



<b>FREDERICK COUNTY, VIRGINIA</b>		
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### **INFORMATION REGARDING GROSS RECEIPTS EXCLUSIONS**

**Exclusions are deductions allowed by law from the definition of gross receipts. Expenses are not an allowable exclusion for most businesses. Documentation evidencing your gross receipts including any exclusions may be required. It is the taxpayer's responsibility to determine any applicable exclusions, not the responsibility of the Commissioner of Revenue's office. *We highly recommend that you contact your accountant or attorney to determine which, if any, exclusions may apply to your business.***

Examples of claimed exclusions are:

- Persons who collect Federal and State excise tax on motor fuel as part of gross receipts may deduct this tax.
- Persons who collect Sales or Use tax as part of gross receipts may deduct this tax.
- 501(c) organizations may exclude business-related income from gross receipts; however, unrelated business income remains taxable.
- Sellers of computer hardware or software that is purchased for resale to a U.S. Federal or State government entity as allowed by Title 58.1-3732 of the Code of Virginia can deduct the original cost of the equipment.
- Where a real estate agent receives the full commission from a broker less an adjustment for the business license tax paid by the broker on such commissions and the agent pays a desk fee to the broker, the desk fee and other overhead cost paid by the agent to the broker should not be included in the broker's gross receipts.
- A lottery sales agent licensed by the State Lottery Board should not include in gross receipts all amounts received in the course of conducting the state lottery, but should include in gross receipts the compensation actually paid to a lottery sales agent in accordance with the provisions of Va. Code § 58.1-4011.

#### **CODE EXCERPT**

**CODE OF VIRGINIA** (as of 2/2014)

§ 58.1-3731. Exclusions and deductions from "gross receipts."

**FREDERICK COUNTY CODE** (as of 2/2014)

Chapter 155. TAXATION

Article XVI. Business License Provisions

§ 155-83. Gross receipts; exclusions and deductions from gross receipts.

The calculation of gross receipts, gross expenditures or gross purchases for license tax purposes shall be either a cash or accrual basis, provided that the basis used must coincide with the system of accounts used by the taxpayer and the method employed by the taxpayer for federal and state income tax purposes. The preceding year's gross receipts, gross expenditures or gross purchases may be either the fiscal year used by the business or the calendar year, provided that the year employed must also coincide with the year used for federal and state income tax purposes.

A. General rule. Gross receipts for license tax purposes shall not include any amount not derived from the exercise of the licensed privilege to engage in a business or profession in the ordinary course of business or profession.

- B. The following items shall be excluded from gross receipts:
- (1) Amounts received and paid to the United States, the commonwealth or any County, city or town for the Virginia retail sales or use tax or for any local sales tax or any local excise tax on cigarettes or any federal or state excise taxes on motor fuels.
  - (2) Any amount representing the liquidation of a debt or conversion of another asset to the extent that the amount is attributable to a transaction previously taxed (e.g., the factoring of accounts receivable created by sales which have been included in taxable receipts even though the creation of such debt and factoring are a regular part of its business).
  - (3) Any amount representing returns and allowances granted by the business to its customer.
  - (4) Receipts which are the proceeds of a loan transaction in which the licensee is the obligor.
  - (5) Receipts representing the return of principal of a loan transaction in which the licensee is the creditor or the return of principal or basis upon the sale of a capital asset.
  - (6) Rebates and discounts taken or received on account of purchases by the licensee. A rebate or other incentive offered to induce the recipient to purchase certain goods or services from a person other than the offeror and which the recipient assigns to the licensee in consideration of the sale of goods and services shall not be considered a rebate or discount to the licensee, but shall be included in the licensee's gross receipts together with any handling or other fees related to the incentive.
  - (7) Withdrawals from inventory for purposes other than sale or distribution and for which no consideration is received and the occasional sale or exchange of assets other than inventory, whether or not a gain or loss is recognized for federal income tax purposes.
  - (8) Investment income not directly related to the privilege exercised by a licensable business not classified as rendering financial services. This exclusion shall apply to interest on bank accounts of the business and to interest, dividends and other income derived from the investment of its own funds in securities and other types of investments unrelated to the licensed privilege. This exclusion shall not apply to interest, late fees and similar income attributable to an installment sale or other transaction that occurred in the regular course of business.
- C. The following shall be deducted from gross receipts or gross purchases that would otherwise be taxable:
- (1) Any amount paid for computer hardware and software that are sold to a United States federal or state government entity, provided that such property was purchased within two years of the sale to said entity by the original purchaser who shall have been contractually obligated at the time of purchase to resell such property to a state or federal government entity. This deduction shall not occur until the time of resale and shall apply to only the original cost of the property and not to its resale price, and the deduction shall not apply to any of the tangible personal property which was the subject of the original resale contract if it is not resold to a state or federal government entity in accordance with the original contract obligation.
  - (2) Any receipts attributable to business conducted in another state or foreign country in which the taxpayer is liable for an income or other tax based upon income.