

BUSINESS TAX DISCOVERY PROGRAM

Finance Department

Financial Performance and Budget Committee
August 12, 2022

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BACKGROUND

1. Business Tax division ensures that all entities are compliant with the Riverside Municipal Code and obtain a business tax certificate through self-reporting and discovery services.
2. City contracted with Hinderliter, De Llamas & Associates (HdL) in November 2020 to assist with various tax administrative services. Industry standard is to charge three years' back taxes to all newly discovered non-compliant entities.
3. June 2019 –Business Tax staff were directed to waive prior years' taxes and all new businesses will have a start date equal to the date of the discovery.
4. HdL has expressed concerns and would need to perform a legal review as to the City's current practice of non-compliant entities and the potential legal risk to HdL for enforcement of the current practice.



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NON-COMPLIANT BUSINESSES

1. HdL's search of non-compliant businesses in Riverside are sorted into two main discovery categories
 - a. General Businesses: Retail, service, contractors, home occupations, etc.
 - b. Property Rentals: Comprised of residential and commercial
2. General Businesses – HdL obtained data from Secretary of State reflecting approximately 19,000 businesses that are conducting operations without a business license in the City.
3. Property Rentals – HdL has identified 14,508 potential discovery accounts (12,638 residential rentals and 1,870 commercial rentals).



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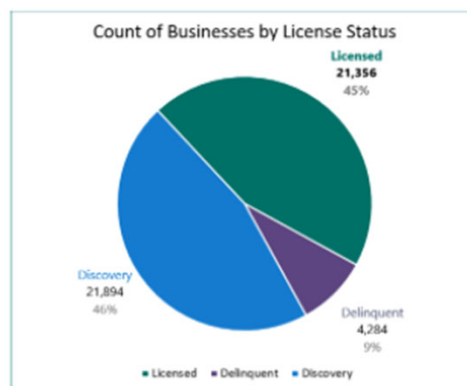
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COMPLIANCE RATE

City of Riverside:

1. 21,356 active licensed businesses
2. 4,284 delinquent accounts
3. 21,894 potential discovery accounts
4. City compliance rate: 45%



License: Possess a business license for the current period.

Delinquent: Previously possess a business license but is late on renewing their license for the current period.

Discovery: Businesses that have yet to possess a business license with the City.

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CITY OPTIONS MOVING FORWARD

	Option 1 – Waive Back Taxes, Penalties, and Interest	Option 2 – Collect Back Taxes plus Penalties	Option 3 – Collect Back Taxes, no Penalties	Option 4 – Back taxes, no Penalties, add Simple Interest
PROS:	Business friendly to non-compliant businesses	Compliant w/ RMC	Partially consistent w/ industry standard	Compliant w/ RMC
		Fair & Equitable; Industry standard	Business friendly	Semi-business friendly: waive penalties, add 8% interest
		Sets standard for business compliance.	Businesses would receive waiver on 75% past due penalties	Businesses would receive waiver on 75% past due penalties
CONS:	Non-compliant with RMC	Potential for complaints to Council	RMC – Penalties section would not be adhered to	Seen as unfair/inequitable
	City would receive \$0.00 revenue in year 1	Could be seen as not business friendly	Seen as unfair/inequitable.	Potential for complaints to Council
	Amnesty program can be seen as unfair/inequitable		Potential for complaints to Council	
	Compliant businesses could request refund and no incentive for businesses to remain compliant		Compliant but delinquent businesses are charged a penalty vs. non-compliant businesses that are not charged a penalty	Compliant but delinquent businesses are charged a penalty vs. non-compliant businesses that are not charged a penalty



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ACTION PLAN

1. City seeks to bring non-compliant entities into compliance with RMC Chapter 5.04.
2. Targeted approach to discovery accounts with 3-month amnesty programs to run consecutively beginning with property rentals followed by general businesses.
3. Staff recommends amnesty program Option 3 which would not penalize noncompliant businesses and would encourage compliance moving forward.
4. Staff recommends that following the amnesty program, new discoveries be assessed at the statewide industry standard of charging three years back taxes plus current year's tax, plus applicable penalties as set forth in the RMC.



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Potential Revenue



Discovery & Compliance Program Options and Potential Revenue

Estimate Business Tax
Option 1
\$0.00

Estimate Business Tax
Option 2
\$9,578,625

Estimated Business Tax
Option 3
\$6,130,320

Estimated Business Tax
Option 4
\$6,352,500



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STRATEGIC PLAN ALIGNMENT

Strategic Priority 5: High Performing Government

Goal 5.4: Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

Cross-Cutting Threads



Community Trust



Fiscal Responsibility

Sustainability &
Resiliency

Equity



Innovation



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RECOMMENDATIONS

That the Financial Performance and Budget Committee:

1. Receive an update on the current status of the City's Business Tax Discovery program and overall compliance rate;
2. Recommend to the City Council approval and implementation option for a 3-month amnesty program for non-compliant accounts;
3. Recommend to the City Council to direct staff to implement standard procedures for all new discoveries following the amnesty program timeframe in compliance with the Riverside Municipal Code, including assessment of penalties and back taxes; and
4. Direct staff to return to the Financial Performance and Budget Committee in one year to provide an update on the outcome of the amnesty and discovery program and report resulting revenue enhancements.



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