



CITY COUNCIL STUDY SESSION REPORT

MEETING DATE: July 10, 2012

ITEM NUMBER:

SUBJECT: DISCUSSION REGARDING POSSIBLE BUSINESS LICENSE TAX INCREASE

DATE: JULY 6, 2012

FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING

PRESENTATION BY: BOBBY YOUNG, FINANCE & I.T. DIRECTOR

FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, FINANCE & I.T. DIRECTOR
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RECOMMENDED ACTION:

Provide information to staff regarding Council's desire to establish and propose a Business License Tax Ballot Measure for the November 6, 2012 general election.

BACKGROUND:

The City first adopted a Business License Tax by establishing Section 9-1 of the Municipal Code in April 1985. The code section states:

"For the purpose of raising revenue for the city, every person conducting, carrying on, or engaging in any business shall pay a business tax to the city as hereinafter set forth, and any person who conducts, carries on, or engages in any business for which payment of a business tax is required under the provisions of this title, without having paid the required tax, is guilty of a misdemeanor or infraction. Each day of operation in violation of this section shall constitute a new and separate offense."

Given that the license is imposed for the purpose of raising revenue, it is determined to be a tax not a fee. Since Proposition 62 (1998), all taxes must be approved by two-thirds of the governing body (4 of 5), and a simple majority of the voters at a general election.

The following is the anticipated timeline should the City Council elect to submit a resolution to voters for approval of the ordinance on the November 6, 2012 general election.

July 17 – City Council adopts resolution to put measure on ballot
July 18 – Resolution submitted to County to place measure on ballot
July 31 – Direct arguments and impartial analysis due
August 10 – Rebuttals due

ANALYSIS:

Approved at the same time, Section 9-25 of the City's Municipal Code established the tax structure based upon the annual gross receipts of a business. This structure is widely used by cities for the business license tax because of its ease of use and understanding. Businesses required to file tax returns must report total gross receipts. Using tax filings allows for ease of auditing businesses to ensure the proper tax is paid.

When using the gross receipts method, most cities have adopted either a tier structure or a millage rate. A mill rate establishes an amount, usually per \$1,000 of gross receipts to determine the tax, sometimes without a cap. Section 9-25 established a tier format used to calculate the applicable tax as seen below.

Current

| Annual Gross Receipts | Tax Due |
|--------------------------|---------|
| Under \$1,000 | \$0 |
| \$1,000 - \$25,000 | \$25 |
| \$25,000.01 - \$40,000 | \$35 |
| \$40,000.01 - \$75,000 | \$45 |
| \$75,000.01 - \$200,000 | \$60 |
| \$200,000.01 - \$500,000 | \$100 |
| Over \$500,000 | \$200 |

The projected revenue from Business License Tax in FY 12-13 is \$850,000.

Staff's initial recommendation is to retain a tier structure because it is easy to understand, however with a change to gross receipt tiers and the tax due. While the tax is solely for the purposes of raising revenue, it should be noted that there is still staff time and other resources used for issuing any license, and therefore staff is recommending a minimum tax of at least \$50. Taking into account the change of economic conditions since 1985, staff is initially recommending the following tax structure:

Proposed

| Annual Gross Receipts | Tax Due |
|--------------------------------|----------|
| Under \$50,000 | \$50 |
| \$50,000.01 - \$100,000 | \$100 |
| 100,000.01 - \$500,000 | \$250 |
| \$500,000.01 - \$1,000,000 | \$500 |
| \$1,000,000.01 - \$5,000,000 | \$1,000 |
| \$5,000,000.01 - \$10,000,000 | \$2,000 |
| \$10,000,000.01 - \$25,000,000 | \$5,000 |
| Over \$25,000,000 | \$10,000 |

The projected revenue of the above structure is approximately \$3.6 million, an increase of \$2.75 million.

Also, Attachment A provides more comparative analysis between the current and proposed structures. Attachment B provides comparative analysis with other cities.

Staff has also been conducting research into upgrading the current license system to one with an online business license tax feature. This will allow businesses to apply, renew and pay for the license online. It could also provide online renewal noticing and enhance audit features by linking with other business data provided to the City. The potential cost of providing these features to the City and business community could be offset by the increase in tax revenue.

ALTERNATIVES:

City Council can choose to alter the above tier amounts and staff will provide the estimated financial impacts of any changes. City Council could also choose to change the tax structure to a mill rate with no cap, however staff has not yet compiled information to determine fiscal impacts.

CONCLUSION:

During FY 2011-12 City Council stated a desire to have staff provide information regarding a potential business license tax ballot measure for the purposes of increasing the current tax. Staff will provide additional information and be available to discuss additional options at the Study Session meeting.

BOBBY YOUNG
Finance and I.T. Director

Attachment A – City of Costa Mesa Business License Tax Information
Attachment B – Comparative Business License Information with Other Cities

Comparative Business License Tax Information with Other Cities

| Method of Taxation | Costa Mesa | | Huntington Beach | | Irvine | | Newport Beach | | Orange | | Santa Ana | |
|----------------------------|----------------|--------------|------------------|--------------|--------------|--------------|---------------|----------------|----------------|----------------|----------------|--|
| | Gross Receipts | Per Employee | Per Employee | Flat | Flat | Per Employee | Per Employee | Gross Receipts | Gross Receipts | Gross Receipts | Gross Receipts | |
| Average Annual Revenue | \$ 879,952 | \$ 2,241,246 | \$ 965,696 | \$ 4,056,034 | \$ 2,177,936 | \$ 9,848,692 | | | | | | |
| Percentage of General Fund | 0.75% | 1.23% | 0.69% | 2.68% | 1.36% | 4.69% | | | | | | |
| Average Number of Accounts | 11,712 | 21,118 | 18,432 | 16,773 | 21,848 | 28,114 | | | | | | |
| Average Tax Per Business | \$ 75.13 | \$ 106.13 | \$ 52.39 | \$ 241.82 | \$ 99.69 | \$ 350.31 | | | | | | |
| Population | 110,150 | 190,380 | 219,160 | 85,380 | 136,990 | 325,230 | | | | | | |
| Business Tax Per Capita | \$ 7.99 | \$ 11.77 | \$ 4.41 | \$ 47.51 | \$ 15.90 | \$ 30.28 | | | | | | |