

CITY OF OAKLAND



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FINANCE AND MANAGMENT COMMITTEE
OF THE CITY COUNCIL
Oakland, California

Chairperson John Russo
and Members of the Council:

**Subject: Incentive Business License Tax Credit
to Attract New Retail Business**

We are providing a study of the net revenue gain realizable by the City when a new retail business is granted a 100% business license tax credit as an incentive to open stores in Oakland.

Such a credit might be given to new business if they meet certain criteria, such as a designated percentage of their employees being 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.

For existing retail we could set the 1998 revenue as a baseline and allow 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.

Respectfully submitted,

Respectfully submitted,

JOHN RUSSO
City Councilperson

ROLAND E. SMITH
City Auditor

Attachments

**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>

See Accompanying Report and Footnotes

**EFFECT OF NEW RETAIL BUSINESS
FULL INCENTIVE TAX CREDIT
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 Report