

**Blue Ribbon Equitable Business Tax Task Force  
Presentation**

# **Designing a Progressive Business Tax**

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**Revised April 29, 2021**

Presented by

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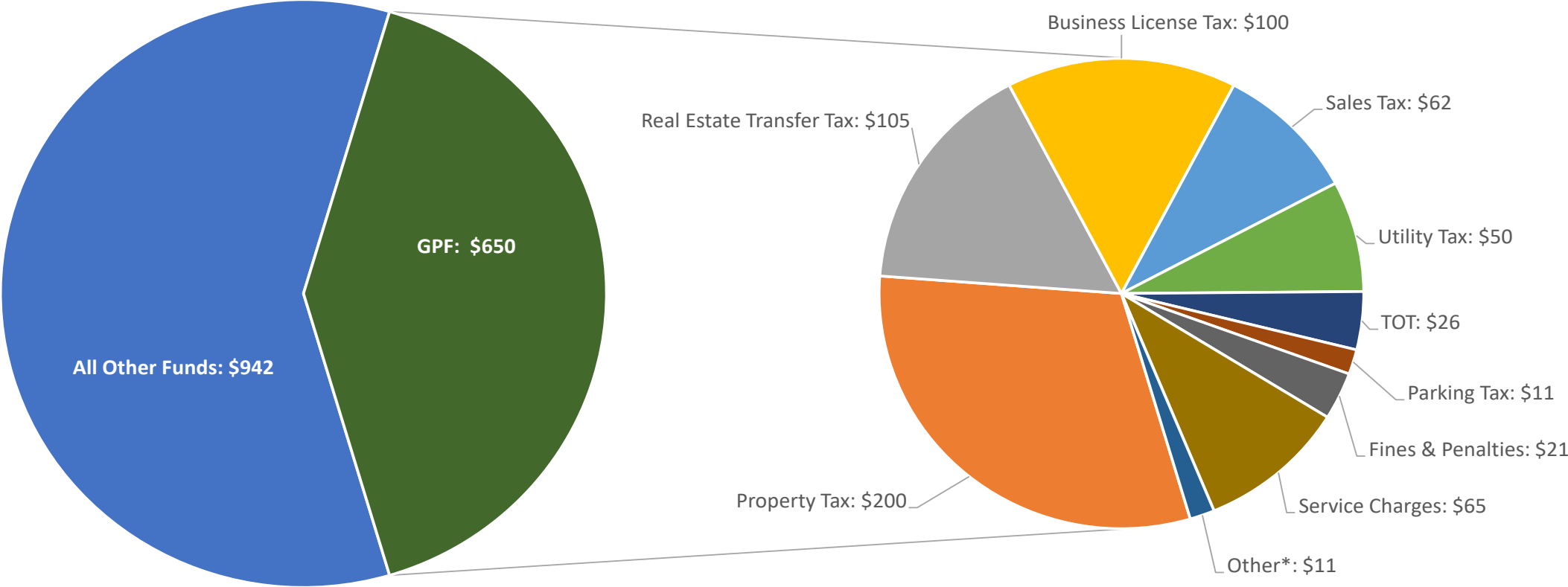
**Blue Sky Consulting Group**

# Overview

- ▶ City of Oakland Revenue Sources
- ▶ Overview of the Business Tax
- ▶ Possible goals for the commission
- ▶ Balancing tradeoffs
- ▶ Discussion and next steps

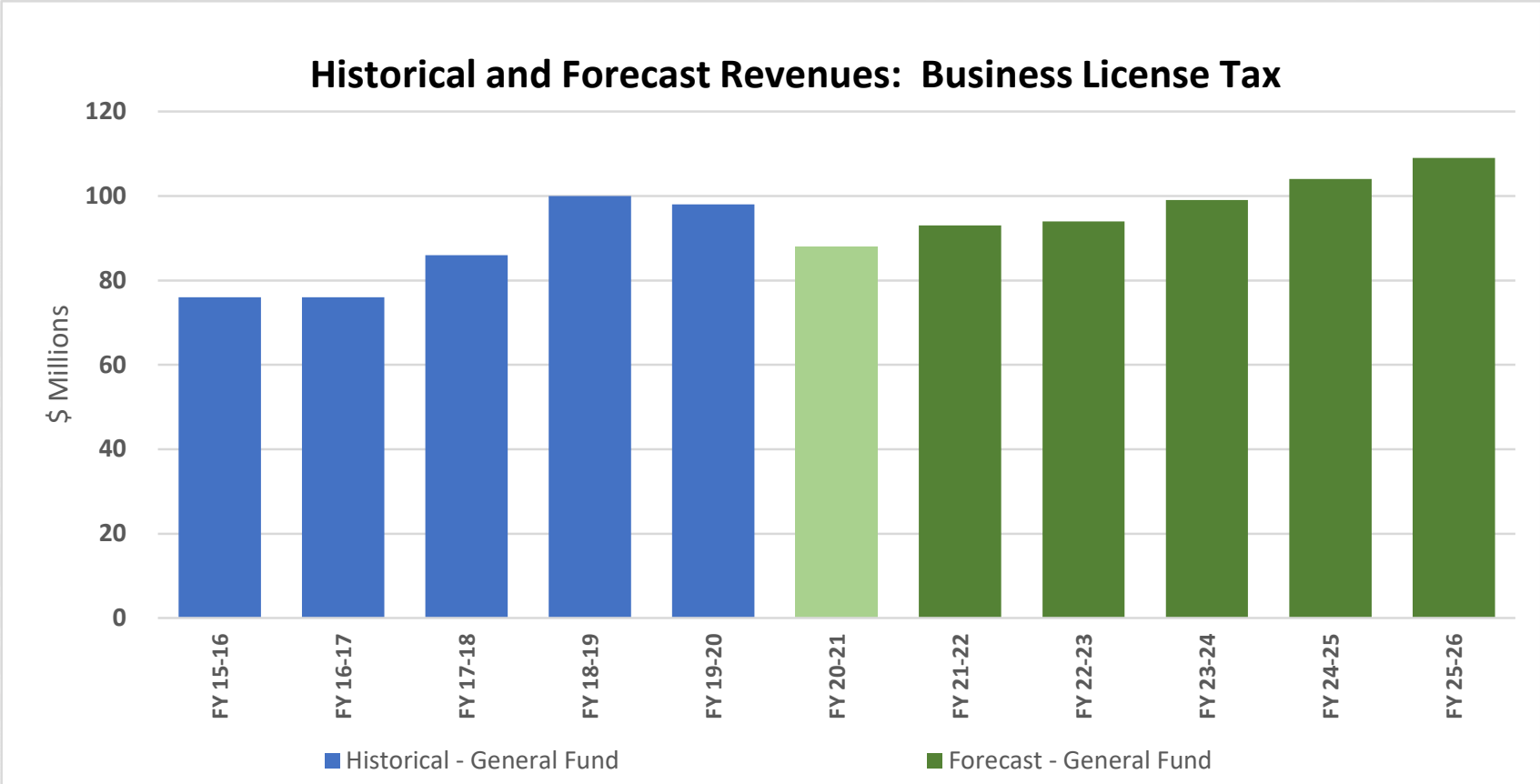
# City of Oakland Revenue Sources

City of Oakland FY 18-19 Revenues and General Purpose Fund Detail (\$Millions)



\* Other revenue sources include Licenses & Permits, Interest Income, Grants & Subsidies, Interfund Transfers, and Miscellaneous Revenues.

# Business License Tax is an Important Revenue Source for the City



# Business Tax Overview

- ▶ The City of Oakland Business Tax is a gross receipts tax (i.e., based on total sales rather than profits)
- ▶ Businesses file a tax return in March each year reporting total revenue (gross receipts) for the prior calendar year
- ▶ Tax is assessed at different rates depending on the type of business

# Business Tax Rates and Revenue by Sector

Code	Business	Tax Rate*	Tax per \$1,000	Gross Receipts (mil \$)	% of Total Gross Receipts	Tax Charged (mil \$)	% of Total Tax Charged
A	Retail Sales	0.12%	\$1.20	\$3,603	14.3%	\$4.6	5.1%
C	Automobile Sales	0.12%	\$1.20	\$705	2.8%	\$0.8	0.9%
D	Wholesale Sales	0.12%	\$1.20	\$2,217	8.8%	\$2.7	2.9%
I	Manufacturing**	0.12%	\$1.20	\$729	2.9%	\$0.9	1.0%
K	Admin Headquarters**	0.12%	\$1.20	\$972	3.9%	\$1.2	1.3%
T	Media Firms	0.12%	\$1.20	\$384	1.5%	\$0.5	0.5%
W	Miscellaneous**	0.12%	\$1.20	\$21	0.1%	\$0.0	0.0%
B	Grocers	0.06%	\$0.60	\$790	3.1%	\$0.5	0.6%
E	Business/Personal Svcs.	0.18%	\$1.80	\$2,756	11.0%	\$5.2	5.7%
H	Contractors	0.18%	\$1.80	\$4,022	16.0%	\$7.4	8.1%
P	Hotel/Motel	0.18%	\$1.80	\$253	1.0%	\$0.5	0.5%
F	Professional Svcs	0.36%	\$3.60	\$5,017	20.0%	\$18.4	20.3%
G	Recreation/Entertainment	0.45%	\$4.50	\$283	1.1%	\$1.3	1.4%
M	Residential Rental Property	1.395%	\$13.95	\$1,467	5.8%	\$20.8	22.9%
N	Commercial Rental Property	1.395%	\$13.95	\$980	3.9%	\$13.6	15.0%
U	Utility Companies	0.10%	\$1.00	\$781	3.1%	\$0.8	0.9%
X, L, Y	Taxi, Trucking, Amb / Lim**	N/A	N/A	N/A	N/A	\$0.1	0.1%
Z	Cannabis	0.12% - 9.5%	\$1.20 - \$95.00	\$151	0.6%	\$11.6	12.7%

\*Tax Rate only applies to businesses exceeding minimum gross receipts thresholds.

\*\* Based on permits issued (for taxis, ambulances, and limousines), number of employees (trucking), payroll (admin headquarters, miscellaneous), or value added (manufacturing).

# Gross Receipts and Revenues by Business Size & Location

	<u># of Businesses</u>	<u>% of Total</u>	<u>Gross Receipts (mil \$)</u>	<u>% of Total</u>	<u>Taxes Charged (mil \$)</u>	<u>% of Total</u>
<b>All Businesses*</b>	<b>53,133</b>		<b>\$25,169</b>		<b>\$91.0**</b>	
<b><u>By Business Size</u></b>						
<b>\$0 - \$250k</b>	44,766	84.3%	\$2,062	8.2%	\$19.0	21.0%
<b>\$250k - \$1 mil</b>	4,845	9.1%	\$2,414	9.6%	\$11.6	12.7%
<b>\$1 - \$2.5 mil</b>	1,688	3.2%	\$2,639	10.5%	\$10.2	11.1%
<b>\$2.5 - \$25 mil</b>	1,389	2.6%	\$9,344	37.1%	\$31.3	34.3%
<b>\$25 - \$50 mil</b>	71	0.1%	\$2,510	10.0%	\$7.5	8.3%
<b>Over \$50 mil</b>	52	0.1%	\$6,200	24.6%	\$11.4	12.5%
<b>Permit / payroll-based</b>	322	0.6%	N/A	N/A	\$0.11	0.1%
<b><u>By Business Location</u></b>						
<b>Oakland (home-based)</b>	30,838	58.0%	\$2,328	9.2%	\$23.1	25.3%
<b>Oakland (not home-based)</b>	15,132	28.5%	\$17,300	68.7%	\$57.0	62.5%
<b>Outside Oakland</b>	7,163	13.5%	\$5,542	22.0%	\$11.0	12.0%

\*Includes all businesses that reported gross receipts or taxable permits or payroll for Tax Year 2020.

\*\*Including fees and penalties, total amounts owed exceeded \$94 million.

\*\*\*Includes all Taxicab, Ambulance/Limousine, and Trucking/Transportation businesses, which pay business taxes based on permits issued or employees on payroll. Firms in these industries officially report \$0 of gross receipts.

# Balancing Competing Goals

- ▶ Some goals for business tax reform could include:
  - ▶ Raise additional revenue
  - ▶ Increase fairness
  - ▶ Reduction of race and equity disparities
  - ▶ Incentivize certain types of businesses (e.g. small businesses)
  - ▶ Support the city's economy and workforce
  - ▶ Modernize rate categories



# Raising Taxes May Involve Tradeoffs

- ▶ Higher rates may raise additional revenue but come at a cost in terms of jobs
- ▶ Increases in Business Tax revenues may result in offsetting decreases in other revenue sources (e.g., lower sales tax revenues) or increased enforcement costs
- ▶ Lower rates may preserve economic activity but may not achieve fairness or revenue goals
- ▶ Tax incidence (i.e. who pays)
  - ▶ Will businesses pass tax increases on to customers, reduce wages, lower profits?
  - ▶ Where are incidence effects felt? Are Oakland residents and workers likely to be impacted, or are customers and business owners living outside of Oakland likely to pay the costs of a tax increase?
  - ▶ What will be the impact on rents and property values?

# Next Steps

- ▶ Identify areas for staff research, potentially including
  - ▶ Factors influencing business mobility
  - ▶ Data on tax rates in neighboring and comparable jurisdictions



# Discussion

# Active Business by Year (2016 - 2021)



# Business Taxes\* by Sector (2017 - 2021)

Code	Business	Tax Rate**	2017	2018	2019	2020	2021
M	Residential Rental Property	1.40%	\$17,725	\$18,640	\$19,844	\$20,903	\$19,707
F	Professional Svcs	0.36%	\$16,063	\$17,178	\$18,426	\$18,420	\$17,234
Z	Cannabis	0.12% - 9.5%	\$7,185	\$8,692	\$16,237	\$11,594	\$15,507
N, O	Commercial Rental Property	1.40%	\$12,461	\$12,646	\$13,478	\$13,726	\$13,202
H	Contractors	0.18%	\$3,819	\$5,049	\$7,399	\$7,416	\$5,736
E	Business/Personal Svcs.	0.18%	\$4,702	\$4,892	\$5,181	\$5,142	\$4,775
A	Retail Sales	0.12%	\$4,042	\$4,295	\$4,399	\$4,559	\$4,093
D	Wholesale Sales	0.12%	\$2,606	\$2,643	\$2,812	\$2,678	\$2,084
K	Admin Headquarters***	0.12%	\$771	\$889	\$921	\$1,173	\$1,663
U	Utility Companies	0.10%	\$895	\$917	\$871	\$786	\$820
I, J	Manufacturing***	0.12%	\$898	\$998	\$961	\$899	\$785
C	Automobile Sales	0.12%	\$982	\$904	\$823	\$851	\$713
T	Media Firms	0.12%	\$504	\$546	\$577	\$463	\$554
G	Recreation/Entertainment	0.45%	\$2,979	\$3,594	\$3,725	\$1,291	\$499
B	Grocers	0.06%	\$514	\$525	\$542	\$517	\$492
P	Hotel/Motel	0.18%	\$409	\$399	\$440	\$459	\$170
X, L, Y	Taxi, Trucking, Amb / Lim***	N/A	\$128	\$122	\$103	\$112	\$83
W, NP	Miscellaneous, Non-Profit***	0.12%	\$83	\$58	\$55	\$47	\$51

\*Amounts in thousands USD and do not include fees or penalties.

\*\*Tax Rate only applies to businesses exceeding minimum gross receipts thresholds.

\*\*\* Based on permits issued (for taxis, ambulances, and limousines), number of employees (trucking), payroll (admin headquarters, miscellaneous), or value added (manufacturing).

# Business Tax Rates for Selected Cities - Summary

City	Business Tax Type	Exemptions *	Rates
Oakland	Primarily GRT, some exceptions (e.g., employees, payroll, etc.)	Threshold limits (vary by category); Non-profits; some affordable housing; licensed family daycare up to 14 children	Range from \$0.60 (grocers) to \$13.95 (commercial and residential rental property) per \$1,000 Cannabis rates are progressive, \$1.20 to \$13.95 per \$1,000 (Cannabis higher)
Emeryville	GRT	Charitable organizations	For most businesses is \$1.00 per \$1,000; Commercial rent = \$3.50; Cannabis = \$60
Berkeley	Primarily GRT (similar to Oakland)	Wholly charitable organizations; Small businesses w/gov't R&D grants	Rates range from \$0.60 (grocers) to \$4.50 per \$1,000 for most categories, with some much higher rates: Professional sporting events = \$100; Firearms and ammunition = \$150; Cannabis = \$25 to \$50
Richmond	Currently flat fee + tax per employee; Measure U (2020), implements GRT to take effect July 2021 and is described here	Non-profits; small businesses < \$250K; affordable housing, some owner-occupiers room and ADU rentals if < 150% AMI; family daycare providers; hardship exemptions (1 yr, must apply)	Progressive system, rates are marginal and by category, most range between \$0.60 and \$2.00 (grocers) to \$3.60 to \$6.80 (professional svcs); Cannabis = \$50.00; Firearms = \$60 first \$2,500 then \$24; seems to pull from Oakland and Berkeley
San Francisco	Primarily GRT	Primarily non-profits	Progressive system, varies by category. (Note: Prop F (2020) modified categories and set rates for Jan 2021 w/annual increases through 2024). Most currently range from \$0.53 to \$9.10 per \$1,000 (Cannabis higher)
Los Angeles	Primarily GRT, some exceptions (e.g., Movie production = cost)	Non-profits; Small biz (< \$100K/yr); Mutual funds; New auto dealers, Contractors < \$60K (\$153 flat fee)	Rates per \$1,000 range from \$1.01 (childcare provider & others) to \$4.25 (Professions & Occupations, others); Medical marijuana = \$60 per \$1,000
San Jose	Primarily num employees, some exceptions	Non-profits; Farmers within Santa Clara County selling own products in City	Base tax of \$203.85, most categories then taxed per employee starting at 3rd employee, progressive marginal tax (e.g., \$32.70 per employee for 3-35 employees, up to \$65.45 for 500+). All capped at \$163,745.
San Leandro	Flat fees, some categories add'l taxes (GR, headcount, sq ft)	Non-profits and most businesses with 3 or fewer employees within City	\$146.20 base for most businesses; GRT applied only to limited categories: Coin operated devices & towing (\$1.30); Firearms (concealed weapons & ammo)= \$44.00; parking lot (\$100)
Hayward	Limited GRT, most categories pay flat fees, per emp, per sq ft, etc.	Charities/non-profits; Peddlers or solicitors who are veterans, disabled, or indigent.	Most Retail/wholesale = up to \$373.35 fee if <\$3M, add'l GRT of \$0.11 for \$3M+ (some \$0.27 for \$400K+); Other rates at \$1.07 to \$1.33, Cannabis = \$70.
Walnut Creek	Most businesses may choose GRT or a flat rate + headcount	Charitable organizations; Minors (< 18 yrs) with up to \$1,000 revenues	GRT of \$2.30 first \$10K then decreasing rate up to \$0.02 for revenues > \$10M; OR flat \$416.00 for 1 owner/partner + Add'l partners \$139.00 then \$28 per employee up to 300 then \$14 for above 300
Concord	GRT (wholesale/retail, comm rents, contractors > \$204K); rest per employee or flat fee	Non-profits may qualify for no-fee business license	GRT: minimum \$25 up to \$25K revenues, then marginal GRT rates that decrease from \$0.90 to \$0.30 per \$1,000 at \$7.5M annual revenues; Varying rates per employee for most other categories
Antioch	GRT except per-unit for residential rentals	Non-profits	\$1.25 per \$1,000 up to \$1M, then add'l \$0.20 per \$1,000 of revenues > \$1M, Min of \$100 (\$25 home-based) Residential rental units = \$250/unit for Single-family, \$150/unit for multi-family
Pleasanton	GRT	Non-profits	Fees up to \$75 up to \$250K annual revenue, above that = \$0.30 per \$1,000.00
Fremont	GRT	Non-profits; Agricultural (non-retail); Part-time jobs (youths & seniors); Veterans	Most pay \$30 fee plus GRT per \$1,000 that varies from \$0.25 (retail) to \$1.50 (rec & entertainment). Charge extra \$0.30 for retail/wholesale in residential areas
Dublin	Fixed fees	Non-profits; Agricultural (non-retail); Attorneys; Part-time jobs (youths & seniors); Disabled veterans	\$94 new, \$26 renewal

\* California prohibits taxation by any local jurisdiction for certain entities including the following: (1) banks and financial corporations; (2) insurance companies; (3) persons engaging in business as a for-hire motor carrier of property; (4) persons engaging in intercity transportation as a household goods carrier; (5) charter-party carriers operating limousines that are neither domiciled nor maintain a business office within the taxing jurisdiction.

# Business Tax Rates for Selected Cities - Detail

Business Category	Tax Rates <sup>(1)</sup>					
	Oakland	Emeryville	Berkeley	Richmond <sup>(2)</sup>	San Francisco <sup>(2)</sup>	Los Angeles
A Retail Sales	\$1.20	\$1.00	\$1.20	\$1.20 / \$3.20	\$0.53 / \$2.24	\$1.27
B Grocers	\$0.60	\$1.00	\$0.60	\$0.60 / \$2.00	\$0.53 / \$2.24	\$1.27
C Automobile Sales	\$1.20	\$1.00	\$1.20	\$1.20 / \$5.00	\$0.53 / \$2.24	(Exempt)
D Wholesale Sales	\$1.20	\$1.00	\$1.20	(TBD)	\$1.05 / \$2.24	\$1.01
E Business/Personal Svcs.	\$1.80	\$1.00	\$1.80	\$1.80 / \$5.40	\$7.35 / \$9.10	\$1.27
F Professional Svcs	\$3.60	\$1.00	\$3.60	\$3.60 / \$6.80	\$5.60 / \$7.84	\$4.25
G Recreation/Entertainment	\$4.50	\$1.00	\$4.50	\$4.50 / \$5.00	\$2.10 / \$5.60	\$1.27 to \$2.55
H Contractors	\$1.80	\$1.00	\$1.80	\$1.80 / \$3.00	\$4.20 / \$6.30	\$1.01
I Manufacturing	\$1.20	\$1.00	\$1.20	\$1.20 / \$5.00	\$0.88 / \$6.65	\$4.25
J Mfg (unfinished good)	\$1.20	\$1.00	\$1.20	\$1.20 / \$5.00	\$0.88 / \$6.65	\$4.25
K Admin Headquarters	\$1.20	\$1.00	\$1.20	\$1.20 / \$2.40	\$29.00 <sup>(3)</sup>	\$4.25
L Taxicabs	\$180.00	\$200.00	\$215.00	\$180.00	\$1.75 / \$6.65	\$54.99
M Residential Rental Property	\$13.95	\$1.00	\$10.81 (< 5 units) \$28.80 (5+ units)	\$10.81 (< 5 units) \$28.80 (5+ units)	\$3.99 / \$4.20	\$1.27
N Commercial Rental Property	\$13.95	\$3.50	\$10.81	\$10.81 (< 5 units) \$28.80 (5+ units)	\$10.00 (warehouse) \$35.00 (other)	\$1.27
O Commercial Rental (5-yr Exemption)	\$1.80	NA	NA	(1-yr exemption, lower rates)	NA	NA
P Hotel/Motel	\$1.80	\$1.00	\$2.40 <sup>(4)</sup>	\$1.80 / \$5.00	\$2.10 / \$5.60	\$1.27
T Media Firms	\$1.20	\$1.00	\$2.40 <sup>(4)</sup>	\$2.40 / \$4.80 <sup>(4)</sup>	\$5.60 / \$7.84	\$1.01
U Utility Companies	\$1.00	\$1.00	\$2.40 <sup>(4)</sup>	\$2.40 / \$4.80 <sup>(4)</sup>	\$4.20 / \$5.60	\$1.01
W Miscellaneous	\$1.20	\$1.00	\$2.40	\$2.40 / \$4.80 <sup>(4)</sup>	(varies)	(varies)
X Ambulance, Limousines	\$75.00	\$200.00	\$215.00	\$75.00	\$1.75 / \$6.65	\$54.99
Y Trucking/Transportation	\$72.00 (first), \$4.50 (201+)	\$1.00	\$2.40 <sup>(4)</sup>	\$72.00 (first), \$4.50 (201+)	\$1.75 / \$6.65	\$88.69
Z Cannabis	\$1.20 - \$95.00	\$60.00	\$25.00 / \$50.00	\$50.00	\$25.00 / \$50.00	\$10.00 to \$100.00

Notes:

(1) Rate is per \$1,000 in gross receipts except the following:

Value-added (per \$1,000)
Local (In-City) Expenses (per \$1,000)
Gross payroll (per \$1,000)
Per permit or per Vehicle
Per Owner/Officer/Employee

(2) San Francisco and Richmond have adopted progressive GRT systems. For these cities, the min and max rates are presented (MIN/MAX). Note that Richmond's rates were just passed by Measure U (2020) and will begin in 2021. Richmond's rates represent the upper limit for the rates from Measure U; the City Council has the authority to lower rates and is currently considering doing so.

(3) San Francisco admin headquarter tax only applies to businesses with 1,000+ U.S. employees and \$1 Billion or more in annual sales.

(4) These categories did not have a specific rate listed in the city's tax schedule and were therefore assigned the rate in the city's "Miscellaneous" category.