

Town of Los Gatos Business License Program Modernization



At this time, the Town Council has not decided whether to place a business license modernization initiative on the ballot. The Town Council is seeking input from businesses and the community on the types of Ordinance changes that could be considered when they meet on August 2, 2022.

**WHY MODERNIZE THE
BUSINESS LICENSE TAX**

WHY MODERNIZE THE BUSINESS LICENSE TAX

- The Town has not updated the existing Business License Tax Program since 1991.
- The current ordinance did not contemplate inflation adjustments or other predetermined structural rate changes, therefore leaving the rates unchanged for 30 years.

Inflation Calculator

If in (enter year)

I purchased an item for \$

then in (enter year)

that same item would cost: **\$2.18**

Cumulative rate of inflation: **117.6%**

CALCULATE

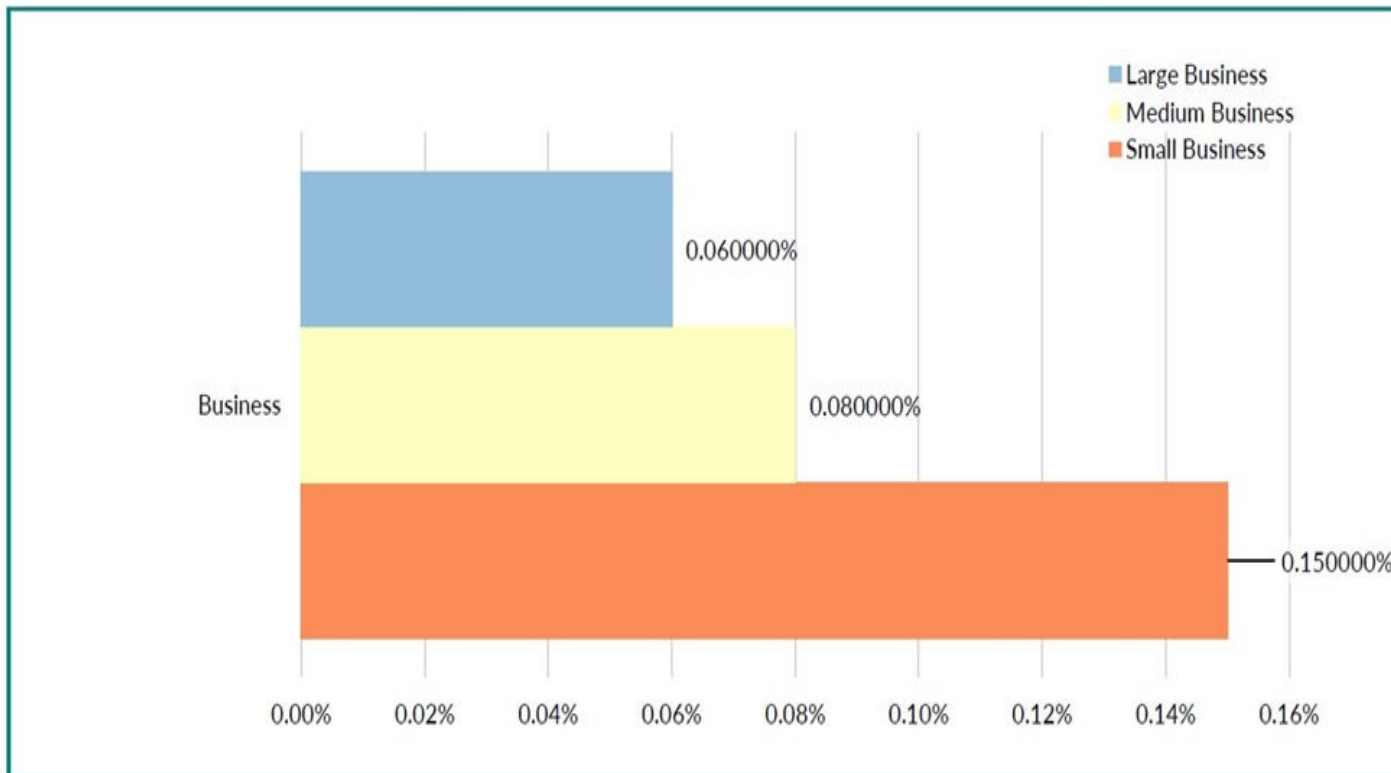
Since 1991 the value of \$1 dollar has increased 117.6%

WHY MODERNIZE THE BUSINESS LICENSE TAX

- The current rate structure also did not take into account shifts in business models and delivery methods over the decades.
- Having not been updated in over 30 years the Town's existing structure is regressive in nature.
- A general retail business grossing \$50,000 a year would pay \$75.00, which is an effective tax rate of 0.15%.

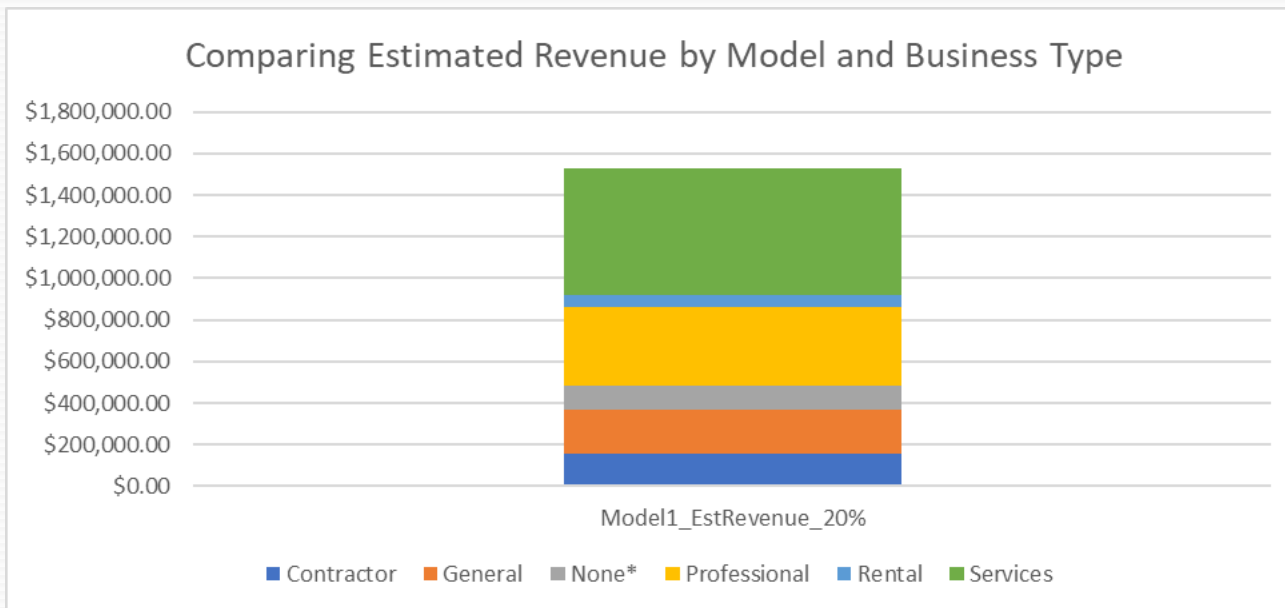
- But a large business, grossing \$1.0 million in a year, will pay \$600 or 0.06%--less than half the effective tax rate of the small business.

Chart 4: Examples of Current Tax Rate as Percent of Estimated Gross Receipts



WHY MODERNIZE THE
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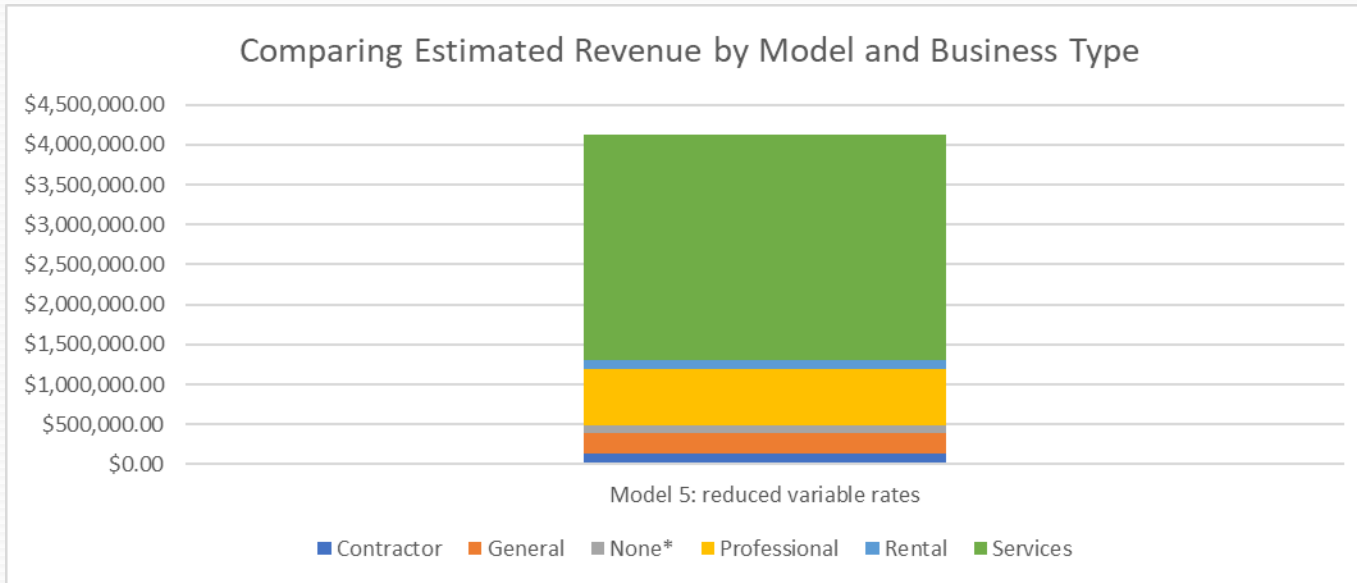
Model 1 – would retain the existing structure while modifying the tax amounts for each category by 20%. The drawback of model 1 is that the tax remains regressive. In fact, because it would increase the flat fees, it becomes more regressive.



Model increases revenues approximately \$255,000 annually primarily from Services category (\$101,000)

WHAT MODERNIZATION
OPTIONS TO CONSIDER ?

Model 2 – incorporates gross-receipts reporting for all businesses utilizing different single rates for five different business classifications.



Model increases revenues approximately \$2,861,000 annually primarily from Services category (\$2,321,000).

BusinessClassification	Model 2 Rates per thousand
NA	\$ 0.50
General	\$ 0.50
Services	\$ 1.00
Contractor	\$ 1.00
Professional	\$ 2.00
Rental	\$ 2.00

WHAT MODERNIZATION
OPTIONS TO CONSIDER ?

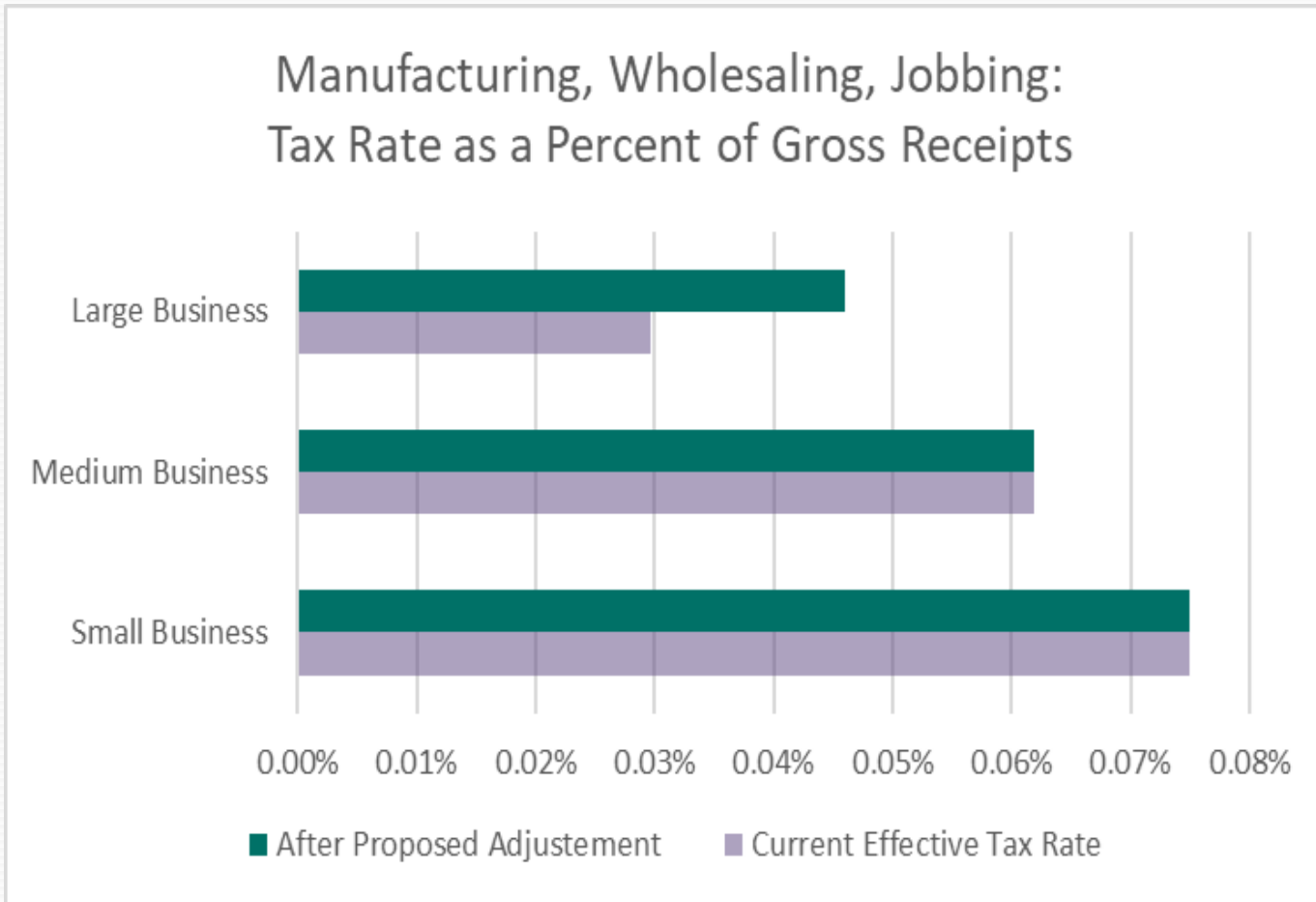
WHAT MODERNIZATION OPTIONS TO CONSIDER?

Model 3 – Maintains the existing BL structure except for updating the \$75.00 for each \$550,000 in excess of \$12,000,000 to \$300 for each \$550,000 in excess of \$12,000,000 for Manufacturing, Wholesaling, and Jobbing.

Model increases revenues approximately \$1,100,000 annually.

Only impacts businesses in this category grossing \$12,000,000 or more.

WHAT MODERNIZATION OPTIONS TO CONSIDER?



Increases equity within the existing category

NEXT STEPS

- With the November 2022 election scheduled, the last regular Council meeting to add an item on this ballot is at its August 2nd meeting.
- Return to Council on August 2nd with business and community feedback.
- Council determines whether to proceed with placing an initiative on the November 2nd ballot.
- A ballot measure to modernize the Business License Tax requires a 4/5 vote of the Town Council to place it on the ballot.