businesses with taxable gross receipts exceeding \$6 million (twice the previous threshold). This change further exempts smaller businesses from the requirement to file and pay the CAT. Thresholds for gross receipts tax vary by state may lead to different tax outcomes for similar taxpayers.

Gross receipts taxes and income taxes operate under fundamentally different principles, apply distinct standards for taxation. By amending the law to include a gross receipts tax which has a very broad base compared to a net income tax and is not subject to the limitations provided under P.L. 86-272, HB 1743 is compounding a problem.

- It introduces inequity as the tax policy will now be based on two completely different tax regimes with divergent underlying principles. The nexus requirements are completely different. The gross receipts tax does not start with the federal taxable income as state income taxes do in many states, including Virginia.

The former language in HB1743 referring to deduction eligibility for states which impose other taxes imposed “in lieu of an income tax” produces uncertainty. It could be interpreted to apply to taxes such as sales taxes or business property taxes if adopted.

Legal Considerations

- The BPOL tax as currently written is compliant with the Commerce Clause because it provides for fair apportionment among states on the basis of the share of work done in a state
- Opinions of the Virginia Supreme Court, Tax Commissioner and Attorney General have all found the current statute to be in compliance with the Commerce Clause



Thank you!



APPENDIX

HB 1743 – IMPACT ANALYSIS V2.0

- DEFINITIONS
- MITIGATION NEEDS

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Definitions

Situs: The jurisdiction to which, for purposes of taxation, property or income belongs and is taxable.

Deduction: An amount subtracted from gross receipts reducing the taxable basis.

BPOL Statute: Business, Professional, and Occupational License tax statute.

Gross Receipts: The total amount of money received by a business from its operations, before any deductions.

Income-like Tax: A tax based on a computation similar to federal income tax, where gross revenues are reduced by business-related expenses.

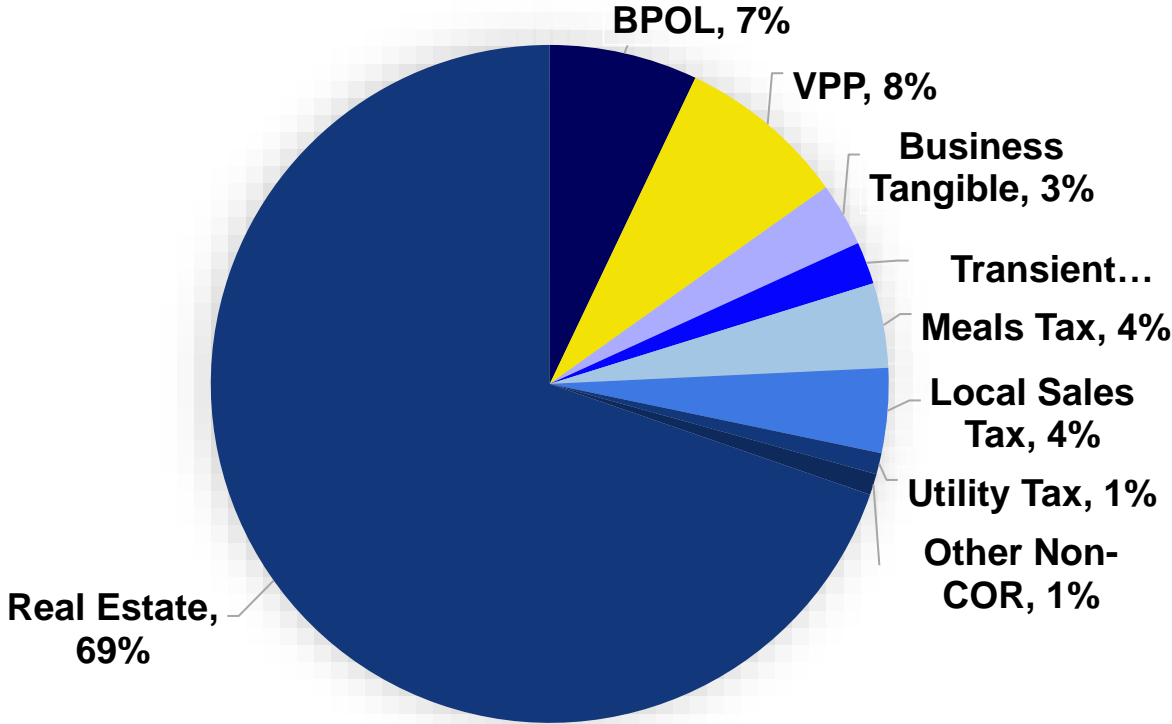
Payroll Apportionment: A method of allocating gross receipts based on the distribution of payroll across different states.

Mitigation Needs if HB1743 Passes

- **Revenue Replacement Mechanisms**
 - Funding to make up fiscal short fall.
- **Phase-in Periods**
 - Gradually implement the new deduction rules over several years. State that any new deduction rules are not retroactive.
- **Caps on Deductions**
 - Set a maximum dollar amount or percentage that a business can deduct.
- **Sunset Clauses**
 - Automatically end or review the deduction after a set period unless renewed by legislation.

This Fiscal Impact Will Be Felt By Localities

Composition of Arlington County Revenue



In Arlington, BPOL accounts for 7% of County Revenue, equivalent to ~\$105M.

Services Could Be Decreased Or Even Cut