



OAKLAND, CALIFORNIA

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Office of Mayor, Jerry Brown
Ignacio De La Fuente, President
Members of the City Council
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Attention: Rules Committee

INCENTIVE BUSINESS LICENSE TAX CREDIT
TO ATTRACT NEW BUSINESS
A RECOMMENDATION FROM THE OAKLAND CITY AUDITOR

The City of Oakland has been characterized as the most under-retailed major city in the United States. *We need retail.*

In addition, the business license tax levied on retail business is significantly higher for the cities of Oakland, Berkeley and San Francisco with San Francisco being the highest. (See Exhibit II.) These rates may be enough to keep major retailers as well as smaller retailers from choosing Oakland as a city location for doing business.

The incentive program ought to be designed to provide a 100% tax credit for the business license for new retail business that has 50% or more of its employees as residents of Oakland.

The model was based on general merchandising operations. The business license and sales tax revenues are a stated percentage of gross sales while the property tax revenue requires some assumptions, which may vary from business to business. (See Exhibit I.)

For existing retail we could set the 2006 revenue as a baseline allowing existing retail business to qualify for a credit against the fees attributable to their sales increase, without loss of existing revenue by the City.

This study was conducted in order to determine if the City would lose revenue by discounting the business license tax in order to attract new business.

Our finding is that a full discount of the business license tax will be absorbed by greater revenue from sales and property taxes. The sales tax to the city is almost eight times the business license revenues lost.

Prepared and issued by,

A handwritten signature in black ink, appearing to read "Roland E. Smith".

Roland E. Smith, CPA, CFS
City Auditor

INCENTIVE BUSINESS LICENSE TAX CREDIT
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EFFECT OF NEW RETAIL BUSINESS
FULL INCENTIVE TAX CREDIT

Sales	<u>\$250,000</u>	<u>\$500,000</u>	<u>\$1,000,000</u>	<u>\$2,000,000</u>	<u>\$5,000,000</u>
<u>Tax Entitlement</u>					
Business License (Note 1)	\$300	\$600	\$1,200	\$2,400	\$6,000
Sales Tax (Note 2)	2,375	4,750	9,500	19,000	47,500
Personal Property Tax (Note 3)	<u>50</u>	<u>100</u>	<u>200</u>	<u>400</u>	<u>1,000</u>
Total Tax Entitlement	\$2,725	\$5,450	\$10,900	\$21,800	\$54,500
Tax Credit – 100%					
Business License	<u>300</u>	<u>600</u>	<u>1,200</u>	<u>2,400</u>	<u>6,000</u>
Net Tax Gain to City of Oakland	<u>\$2,425</u>	<u>\$4,850</u>	<u>\$9,700</u>	<u>\$19,400</u>	<u>\$48,500</u>

Notes:

1. For retail trade, the City of Oakland's business license fee is \$1.20 for every \$1,000 in gross receipts. Therefore, the City receives .12% for each dollar of sales.
2. The City's share of sales and use tax is .95% of the tax collected. The State of California returns 1% of this tax to the City. However, through a revenue-sharing agreement between the City of Oakland and Alameda County, .05% of this total belongs to Alameda County. Therefore, the City receives \$.0095 for each dollar of sales.
3. A business' fixtures, furniture and equipment (sometimes abbreviated as FFE) are subject to an annual business personal property tax. The value of a business' personal property, as determined by a County, is computed using depreciation tables. Therefore, values for business personal property tend to be higher than average when the business is new.

Based on research by inquiry, the square footage requirement for retail sales and the required investment for fixtures, furniture and equipment were determined.

The City portion of the tax, .27% of the value of the fixtures, furniture and equipment were determined.

See accompanying Oakland City Auditor's Report

EXHIBIT I

INCENTIVE BUSINESS LICENSE TAX CREDIT
TO ATTRACT NEW BUSINESS
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BUSINESS LICENSE TAX COMPARISON

CITY	Measure	Retail	Wholesale	Professional Services	Hotel / Motel	Recreation Entertainment	Construction
		\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Oakland	Gross receipts	1,200	1,200	3,600	1,800	4,500	1,800
Berkeley	Gross receipts	1,200	1,200	3,600	10,810	4,500	1,800
Hayward	Gross receipts	269	197	1,297	269	269	[1]
Fremont	Gross receipts	280	330	1,330	1,030	1,530	235
Pleasant Hill	Gross receipts	782	782	782	[2]	[3]	227
Walnut Creek	Gross receipts [4]	414	293	414	414	414	327
Pleasanton	Gross receipts	300	300	300	300	300	300
Livermore	Gross receipts	800	800	1,600	1,200	800	800
San Mateo	Gross receipts	683	683	683	[5]	683	124
San Francisco	Gross receipts	1,500	1,230	3,000	1,500	3,000	3,000
San Francisco	Small business exemp [6]	150	150	3,000	150	3,000	3,000
Emeryville	Gross receipts	850	850	850	850	[3]	1,050
Dublin	Flat Fee	50	50	50	50	50	50
Lafayette	Flat Fee	17	17	17	17	17	17
Orinda	No license tax						
San Leandro	# of employees						
San Jose	# of employees						
San Ramon	# of employees						
Sunnyvale	# of employees						

- [1] Based on # of employees
[2] Based on # of units
[3] Based on various measure methods
[4] Business has option to compute the tax base on flat fee plus fee per employee, which may result in a lower tax.
[5] Flat fee \$30 plus per room charge
[6] The tax is the higher of the Payroll Expense Tax (flat rate 1.5%) and Business Tax (gross receipts). Taxpayers whose computed tax is \$2,500 or less are exempt under the Small Business Exemption. However, such taxpayers are still subject to the registration fee of \$150 for a business with more than \$15,000 of gross receipts and \$25 for the business with less than \$15,000 of gross receipts.

See accompanying Oakland City Auditor's Report