

**CITY OF OAKLAND**  
**FINANCIAL MANAGEMENT AGENCY**  
**REVENUE DIVISION**

**DIRECTOR OF FINANCE AND MANAGEMENT AGENCY RULING NO. 32**  
**MANAGEMENT BUSINESSES AND GROSS RECEIPTS**

Reference: Sections 5.04.030 and 5.04.340, Oakland Municipal Code.

**PURPOSE**

This ruling is provided to clarify the criteria for classification of a management business and the procedure for reporting gross receipts by management businesses.

**BACKGROUND**

Historically, businesses engaged in business management activity/ies in Oakland have been classified and taxed under the Tax Administrator's interpretation and consistent practice as businesses providing professional services under Oakland Municipal Code Section 5.04.340. In December 2007, the City Council affirmed the longtime administrative interpretation and application of the tax in an amendment to Oakland Municipal Code (OMC) Section 5.04.340, specifying that management businesses are included under the classification of "Professional - semi-professional connected business." OMC (§ 5.04.340). This Revenue Ruling responds to customer inquiries by providing clarification to the criteria for classification of a management business and the procedure for reporting gross receipts.

As a result of a number of audits, staff discovered that some management businesses were misclassified. Some reported only their fixed management fee and failed to include reimbursed expenses in their "Gross Receipts" tax base used for business tax calculation.

**A. Professional – Semi Professional includes "Business Management Services"**

Oakland Municipal Code Section 5.04.340 applies to persons engaged in businesses providing professional services. Section 5.04.340 (B) provides: "professional services shall include, but not be limited to, the following: business management services, website development services, finance, insurance services, real estate services; medical and other health services; educational services, legal services; engineering and architectural services; accounting, auditing, and bookkeeping services; commission merchants; savings and loan and other financial institutions."

## **B. Classification of a Management Business**

Management businesses are businesses that provide one or more "business management services" that may include management, operational and administrative. Any or all of those services provided by a management business on behalf of the primary business owner or principal shall be treated and classified as "Professional-semi- professional" per O.M.C., Section 5.04.340.

The primary business owner or principal is the party or entity that is classified and taxed according to the type of business activity/ies engaged in. Typically, an owner or principal hires or contracts with a management business to provide the underlying services and/or support functions to carry out the business operations on behalf of the owner or principal of the business entity.

Management businesses have been hired or contracted to operate a variety of businesses including but not limited to hotels, parking, real estate and transportation. Management businesses providing expertise and resources to run a business operation on behalf of an owner or principal of the underlying business or classified as management businesses under the classification of "Professional - semi-professional" pursuant to O.M.C., Section 5.04.340, not based on the type of business activity of the primary business owner.

Some of the key factors to be considered in determining if a business is a management business include but are not limited to the following:

- Business owners or principals contract out to another business entity (a management business) that offers the necessary management and operational expertise, staff and other resources to perform business services on behalf of the owner or principal. The contractor (management business) obtains any necessary permits and/or licenses and meets all appropriate legal requirements to operate the underlying business on behalf of the owner or principal business entity.
- An owner or principal will negotiate an agreement with a management business, and that agreement may include a budget that provides general or specific spending guidelines and those guidelines may delineate provisions for reimbursed expenses.
- Management businesses administer and direct payroll and benefits for employees hired to perform the underlying business services on behalf of the owner or principal.

- The employees performing the basic business services are those of the management business, not the owner of the business. Hiring and termination of employees for the contracted services are usually those of the business providing management services. They are paid on behalf of the management business whether directly or indirectly. At the end of the year the management business sends these employees a W-2.
- Management businesses do not have entitlement nor control the income of the underlying business, however a management business may receive and deposit business income on behalf of the underlying owner or principal.
- The owner or principal in collaboration with the management business sets pricing or rates for products/services. The management business will enforce the application and collection of income.
- The management business has minimal risk, if any, due to the contract binding the owner to pay the management fees plus cost, thus guaranteeing expenses, regardless of economic conditions. The “risk” of any positive or negative impact is still those of the owner.

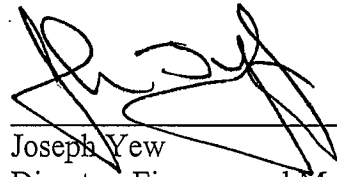
### **C. Reporting Gross Receipts**

The amount of a business tax taxpayer’s Gross Receipts from the previous year is used to determine the amount of business tax due. “Except as otherwise specifically provided,” Section 5.04.030 defines Gross Receipts as “all receipts, cash credits and property of any kind or nature, without any deduction therefrom on account of the cost of the property sold, the cost of material used, labor or service costs, interest paid or payable, or payable, or losses or other expenses whatsoever.” (OMC § 5.04.030). Section 5.04.030 does not provide businesses that provide “business management services” a specific exemption from gross receipts for reimbursed expenses. Therefore, gross receipts for management businesses include all reimbursed expenses and/or fees, and specifically with regards to those management businesses that provide services on behalf of the principal business entity.

**RULING OF THE DIRECTOR OF FINANCE**

All businesses providing business management services shall be classified as "Professional-semi-professional" in accordance with O.M.C., Section 5.04.430. The underlying owner or principal of the primary business activity which is served by the management business will be classified according to the underlying business activity/ies such as hotels, parking, real estate and transportation. The management businesses shall include in their reportable gross receipts for purposes of taxation pursuant to the Oakland Business Ordinance all management fees, incentive payments and any reimbursed expenses, including expenses received directly or indirectly by or on behalf of the primary business owner/taxpayer. Reimbursement expenses means and includes, but is not limited to, wages and salaries, benefits, payroll taxes, workers compensation, operational expenses, taxes, insurances, parking, legal, administrative, bookkeeping.

Though management businesses provide expertise and resources to run a business operation on behalf of an owner or principal of the underlying business does not allow them to be classified other than a management businesses under the classification of "Professional- semi-professional" pursuant to O.M.C., Section 5.04.340



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