



CALIFORNIA ASSOCIATION OF REALTORS®

Which business license method is best?

There are six different ways to charge a business license: (1) flat fee or flat tax; (2) gross receipts; (3) flat fee or flat tax plus gross receipts; (4) by number of employees; (5) by square footage, and; (6) by location. Each of the methods employed has its advantages and disadvantages as explained below.

In principle there is no best tax, and how bad or good it gets to be will greatly depend upon what formula is designed or what rates are employed. Please see the examples below and the tables at the end in order to appreciate this fact. The examples selected for each category are extreme: one very good and one very bad.

Flat Fee or Flat Tax

The flat fee is an amount charged to an entity regardless of the amount of business conducted in the city. Flat fees or flat taxes can be charged upon an individual agent or a business. Sometimes cities pro-rate their license's fee depending on what quarter of the calendar or fiscal year the business applies for the license. For example, if a business applies in the second quarter of the fiscal year, the city charges only $\frac{3}{4}$ of the business license fee instead of the full amount.

Examples

The one that wants to motivate businesses

The City of Poway has a business certificate good for two years for \$8.00. The renewal fee is \$6.00. This business license tax is very low and lasts twice as long as the typical business license.

The high flat tax

The City of Bradbury charges a flat annual business license fee of \$300 per business, regardless of the number of employees conducting business in the city.

Gross receipts

The gross receipts calculation seeks to charge businesses according to the amount of profit they generate. Businesses that earn more pay more. Cities list either the multiplier (e.g. .002) or the amount to be multiplied per thousand (\$2.00/thousand).

Examples

The simple

The City of Villa Park charges business licenses based on gross receipts according to the following schedule:

<i>Gross Receipts of Business</i>		<u>License Fee</u>
<u>From</u>	<u>To</u>	
\$ -	\$ 15,000.00	\$ 25.00
\$ 15,000.00	\$ 30,000.00	\$ 35.00
\$ 30,000.00	\$ 75,000.00	\$ 50.00
\$ 75,000.00	\$ 150,000.00	\$ 75.00
\$ 150,000.00	\$ 300,000.00	\$ 100.00

The maximum annual license tax is \$100.00. Businesses also have the option of paying a flat rate of \$100.00

The Onerous

The City of Beverly Hills charges a minimum businesses tax of \$175 for gross receipts between 0- \$ 50,000. Thereafter, the city charges an additional \$3.50 per thousand or .0035 of gross receipts. For example, gross receipts of \$100,000 equals $\$175 + (50,000 \times .0035 = \$175) = \$350$ business license tax.

Flat fee plus gross receipts

Some cities use a combination of a flat fee plus a gross receipts calculation in order to determine the amount of tax that a business should pay.

Examples

The complicated, yet not so expensive

The City of Santa Rosa charges a minimum tax of \$25.00 when the gross receipts do not exceed \$25,000.00. Once the gross receipts go above this level, they are multiplied by .00084 and the flat fee is added to come up with the total tax. The formula looks like this $[(GR-25,000) \times .00084] + \$25 = \text{Business License Tax}$.

The complicated and more expensive

The City of Murrieta combines the flat tax with the gross receipts calculation methods. It charges a flat rate of \$75.000 for gross receipts to \$500,000. Over \$500,000, it charges the flat rate plus incremental business license fee. Its tax schedule for real estate developers and brokers is as follows:

<i>Gross Receipts of Business</i>		<i>Incremental Business</i>		
<u>From</u>	<u>To</u>	<u>License Fee</u>	<u>Flat Fee</u>	<u>Total Fee</u>
\$ -	\$ 500,000.00	\$ -	\$ 75.00	\$ 75.00
\$ 500,001.00	\$ 600,000.00	\$ 70.20	\$ 75.00	\$ 145.20
\$ 600,001.00	\$ 700,000.00	\$ 83.00	\$ 75.00	\$ 158.00
\$ 700,001.00	\$ 800,000.00	\$ 96.60	\$ 75.00	\$171.60
\$ 800,001.00	\$ 900,000.00	\$ 109.80	\$ 75.00	\$ 184.80

\$ 900,001.00	\$ 1,000,000.00	\$ 123.00	\$ 75.00	\$ 198.00
\$ 1,000,001.00	\$ 1,250,000.00	\$ 139.50	\$ 75.00	\$ 214.50
\$ 1,250,001.00	\$ 1,500,000.00	\$ 159.50	\$ 75.00	\$ 234.30
\$ 1,500,001.00	\$ 1,750,000.00	\$ 172.50	\$ 75.00	\$ 247.50
\$ 1,750,001.00	\$ 2,000,000.00	\$ 189.00	\$ 75.00	\$ 264.00
\$ 2,000,001.00	\$ 2,500,000.00	\$ 205.50	\$ 75.00	\$ 280.50
\$ 2,500,001.00	\$ 3,000,000.00	\$ 222.00	\$ 75.00	\$ 297.00
\$ 3,000,001.00	\$ 3,500,000.00	\$ 238.50	\$ 75.00	\$ 313.50
\$ 3,500,001.00	\$ 4,000,000.00	\$ 255.00	\$ 75.00	\$ 330.00

Over \$4,000,000 = Flat fee plus \$255 plus .00075% of gross receipts exceeding \$4,000,000.

By number of employees

Some cities charge a business license tax based on the number of employees that the business has.

Examples

The Good

The City of Rancho Mirage charges for its business license \$47.00 for a real estate broker and 2 agents. For each additional agent, the fee is increased \$5.00. The rate is identical for out of city brokers.

The Bad

The City of Carson charges a flat business license tax of \$363.00 per broker and \$62.00 per each agent. The agents may not work in the city unless they are under the umbrella of a broker or if they have assumed a broker status. For out of city brokers, the application fee is \$25.00 plus the \$363.00 broker fee and \$62.00 per agent. No agent may conduct business in the city unless the broker is licensed first.

By square footage

Some cities tax businesses depending on the amount of square footage that the business occupies. The idea behind this is that the bigger the business, the more profitable and the more services it consumes.

Example

The City of Fillmore assesses the business license fee based on square footage and a basic rate, as follows:

<u>Tier</u>	<u>Basic Rate</u>	<u>+ Tier</u>	<u>Total Fee</u>
I. Basic Rate and Home Occupancy	\$ 95.00	\$ -	\$ 95.00
II. Small Business in City	\$ 95.00	\$ 81.00	\$ 176.00

Under 1,499 sq. ft.			
III. Medium Business in City 1,500-4,999 sq. ft.	\$ 95.00	\$ 122.00	\$ 217.00
IV. Large Business in City Over 5,000 sq. ft.	\$ 95.00	\$ 163.00	\$ 258.00
V. Out of City Business	\$ 95.00	\$ 15.00	\$ 110.00

By square footage and number of employees

Some cities levy business license taxes based on square footage and the number of employees. It is thought to be a more precise method for assessing the size of the firm and thus, levying a fair amount of tax from the business.

Example

The City of Commerce levies a minimum tax of \$81.00. It charges \$6.50 per employee and the multiplier for the square footage is .0076. For example, if a business is 4,000 square feet and has ten employees in total, the business tax will be calculated as follows: $(10 \text{ employees} \times 6.50) + (4,000 \text{ Sq. Ft.} \times .0076) = 65 + 30.4 = \95.40 .

By location

Finally, some other cities charge taxes based on location. Commercial locations are thought to generate more revenue, so they charge a higher tax than non-commercial ones.

Example

The City of Highland's business license is based on location. The rate for a commercial location is \$265.00 (\$175.00 plus a \$90.00 building and safety certificate of occupancy). If the business is run from a home, the license is \$75.00. For out of city contractors the fee is \$70.00.

Business License Taxes Comparison of Various Methods

Type	Pro's	Con's
Flat fee/tax	<ul style="list-style-type: none"> ➤ Predictable and consistent amount to be paid. ➤ Allows for financial planning. ➤ Can be pro-rated on a quarterly basis. ➤ Inflation does not interfere with the amount collected by the government. 	<ul style="list-style-type: none"> ➤ It is not proportional to the amount of business conducted. ➤ Increases the cost of business by a <i>fixed quantity</i>. ➤ Commercial activity (amount of businesses) will affect the amount raised by the government.
Gross receipts	<ul style="list-style-type: none"> ➤ It is proportional to the amount of business 	<ul style="list-style-type: none"> ➤ The city does not know how much revenue will be obtained at the start of the fiscal year. ➤ The unpredictable revenue makes the city's financial planning difficult. ➤ The amount a business pays does not reflect accurately the business activity for the fiscal year because many cities charge based on the <i>previous</i> fiscal year. ➤ Increases the overall costs of business by a <i>multiplier</i> rather than by a fixed quantity. The production of goods and services is taxed several times before the final product or service reaches the consumer. When it does, businesses have already passed on a higher amount of the tax to consumer. ➤ It has a negative on production because the more you produce, the more you pay, and because it ignores production costs. ➤ Inflation and commercial activity (number of businesses in business) affect the tax: the more inflation and less commercial activity, the less revenue generated. ➤ Requires additional accounting,

		has higher collection costs and non-compliance rate.
Flat fee/tax plus gross receipts	None	<ul style="list-style-type: none"> ➤ The city does not know how much revenue will be obtained at the start of the fiscal year. ➤ The unpredictable revenue makes the city's financial planning difficult. ➤ The amount a business pays does not reflect accurately the business activity for the fiscal year because many cities charge based on the <i>previous</i> fiscal year. ➤ Increases the overall costs of business by a <i>multiplier plus a fixed</i> quantity. The production of goods and services is taxed several times before the final product or service reaches the consumer. When it does, businesses have already passed on a higher amount of the tax to consumer. ➤ It has a negative on production because the more you produce, the more you pay, and because it ignores production costs. ➤ Inflation and commercial activity (number of businesses in business) affect the tax: the more inflation and less commercial activity, the less revenue generated. ➤ Requires additional accounting, has higher collection costs and non-compliance rate.
By number of employees	<ul style="list-style-type: none"> ➤ Predictable fee/tax at the beginning of the fiscal year. 	<ul style="list-style-type: none"> ➤ It is not proportional to the amount of business. ➤ It adds up to the cost of hiring employees which not necessarily translate in increased sales.
By square footage	<ul style="list-style-type: none"> ➤ Predictable fee/tax at the beginning of the fiscal year. ➤ It can be fairly stable 	<ul style="list-style-type: none"> ➤ It is not proportional to the amount of business. ➤ It is subject to diverse interpretations on how to measure

	unless a change in business location occurs.	square footage, i.e. are bathrooms and halls included, etc.
By Location	<ul style="list-style-type: none"> ➤ Predictable fee/tax at the beginning of the fiscal year. ➤ It can be fairly stable unless a change in business location occurs. 	<ul style="list-style-type: none"> ➤ It is not proportional to the amount of business.