



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 09/13/2021

ITEM NO: 9

DATE: September 8, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Town's Current Business License Tax Program Enacted in 1991 and Recommend that the Town Council Pursue Modernizing the Tax Schedule

RECOMMENDATION:

Review the Town's current Business License Tax program enacted in 1991 and recommend that the Town Council pursue modernizing the tax schedule.

BACKGROUND:

The Town's Business Tax Ordinance was last adopted on June 3, 1991 (Attachment 1). The Town Business License Tax program is governed by Chapter 14 of the Los Gatos Town Code: [Los Gatos Town Code - Business Licenses](#). The Articles I through III of the business license chapter are enacted solely to raise revenue for municipal purposes and are not intended for regulation. The Town currently has 2,557 businesses in active pay status and another 2,577 registered on the books of which it is estimated that a third may still be active in Town. This Tax, which is charged to business owners, currently generates approximately \$1.4 million annually.

DISCUSSION:

Having not been updated in over 30 years, the current rate structure does not take into account shifts in business models and delivery over the decades. In addition, the current ordinance does not contemplate inflation adjustments or other predetermined structural rate changes, therefore leaving the rates unchanged for 30 years. As documented in the Business License Amnesty staff report, the following table represents the tax structure enacted in 1991.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

DISCUSSION (continued):

| Typical Business License Taxes and Fees | | | |
|--|---|--|---|
| Business License Processing Fee (Annual) | \$40 at the Time of Establishment/ \$30 at Renewal - Located In Los Gatos \$20 - Not Located in Los Gatos | | |
| Planning Fees - Businesses Located in Los Gatos (One-time) | \$161.20 Home Occupancy Permit - Home Based Businesses \$176.70 Change of Occupancy / \$262.20 Change of Use - Commercial Zoning | | |
| State Mandated Fee (Annual) | \$4 | | |
| Type of Business License | Business License Tax - Without Penalty Minimum (Annual) | Business License Tax - Without Penalty Maximum (Annual) | Typical Businesses |
| Retail (Based on Gross Receipt) | \$75 | \$975 | Restaurant, Grocery Store , Gas Station, Hair Salon |
| Wholesale/Manufacturee/Wholesale/Ecommerce (Based on Gross Receipt) | \$150 | Based on sliding scale \$4,837.50 for \$12,000,000 in gross receipt plus \$75 for each \$550,000 or fracntion therfor in excess of \$12,000,000 | Netflix, Manufacturers |
| Professional/Semiprofessional (per employee) | \$200 | \$200 | Medical Doctor, Attorney, Tutor, Massage Therapist, Broker |
| Support Staff - Professional/Semiprofessional (per employee) | \$15 | \$15 | Real Estate Agent |
| Service (per business) | \$100 | \$100 | Gardeners, Repair Service, Hair Stylist, Janitorial service |
| Contractor (per business) | \$224 | \$224 | Licensed California State Contractor |

Most cities in the Bay Area and throughout California have either updated their tax structure through local ballot measures or enacted a tax if they previously didn't have one. In California, all taxes imposed by local governments are classified as either general or special taxes and must be put before voters as a local ballot measure for approval. Recent examples of general business tax ballot measures include:

- Daly City – Measure BB 2018 (approved 80.64%)
- Mountain View – Measure P 2018 (approved 71.05%)
- Sausalito – Measure M 2018 (approved 65.42%)
- Berkley – Measure U1 2016 (approved 74.93%)
- Monterey – Measure H 2016 (approved 73.86%)
- San Jose – Measure G 2016 (approved 65.59%)
- Campbell – Measure M 2010 (approved 69.59%)
- Foster City – Measure U 2013 (approved 73.2%)

CONCLUSION:

Staff recommends that in conjunction with recommending the hiring of a firm to initiate a Business License audit and amnesty program that a firm also be retained to recommend modernization of the 1991 Business License Tax rates.

Attachments:

1. 1991 Busines Tax Ordinance