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KAREN BASS
MAYOR

April 13, 2026

Honorable Members of the Los Angeles City Council
City Clerk
City Hall, Room 395

Re: MOTION (25-1474) RELATIVE TO RAISING THE SMALL BUSINESS EXEMPTION THRESHOLD

Dear Honorable Members:

The subject motion instructs the Office of Finance to report to the Council on the feasibility and fiscal impact of raising the threshold for the small business exemption to the City's Business Tax. The motion also requested information on the practices of other cities in regards to business tax.

This report provides information on three different potential thresholds, based primarily on information provided by businesses for tax year 2025, along with a brief survey of other California jurisdictions' treatment of small businesses for business tax purposes.

Background

The Small Business Exemption to the City's Business Tax is defined in Los Angeles Municipal Code (LAMC) Section 21.29. This section provides that a business with global gross receipts (both inside and outside the City) not exceeding $100,000 is exempt from paying the tax as long as they file their renewal by the deadline. Filing for the exemption is simple – the business representative simply needs to input the global gross receipts, check the box for the exemption, and sign the form. This can be done on the paper form or online.

Prior to 2005, the small business exemption threshold was set at $5,000. In December 2004, the City enacted a two-phase increase to the threshold, increasing it to $50,000 effective July 2005 and to $100,000 effective July 2006. The threshold has not been changed since.

Through January of this year approximately 313,000 business have submitted their business tax for tax year 2025; 143,504 of these businesses filed for the small business exemption, representing roughly 45 percent of our total filers for that year. The remaining 170,000 paid some amount of business tax.

Options for an Increased Threshold

To estimate the fiscal impact of various potential thresholds, Finance examined the Tax Year 2025 data on entities that paid business tax and sorted it into tiers based on reported gross receipts. The number of tax-paying entities reporting in each of the tiers is counted, and the gross receipts and total tax paid are summed, as shown below.

These figures will not match actual receipts because they represent payment of 2025 taxes, not payments made IN 2025. For example, payments from a business that was audited in 2025 for tax years 2022, 2023, and 2024 would not be included. Likewise, payments for tax year 2025 from a business that was registered through the AB63 program in 2026 would be included even though that money was not paid until 2026.

Reported Gross Receipts	Number of Accounts	Business Tax Paid
Less than $100K	39,246	$6,979,334
$100K to $200K	33,568	$13,199,139
$200K to $300K	19,079	$11,760,847
$300K to $500K	21,134	$19,258,616
$500K to $1M	22,037	$34,751,471
$1M to $2M	14,564	$43,539,885
$2M to $5M	10,869	$66,020,518
Over $5M	9,986	$488,640,218

As you can see from the table, more than half of the businesses paying business tax reported in-City gross receipts of less than $300,000. However, because business tax rates are so low, these 91,000 businesses paid only $32 million in tax (an average of less than $350 per business).

In using the data from the table to estimate the impact of exemption levels, it must be noted that the tiers and gross receipts reporting are based on in-City receipts, as that is the measure that is reported by businesses which owe tax. This means that, for any given threshold, there will be businesses that report under that threshold for in-City receipts but do not qualify for the exemption because they generate enough receipts outside the City to put them over the threshold.

You will also note that taxpayers reporting under $100,000 paid almost $7 million in business tax. This could be because they generate receipts outside the City, but it could also be due to the businesses failing to file their renewal in a timely manner. For example, many of the 30,000 businesses that have registered over the last eight months as a result of the Office of Finance's Enhanced Discovery program generated less than $100,000 in gross receipts but still had taxes due because they did not file their 2025 tax renewal by February 28.

With these caveats in mind, Finance estimates the impact of increasing the small business threshold from its current level at $100,000 to each of these potential levels to be the following:

- $200,000: $13 million reduction – 33,000 businesses exempted
- $300,000: $25 million reduction – 52,000 businesses exempted
- $500,000: $44 million reduction – 73,000 businesses exempted
- $1,000,000: $79 million reduction – 95,000 businesses exempted

As you can see, the smaller increases are quite efficient in terms of number of businesses impacted versus fiscal impact. Adding 33,000 businesses to the exemption costs only $13 million annually, while adding the last 22,000 (to get to the 95,000 exemptions at a threshold of $1 million) costs $35 million in reduced taxes ($79 million minus $44 million).

Any of these changes could be phased in over a period of years if the Council desired. As noted above, the last change to the exemption threshold was achieved over two years to mitigate the financial impact.

Other Cities' Small Business Policies

Comparing business taxes across jurisdictions can often be difficult and confusing, as each City has a different tax structure, different methodologies, and different overall tax environments. While many cities tax businesses based on gross receipts, some tax based on employment or payroll, and still others have a flat annual fee. Beyond just these differences, cities outside California exist within totally different tax and regulatory systems at the state level, so meaningful comparison becomes even harder.

Limiting the comparison to just California cities and focusing solely on small business tax exemptions, here are some comparisons to Los Angeles current code, which provides an exemption to any business with global gross receipts not exceeding $100,000. Note that Los Angeles does not currently have a filing fee.

- San Francisco: Restructured business tax in 2024 providing an exemption for businesses under $5 million in gross receipts. However, an annual filing fee which starts at $55 and increases based on gross receipts level applies to all businesses.
- San Jose: Exemptions available based on gross receipts under $31,300 for businesses/$62,600 for owners. Adjusts annually.
- Long Beach: None
- San Diego: None

- Santa Monica: $100,000 exemption threshold, though there is also a $75 filing fee.
- Anaheim: Discretionary one-time exemption for businesses with less than 100 employees
- Oakland: None, but currently considering a one-time exemption for new businesses under $1M in gross receipts.

The Office of Finance looks forward to discussing this issue with the Council, and is available to answer any questions.

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Director of Finance