



## FY 2023 Recommended Budget Budget Question

Board Question #: 12

**BUDGET QUESTION:** How much revenue would be lost if the Board reinstated the exemption for the first \$50,000 in gross receipts pertaining to the Business License tax?

**RESPONDING DEPARTMENT/OFFICE:** Commissioner of the Revenue, Budget & Grants

**RESPONSE:** If the Board were to choose to reinstate the exemption for the first \$50,000 in gross receipts above the \$1M threshold, we could expect a revenue loss of \$80,000 - \$100,000.

Staff does not recall what prompted removing the exemption back in 2018 when the threshold increased from \$750K to \$1M. The Commissioner's Office reports that the exemption was confusing to businesses when license returns were filed. It is also the case that some businesses have different lines of business which are taxed under multiple Business License categories. When the \$50,000 exemption was in place, a business in multiple categories received multiple exemptions while a business in only one category having the same gross receipts received only one exemption. (See examples below.) These matters may have contributed to elimination of the exemption in 2018.

Examples:

1. Business ABC has annual gross receipts of \$1,800,000 and operates in the Amusements category which has a Business License tax rate of \$0.18 per \$100. If the \$50,000 exemption were in place, Business ABC would pay \$3,150 in Business License tax.  $((\$1,800,000 - \$50,000 \text{ exemption}) / \$100) \times \$0.18 = \$3,150$
2. Business 123 has annual gross receipts of \$1,800,000 where \$1,000,000 falls under the Amusements category (\$0.18 rate) and \$800,000 falls under the Personal Service category (\$0.18 rate). If the \$50,000 exemption were in place, the exemption would apply to each category, and in total Business 123 would get a \$100,000 exemption. Business 123 would pay \$3,060 in Business License tax.  $((\$1,000,000 - \$50,000 \text{ exemption}) + (\$800,000 - \$50,000 \text{ exemption})) / \$100 \times \$0.18 = \$3,060$ .

Both businesses had \$1,800,000 in gross receipts. Both were taxed at \$0.18 per \$100. However, because the business in Example 2 fell into two different categories, two \$50,000 exemptions were in play, and that business' tax bill was \$90 less.

**ESTIMATE OF STAFF TIME SPENT ON RESPONSE:** 2.5 hours