

# PUBLICATION

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## Summary of the Business License Tax Increase for Contractors in the City of Birmingham

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**A massive tax increase on contractors located and doing business in the City of Birmingham, Alabama, has been avoided, but recent amendments that go into effect January 1, 2016, still present significant increases and changes to the old business license tax.**

Historically, general contractors paid a flat fee of \$200 per year regardless of the volume of work or the size of the company. In April of this year, the City passed a new ordinance (No. 15-59) that made many sweeping changes to the old business license tax ordinance. Among the more notable changes were to tax the contractor a much larger flat fee, plus additional amounts based on the contractor's annual gross receipts for work performed both inside and outside the city limits. There were no listed deductions and no caps on the amount of the tax. For some of the largest general contractors, it was estimated that the annual increase could be more than one-half million dollars.

After much discussion and negotiation with the City, a compromise ordinance (No. 15-145) was reached and passed into law in October. It replaces the ordinance passed in April and becomes effective January 1, 2016. A copy of the new ordinance can be downloaded [here](#), and the highlights are as follows:

- An increased flat fee ranging from \$250 to \$1,500, depending on the contractor's gross receipts for services performed inside the city limits.
- A new tax equal to one tenth of one percent of annual gross receipts in excess of \$2 million. However, the total business license tax is capped at \$25,000.
- The gross receipts amount is based only upon "work done in the City limits." However, the definition of gross receipts includes "any work performed in the City of Birmingham for projects outside of the City." Therefore, the ordinance intends to tax gross receipts attributable to work performed in the Birmingham office for projects located outside of Birmingham (e.g., drafting, home office project management, etc.). The ordinance does not provide guidance about how this attribution of work should be calculated.
- The amount of taxable gross receipts may be reduced by the amount of gross receipts taxable by taxing authorities outside of the City and also by the amount of payments made to subcontractors.
- Upon request, contractors will be required to furnish the City with the names and contract amounts for all subcontractors performing work on a project in the City.

There are still ambiguities and unanswered questions about how the new ordinance will be applied and enforced. Contractors located and/or doing business in the City of Birmingham should take immediate action to ensure compliance with the new Birmingham business license tax that becomes effective January 1, 2016.

If you have any questions regarding the recent amendments, please contact Kevin Garrison, the author of this alert, or any member of our Construction group.