



CITY OF OAKLAND

MEMORANDUM

DATE: July 2, 2020
TO: City Council and Members of the Public
FROM: Councilmember Nikki Fortunato Bas
Councilmember Sheng Thao
President Pro Tempore Dan Kalb
SUBJECT: **Equitable Business Tax Update**

Dear Colleagues on the City Council and Members of the Public,

We are providing updated information for the proposed Equitable Business Tax Update for your review. Since introducing this legislation at the special meeting of the Rules and Legislation Committee on June 22, we have continued to meet with numerous members of the Oakland business community, the Metropolitan Chamber of Commerce, the Jobs and Housing Coalition, Business Improvement Districts, ethnic chambers of commerce, neighborhood merchant associations, and other individual businesses, in addition to holding two townhall forums with residents and businesses. We have received important feedback from many stakeholders and have worked with the City Attorney's Office and the Finance Department to incorporate that information into the proposed Equitable Business Tax Update.

The proposed Equitable Business Tax Update maintains these four priorities: 1) provide small businesses, which make up the majority in Oakland, with needed relief from gross receipts taxes, especially as they are weathering the harsh challenges of the COVID-19 pandemic and economic downturn; 2) create a progressive structure, in which larger businesses with higher gross receipts pay a higher tax rate than smaller businesses with less gross receipts, as an alternative to the City's current flat gross receipts tax rate, so that every business pays their fair and proportional share into the City's general purpose fund; 3) raise revenue to increase and improve city services for the businesses and residents of Oakland, including homelessness services and housing, illegal dumping clean-up, street and sidewalk maintenance, small business assistance, fire safety, and community safety services; and 4) modernize an antiquated gross receipts tax structure and close loopholes.

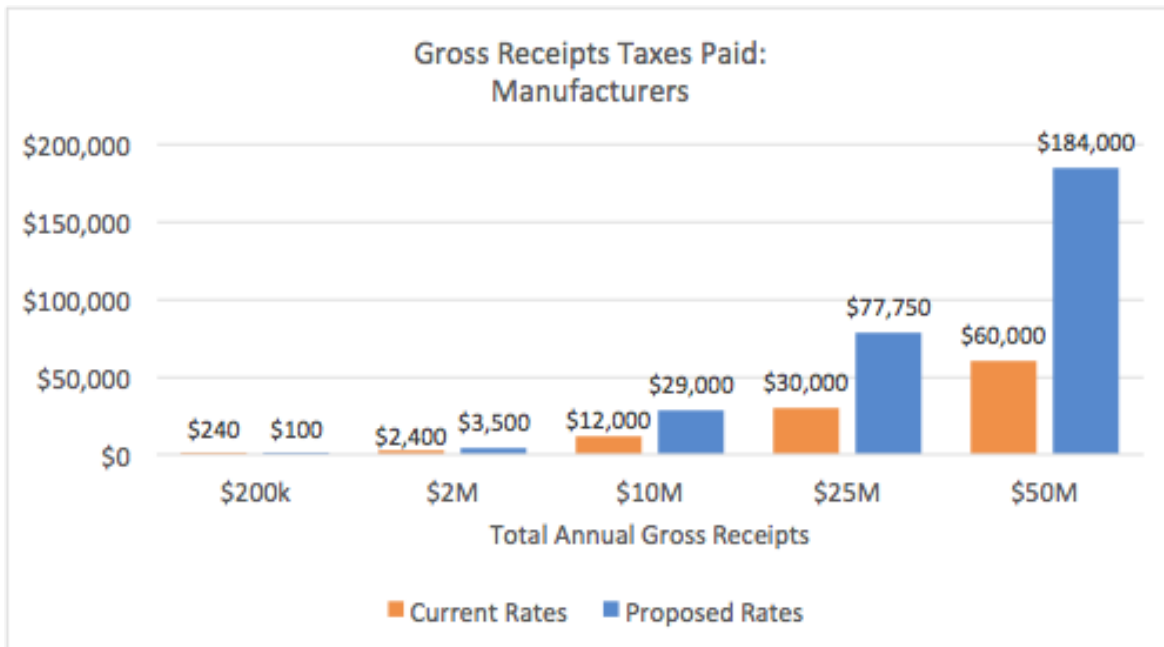
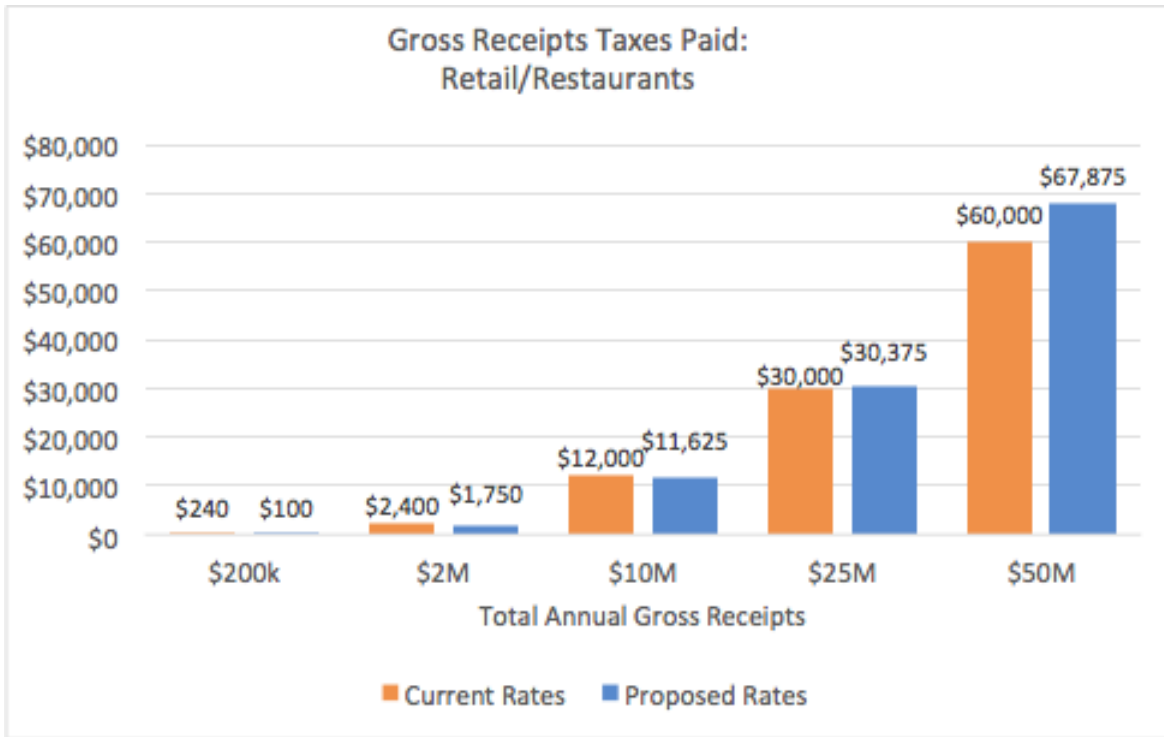
The amended Proposed Rate Schedule on the following page decreases both the tax rates on the larger businesses and the revenue projected to be generated. It maintains Oakland's competitiveness with neighboring jurisdictions and would raise a projected \$27M in additional annual revenue.

Current and Proposed Rate Schedule

Class	Business Activities	Current Rates	Proposed Rates				
			\$0-\$1M	\$1M-\$2.5M	\$2.5M-\$25M	\$25M-\$50M	\$50M +
A	retail sales, wholesale sales	.12%	.075%	.1%	.125%	.15%	.2%
B	grocers	.06%	.06%	.1%	.125%	.15%	.2%
C	automobile sales, manufacturing	.12%	.125%	.225%	.325%	.425%	.525%
D	recreation and entertainment	.45%	.45%	.460%	.47%	.48%	.5%
E	hotel, motel, media firms, public utility	.1% to .18%	.180%	.28%	.38%	.48%	.5%
F	construction contractor	.18%	.3%	.35%	.4%	.45%	.5%
G	business and personal services	.18%	.2%	.3%	.4%	.550%	.6%
H	professional/semi-professional service	.36%	.4%	.45%	.5%	.550%	.75%
I	administrative headquarters (payroll based)	.12%	.35%	.45%	.55%	.65%	.7%
J	miscellaneous	.12%	.35%	.45%	.55%	.65%	.7%

K	residential rental property, commercial rental property	<i>Unamended</i>	<i>Removed “five-year exemption”, 1.395%</i>
L	cannabis business	<i>Unamended</i>	<i>Unamended</i>
M	firearms ammunition	<i>Unamended</i>	2.4%
N	taxi and limousine service	<i>Unamended</i>	\$75 for each ambulance or limousine and \$180 for each taxicab permit
O	transportation, trucking	<i>Unamended</i>	<i>Tax based on current employee total</i>
<p>All “Small Businesses” (< \$250,000 in gross receipts) pay a flat rate of \$100 in lieu of the rates stated above, except for those in categories that are unamended.</p>			

The following graphs provide visual examples of the amount of gross receipts taxes owed by businesses of different sizes in the retail/restaurant/wholesale and manufacturing categories in the current tax structure and in our proposed equitable gross receipts tax structure.

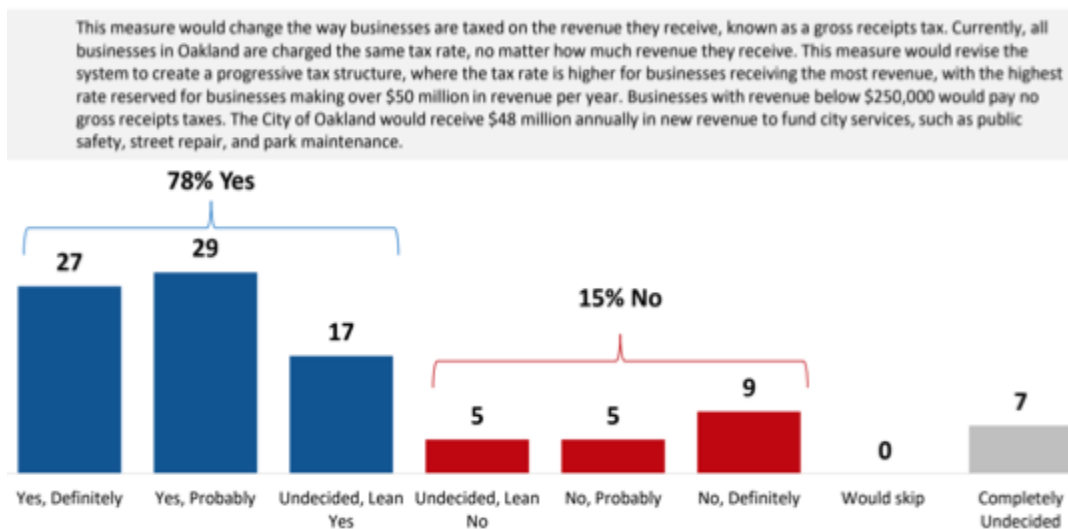


The proposed Equitable Business Tax Updates invite businesses with larger amounts of gross receipts revenue to make deeper investments in these taxes to the City of Oakland, in order to help rebuild and strengthen our city, and infuse the general purpose fund with critically needed revenue in order to prevent further cuts to essential services for the residents and businesses. These updates provide the smallest businesses in Oakland, which currently contribute over **80 percent** of the City's total gross receipts business tax revenue, with relief from gross receipts taxes, while shifting the burden towards businesses that gross much higher revenue and are better situated to weather the economic storm.

The following are important notes regarding these proposed Equitable Business Tax Updates, which we have received questions about:

- The tax for Administrative Headquarters is a progressive structure based on gross payroll as the tax basis.
- The following allowances remain excluded from the gross receipts calculation: sales discounts and returns and raw materials.
- Phased in proposal: The proposed Equitable Business Tax Updates Rates will be effective for 2022 business tax certificates. Council has the option to delay the implementation for a year.
- Organizations that own any affordable housing project that qualifies for the State's Welfare Tax Exemption are partially exempted.
- The repeal of the new commercial and industrial building exemption would go into effect after December 31, 2020; those who currently have an exemption would continue to have it for the duration of their five year term.

Oakland residents are overwhelmingly supportive of this revenue generating measure. A poll conducted on May 20 and 21, 2020 by David Binder Research interviewed 400 Oakland residents. The results were significantly positive: about 60 percent of participants supported the measure, and this jumped to nearly 78 percent after a short and neutral explanation of the measure.



Councilmembers Nikki Fortunato Bas and Sheng Thao and President Pro Tempore Dan Kalb
Subject: Equitable Business Tax Update

We respectfully request that the City Council, in order to raise revenue for the City's general purpose fund and create more equity and fairness in the City's business tax structure:

Adopt A Resolution On The City Council's Own Motion Submitting To The Voters At The November 3, 2020 General Municipal Election, An Ordinance Repealing And Replacing Chapter 5.04 Of The Oakland Municipal Code To Create A Progressive, Modern, And Equitable Business Tax Structure; And Directing The City Clerk To Take All Actions Necessary To Prepare For And Conduct A November 3, 2020 General Municipal Election.

For questions regarding this memorandum, please contact Miya Saika Chen, Chief of Staff, Office of Councilmember Nikki Fortunato Bas, at mchen@oaklandca.gov.

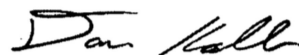
Respectfully Submitted,



Nikki Fortunato Bas
Councilmember, District 2



Sheng Thao
Councilmember, District 4



Dan Kalb
Council President Pro Tempore, District 1