

Model BL System

- MASC model BL system classifies businesses based NAICS codes and IRS Profitability Statistics
- NAICS is the North American Industrial Classification System
- IRS requires NAICS code on all business income tax returns



Model BL System

- IRS uses NAICS codes and income tax data to created a profitability index
- IRS profitability index runs 3 years behind tax year
- Latest available IRS profitability index 2012 used on 2015 class schedule



Model BL System

- MASC sorts index in ascending order by profitability
- Sorted list divided into 7 equal increments or classes
 - Class 1 - least profitable business classes
 - Class 7 - most profitable business classes



Model BL System

- Class 8 – a special rate class made up of businesses subject to:
 - State law requirements or limitations, or
 - Create higher service demands
- BL model deemed a fair and rational method by the SC Supreme Court on 2 separate occasions



Model BL System

- Model Ordinance
 - Includes 3 parts
 - Ordinance (Defines rules and process)
 - Rate Schedule – Appendix A (Set by each City Council)
 - Class Schedule – Appendix B and C (Set by MASC using IRS data and profitability index)



Model BL System

SAMPLE RATE SCHEDULE

RATE CLASS	INCOME: \$0 - \$2,000		INCOME OVER \$2,000
	MINIMUM TAX	Rate per Thousand or fraction	
1	\$ 10.00		\$0.50
2	\$ 20.00		\$0.65
3	\$ 30.00		\$0.80
4	\$ 40.00		\$0.95
5	\$ 50.00		\$1.10
6	\$ 60.00		\$1.25
7	\$70.00		\$1.40



Maintaining Model BL System

- SC Self Storage case, a 2012 SC Supreme Court decision, - rate classes must be updated periodically based on revised profitability statistics
- Association recommends every 3 - 5 years
- New Class Schedule – Appendix B and C prepared annually Association



Updating Model BL System

- Update process
 - Most recent Class Schedule (Appendix B and C) used to reclassify businesses based on profitability
 - Business profitability changes over time
 - Profitability changes may shift businesses to new rate classes
 - Shifts in classes
 - Change BL rate charged to businesses
 - impact BL revenue collection



Updating Model BL System

- Excel model used to update to new appendices
- City provides a current copy of
 - Business license ordinance with
 - Rate schedule
 - Declining scale
 - Business license data including:
 - BL account number
 - Name of business



Updating Model BL System

- Business license data (continued)
 - Assigned NAICS code
 - Current BL class assigned to business
 - Gross receipts (last completed BL year)
 - In city/out of city location designation
 - Amount paid in business license fee (excluding penalties)



Updating Model BL System

- Steps in MASC update process
 1. Check data integrity
 - Set model to city's BL rates and class codes
 - Revenue should be virtually identical to prior year collections
 - If results are off – trouble shoot data
 2. Update classification of business based on new appendix B & C



Updating Model BL System

3. Evaluate impact of business class changes
 - Calculate number of business class changes
 - Look at amount of gross revenue movement between classes
 - Evaluate winners and losers
 - Determine extent of revenue impact
4. Model rate scenarios. Options include changes to:
 - Base rate
 - Rate per \$1,000 gross
 - Declining scale



Updating Model BL System

5. Goal of rate modeling
 - Identify any unusual local issues that need to be addressed
 - Achieve a revenue neutral result for city (similar to property tax reassessment)
 - Negatively impact as few businesses as possible
6. Share preliminary results with city
7. Make necessary adjustments
8. Report findings and recommendations to city council



Model BL System Update Trends

- Significant downward movement from classes 6 and 7 to lower classes
- Biggest changes
 - Doctors from 6 to 3
 - Hospitals from 7 to 3
 - Nursing homes from 6 to 1
 - Big box retail 2 to 1



PROPOSED CHANGE IN CLASSIFICATION COUNTS


