

May 20, 2025



Business Operations Tax Overview

Business Operations Tax- History

- Enacted in 1975 and last updated in 1991 – inflationary adjustments have not been made since.
- Generates approximately \$9 million annually.
- Tax rate depends on business type, with a 0.04% tax on gross receipts the main source of revenue.
- The maximum tax liability, set in 1991 and not adjusted for inflation, is \$5,000 per year.
- Outside consultants recommended modernizing the tax in 2010 and 2020 reports.
- Last attempt to modernize was Measure C in November 2024 which did not pass.

Business Operations Tax By Business Type

Gross Receipts

- \$30 base rate.
- Gross Receipts above \$10,000 taxed at 0.04%.
- Businesses will hit the annual \$5,000 cap at ~\$12.4 million in Gross Receipts.

Professionals & Brokers

- Ranges from \$75-\$300 per principal broker/professional receiving profits.
- \$30 for each additional licensed employee/employee reporting to principal broker.

Contractors

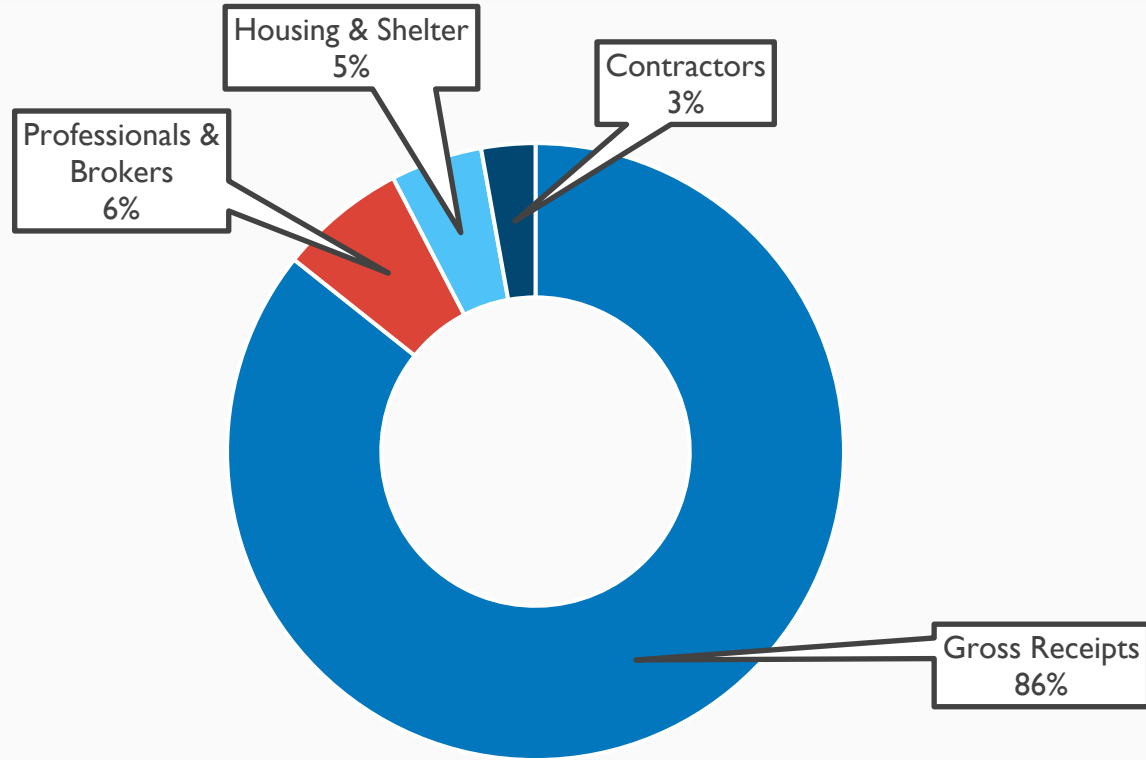
- \$0.40 per \$1,000 of value to determine charge for building permit.

Housing & Shelter

- Annual base from \$25-\$50
- Per unit charge of \$0.75-\$1.75 for each unit more than four units.
- Nonresidential rentals based on gross receipts

All businesses have a \$5,000 maximum cap per year on the amount of Business Operations Tax they pay.

Annual BOT Revenue by Component



Comparison With Other Jurisdictions

Staff looked at both nearby jurisdictions and similarly sized cities across the State and found:

- BOTs have varying structures across the State.
- Many surrounding jurisdictions have flat fees that differ by business type which generally results in a lower business operations tax burden for businesses.
- Similarly sized California cities generally have higher annual maximums, and many have flat rates and maximum amounts indexed to inflation.

Potential BOT Updates

Aspects of BOT that have been impacted by inflation:

- Annual maximum liability (currently \$5,000).
- Gross Receipts tax threshold (currently \$10,000).
- Minimum amount for Gross Receipts businesses
- Minimum and per employee amounts for Professionals/Brokers.
- Minimum and per unit amount for Housing.
- Flat penalty amounts (currently \$15 at 30 days; \$100 at 60 days)

Council could also explore:

- Tax Rate
- Inflation Indexing
- Establishing penalties via resolution

Increasing gross receipts tax threshold and annual maximum amount creates a more 'progressive' structure by generating a proportionally higher amount of revenue from higher gross receipt businesses.

Staff recommends an inflation adjustment provision for any modernization measure.

Considerations

- Low annual maximum creates regressive structure.
- Gross Receipts is a 'top line' tax and has a larger impact on lower margin businesses.
- High Gross Receipts businesses may also be high sales tax generators and employers.
- Competitiveness with surrounding jurisdictions.
- Impact of other fee increases on businesses.
- Increasing cost of City services.

Next Steps

Committee direction to staff on which aspects of the tax the Committee is interested in updating.

Staff to return with options and analysis based on Committee direction.

Upcoming ballots:

- June 2026 – Would need Council approval for ballot in January 2026
- November 2026 – Would need Council approval for ballot in June 2026

More specific dates will be provided following Council's adoption of its 2026 calendar in August.

Questions & Discussion

