



2.3

DEPARTMENT OF
FINANCE

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 104
SACRAMENTO, CA
95814-2696

June 12, 1991
RA91081:MLF:dim

916-449-5454

City Council
Sacramento, California

REVENUE DIVISION

Honorable Members in Session

**SUBJECT: AN ORDINANCE AMENDING SECTIONS 23.401 THROUGH 23.404 OF
ARTICLE IV OF CHAPTER 23 OF THE SACRAMENTO CITY CODE
RELATING TO THE BUSINESS OPERATIONS TAX.**

SUMMARY

This report recommends that the City Council adopt an ordinance amending Sections 23.401 through 23.404 of Article IV of Chapter 23 of the Sacramento City Code relating to the Business Operations Tax and increasing the tax rate structure for business classifications.

BACKGROUND

On May 15, 1984, City Council adopted Ordinance 84-041 which enacted the current Business Operations Tax City Code. The current City Code was adopted as recommended by the Special Task Force appointed by City Council. The Special Task Force's charge was to simplify the applicable City Code and provide ease in administering the tax. The current tax rate structure is a product of the Task Force recommendation.

During revenue budget preparation for FY 91/92 and FY 92/93, business operations tax was identified as a revenue source where tax rate increases would be appropriate. The current rate structure has not been adjusted since its adoption in 1984.

The proposed rate structure is recommended after consideration of the effect of inflation on flat fee rates, the equity of existing rate structures and review of rate schedules of comparable California cities. Attachment A is a comparison of the City's current business operations tax rates and revenues, the rates and revenues adjusted for the cumulative inflation rate since 1984 and the recommended rates and projected revenues. The calculations are based on a representative eighty-one percent (81%) of the current total accounts and revenues for business operations tax. Business operations tax from contractors is collected as individual building permits are issued.

Increases are proposed for all flat fee and maximum rates but no increase is proposed for the per gross receipt factor for any business classification. The maximum fee for all classifications is proposed at \$5,000. As businesses have increased growth each year, their tax liability and actual payment has proportionately increased. Businesses that pay per the flat fee or maximum rates have not had their tax liability increased even if their business has experienced growth. There are currently 149 businesses that pay the maximum fee of three thousand dollars (\$3,000). These businesses are the largest gross receipts volume companies doing business in the City and the majority of them have experienced no increase in their tax liability since 1984. Annual increases in collections for business operations tax are attributed to 56.7% of the businesses that pay on all their gross receipts and any new businesses in the City.

For businesses under the \$7.5 million gross receipts maximum, the annual increase will be \$5.00 (increase in minimum from \$25 to \$30) and any additional increase due to growth in gross receipts. The increase proposed for professional categories is an additional \$20 to \$100 annually.

Other options that were considered but are not recommended at this time include no maximum tax liability. If there was no \$3,000 maximum tax, revenue collections for the current maximum accounts would be \$1.1 million as compared to \$679,000 per the proposed new \$5,000 maximum. Given the current slow down and unfavorable economic conditions in the construction industry, no increase other than maximum tax is proposed for contractors. No rate increase for residential real property (rental tax) and hotel and motel business operations tax is recommended. The current definition of employee as it applies to the professional business category, general and broker, is quite narrow and thus excludes some employees of professional businesses from the tax liability. No change is proposed at this time but more study of this issue is planned.

FINANCIAL DATA

The recommended rate changes to business operations tax are projected to generate an additional \$500,000 in annual revenues. This projected increase has been included in the FY 91/92 and FY 92/93 proposed Annual Budget for General Fund.

POLICY CONSIDERATIONS

As stated in City Code, Section 23.402(d), Business Operations Tax exists for revenue purposes only and is not intended as a regulatory measure. Increasing the rate fees would be consistent with City Council's policy of raising sufficient revenues to provide City services.

City Council
June 12, 1991
Page 3

The recommended increases address equity in that the per gross receipt factor paid by the majority of businesses remains the same and the flat rate maximum increases are not considered excessive. Attachment B is a Business Operations Tax survey of other California cities.

The proposed effective date for the increase in business operation tax rates would be August 1, 1991 and would apply to all new or renewal applications received on or after that date.

MBE/WBE EFFORTS

Not applicable

RECOMMENDATION

It is recommended the City Council adopt an ordinance amending Sections 23.401 through 23.404 of Article IV of Chapter 23 of the Sacramento City Code relating to Business Operations Tax.

Respectfully submitted,

for Betty Masciola
Margaret L. Freeman
Revenue Manager

RECOMMENDATION APPROVED:

Walter J. Slupe

WALTER J. SLUPE, City Manager

Contact Person:
Margaret L. Freeman, Revenue Manager
449-5724

Attachments

All Districts
June 12, 1991

ORDINANCE NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

AN ORDINANCE AMENDING SECTIONS 23.401 THROUGH 23.404 OF ARTICLE IV OF CHAPTER 23 OF THE SACRAMENTO CITY CODE RELATING TO THE BUSINESS OPERATIONS TAX.

BE IT ENACTED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

SECTION 1.

Article IV of Chapter 23 (Section 23.401 through 23.404) of the Sacramento City Code is hereby amended to read as follows:

§ 23.401 Gross Receipts.

Every person not falling within the categories described in Sections 23.402, 23.403 and 23.404 of this chapter shall pay an annual business operations tax as follows:

- (a) Every person which has gross receipts of \$10,000 or less shall pay a tax of ~~\$25.00~~ \$30.00 for each year.
- (b) Every person which has gross receipts in excess of \$10,000 shall pay a tax of ~~\$25.00~~ \$30.00 plus \$.0004 for each dollar of gross receipts in excess of \$10,000 for the reporting period; provided, however, that the maximum annual tax liability for any person under this section shall be ~~\$3,000~~ \$5,000. (Ord. No. 84-041, §2)

§ 23.402 Professionals.

- (a) Professionals - General

Every person engaged in the profession of: accountant, architect, attorney, audiologist, bacteriologist, certified public accountant, engineer, dentist, mortician, optometrist, osteopath, physician, podiatrist, psychologist, surgeon, or veterinarian shall pay an annual business operations tax determined by the number of years the individual has been licensed by the State of California to practice such profession:

FOR CITY CLERK USE ONLY

ORDINANCE NO.: _____

DATE ADOPTED: _____

Three years or less:	\$ 50.00	<u>\$ 75.00</u>
More than three years but less than seven years:	\$100.00	<u>\$150.00</u>
Seven years or more:	\$200.00	<u>\$300.00</u>

Nothing in this subsection shall be construed or deemed to apply to any person engaged in any of the professions enumerated in this subsection solely as the employee of any other person conducting, carrying on or managing such business, occupations or professions in the City, except, however, that each such employee who has a contractual right to participate in the income or profits of the business, or is a shareholder of a professional corporation organized pursuant to Sections 13400 et seq. of the California Corporations Code must pay the tax.

Every person who employs an individual who would be subject to a business operations tax under this section if the individual was not exempted from the payment of said tax by the preceding paragraph shall pay an annual business operations tax of ~~\$20.00~~ \$30.00 for each such exempt individual in their employ.

(b) Professional - Brokers

Every person engaged in the business of real estate broker, insurance broker, or stock broker, whether full or part-time, shall pay an annual business operations tax of ~~\$80.00~~ \$100.00 for the principal broker or broker of record plus ~~\$20.00~~ \$30.00 for each employee, agent, representative or independent contractor subject to supervision by a principal broker or broker of record who devotes time to handling of rents, listing property, collecting or selling property, soliciting or writing insurance policies or working as a salesperson or floorperson.

(c) Maximum Tax

The maximum annual tax payable by any firm under provisions of this section is ~~\$3,000~~ \$5,000.

"Firm" is defined as any professional corporation, partnership or other business entity whose individual members share in the profits of the business entity.

FOR CITY CLERK USE ONLY

ORDINANCE NO.: _____

DATE ADOPTED: _____

(d) Revenue Measure

Nothing contained in this chapter shall be construed as giving the city council, or any of the officers of the City in charge of administration of this chapter, any regulatory powers over any licensee who is engaged in the practice of a profession, trade, or calling and is one whose privilege to so engage in such profession, trade or calling is granted by the State or any of its agencies. As to such persons, and as indicated in Section 23.102, this chapter shall be construed as existing for revenue purposes only. (Ord. No. 84-041, §2)

§ 23.403 Contractors

Every person engaged in any type of business activity as a contractor which requires a city building permit in order to be performed shall pay a business operations tax at the time the building permit is issued at the rate of \$.40 per \$1.000 for each \$1,000 or fraction thereof of the value used to determine the charge for the building permit.

The maximum annual tax payable by any person under this section shall be ~~\$2,400~~ \$5,000. It shall be the responsibility of the contractor who has paid the maximum tax to establish at the time a building permit is issued that the maximum has been reached and that no additional tax is due. (Ord. No. 84-041, §2; Ord. No.85-008, §1)

§ 23.404 Housing and Shelter

(a) Rental of Residential Real Property

Every person engaging in the business of offering residential real property for rental shall pay an annual business operations tax of \$25.00 plus \$1.75 for each rental unit in excess of four units. Any person with fewer than four units is exempt from payment of the business operations tax. The maximum annual tax payable by any person is ~~\$3,000~~ \$5,000.

(b) Hotel, Motels

Every person engaging in the business of renting out accommodations substantially on a transient occupancy basis shall pay an annual business operations tax of

FOR CITY CLERK USE ONLY

ORDINANCE NO.: _____

DATE ADOPTED: _____

\$50.00 plus \$.75 for each rental unit in excess of four units per situs. The maximum annual tax payable for any situs is ~~\$3,000~~ \$5,000.

(c) Rental of Non-Residential Real Property

Persons engaging in the business of offering non-residential real property for lease or rental shall be taxed pursuant to Section 23.401. (Ord. No. 84-041, §2)

PASSED FOR PUBLICATION:

DATE ENACTED:

DATE EFFECTIVE:

ATTEST:

MAYOR

CITY CLERK

FOR CITY CLERK USE ONLY

ORDINANCE NO.: _____

DATE ADOPTED: _____

bt901

ATTACHMENT A

31-May-91

BUSINESS OPERATIONS TAX -- RATE CHANGES

	NO OF ACCTS	CURR RATE(\$)	CURR REVS	RATE AT 36.14% CPI	CPI REVS	RECOMMENDED OPTION	RECOMMENDED OPTION REVS
MINIMUM FEE ONLY (\$10,000 GROSS OR LESS)	5,277	25	\$131,925	30	\$158,310	30	\$158,310
MAXIMUM FEE ONLY (OVER \$7.5 MIL GROSS)	149	3,000	\$447,000	4,000	\$596,000	5,000	\$679,600
ALL OTHERS-MIN PLUS ADDL GROSS RECEIPTS	10,348	25	\$258,700	30	\$310,440	30	\$310,440
4,046,520,000	0	0.0004	\$1,618,608	0.0005	\$2,023,260	0.0004	\$1,618,608
PROFESSIONAL-GENERAL							
3 YRS OR LESS	165	50	\$8,250	65	\$10,725	75	\$12,375
4 TO 6 YRS	144	100	\$14,400	135	\$19,440	150	\$21,600
7 YRS OR MORE	1,868	200	\$373,600	270	\$504,360	300	\$560,400
NO OF EMPS	2,095	20	\$41,900	25	\$52,375	30	\$62,850
PROFESSIONAL-BROKER							
NO OF EMPS	292	80	\$23,360	100	\$29,200	100	\$29,200
	1,000	20	\$20,000	25	\$25,000	30	\$30,000
TOTAL	18,243		\$2,937,743		\$3,729,110		\$3,483,383
PROJ DIFFERENCE					791,367		545,640

12

5/30/91

Business Operations Tax Survey

<u>City (Population)</u>	<u>Retail/Whsle Per Gross Rate/Factor</u>	<u>Annual Minimum Fee</u>	<u>Annual Maximum Fee</u>	<u>Annual Professional Fee</u>
Sacramento (374,554) Current Schedule	\$25.00 plus \$.0004 for each \$1 over \$10,000 (\$.40 per \$1,000)	\$25.00 (\$10,000 and under)	\$3,000 (over \$7.5 million)	\$50 to \$200-- general \$80-professional \$20 per employee
Sacramento Proposed Schedule	\$30 plus \$.0004 per each \$1 over \$10,000 (\$.40 per \$1,000)	\$30.00 (\$10,000 and under)	\$5,000 (over \$12.5 million)	\$75 to \$300-- general \$100-professional \$30 per employee
Oakland (372,242)	Minimum plus \$1.20 per \$1,000	\$30.00 (\$5,000 and under) \$60 (over \$5,000).	No Cap or Max	\$3.60 per \$1,000 gross receipts
Fresno (354,202)	\$0.88 per \$1,000 (retail over \$600,000) \$0.67 per \$1,000 (Wholesale)	\$28 to \$64 (\$3,000 to \$9,000 gross receipts)	Retail-\$17,900 Whsale-\$13,150	\$328 per pro- fessional
Bakersfield (174,820)	\$.30 per \$1,000 (Retail) \$.25 per \$1,000 (Wholesale)	Gross receipts & flat rates \$10 - Finance requesting \$25 minimum	No Cap or Max	\$.65/1,000
Stockton (210,943)	\$.90 per \$1,000 (Retail) \$.40 per \$1,000 (Wholesale)	None	No Cap or Max.	\$2.00 per \$1,000 gross receipts
Modesto (164,730)	\$1.00 per \$1,000 (Retail) \$2.00 per \$1,000 (Services)	\$35 (\$2,000 or less) \$50 (over \$2,000)	No Cap or Max	\$2.00 per \$1,000 gross receipts