

BUDGET AND FINANCE COMMITTEE REPORT relative to the feasibility and fiscal impact of raising the threshold for the Small Business Exemption to the City's Business Tax.

Recommendations for Council action:

1. INSTRUCT the Office of Finance to report back to the Budget and Finance Committee on options for alternative business tax structures that include a flat tax, tiered taxes, and other appropriate approaches that provide information on estimated business tax collection on a year-over-year basis. The report should be put in conversation with the expansion of the business tax exemption based on gross receipts.
2. INSTRUCT the Office of Finance to prepare and present a revised report with the following:
 - a. An analysis of the types of businesses that predominately make up the City's small businesses.
 - b. The number of businesses registered in 2025-26 that fell under the different business tax exemption thresholds of \$200,000; \$300,000; and, \$1,000,000.
 - c. The General Fund impact for incremental increases to the small business tax exemption threshold from \$100,000 to \$125,000; \$150,000; and \$200,000; and, how it would protect small businesses.
 - d. The General Fund impact if the small business tax exemption threshold is kept at \$100,000, but with inflationary adjustments based on the Consumer Price Index.
 - e. The average tax savings from an increased small business tax exemption threshold.
 - f. The number of restaurants that are currently covered by the small business tax exemption.
 - g. The General Fund impact if only restaurants are exempted, as opposed to increasing the threshold for all small businesses.

Fiscal Impact Statement: None submitted by the Office of Finance. Neither the City Administrative Officer nor the Chief Legislative Analyst has completed a financial analysis of this report.

Community Impact Statement: None submitted

SUMMARY

At its meeting held on September 15, 2026, your Budget and Finance Committee considered the Office of Finance report, dated April 13, 2026, relative to the feasibility and fiscal impact of raising the \$100,000 threshold for the small business tax exemption. The Office of Finance report provides information on potential options for increased thresholds and a survey of other jurisdictions' small business tax policies within California. The Committee and City Treasurer/Director, Office of Finance, discussed the financial impact on the General Fund from increasing the current small business exemption threshold, current utilization of the small business tax exemption, the multi-year phased approach for implementation of the updated tax collection and management system, and the potential implementation of the threshold increase for restaurants and other small businesses. Councilmember Hernandez introduced an amendment, with was seconded by Councilmember Yaroslavsky, requesting a report on options for alternative business tax structures that include a flat tax, tiered taxes, and other appropriate approaches that provide information on estimated business tax collection on a year-over-year basis. Councilmember also introduced an amendment, which was seconded by Councilmember McOsker, instructing the Office of Finance to provide a revised report with additional information as noted.

After discussion and having provided an opportunity for public comment, the Committee moved to approve the item as amended, as detailed above. This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
YAROSLAVSKY:	YES
BLUMENFIELD:	YES
HUTT:	YES
McOSKER:	YES
HERNANDEZ:	YES

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-NOT OFFICIAL UNTIL COUNCIL ACTS-