

City of Arts & Innovation

Governmental Affairs Committee Memorandum

TO: GOVERNMENTAL AFFAIRS COMMITTEE **DATE: FEBRUARY 6, 2019**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
**SUBJECT: RESULTS FROM THE CITY'S BUSINESS TAX AMNESTY AND PUBLIC
EDUCATION PROGRAM CONCLUDED ON JUNE 30, 2018**

ISSUE:

Receive, review, provide input on, and forward to the City Council the results from the City's Business Tax Amnesty and Public Education Program concluded on June 30, 2018.

RECOMMENDATION:

That the Governmental Affairs Committee receive, review, provide input on, and forward to the City Council the results from the City's Business Tax Amnesty and Public Education Program concluded on June 30, 2018.

BACKGROUND:

In collaboration with the Greater Riverside Chambers of Commerce, City staff developed a Business Tax Action Plan (Action Plan - Attachment 1) to enhance the administration of business tax through the City's Business Tax Division. The intent of the Action Plan was as follows:

- Create a more business friendly environment in Riverside.
- Focus on informing and educating existing and potential new businesses about business tax requirements.
- Attract new businesses, encourage business retention and expansion by making it easier to operate in the City.

On April 27, 2017, the Greater Riverside Chambers of Commerce Board of Directors voted to support the Action Plan. Highlights of the Action Plan included:

- Implement online options to make it possible for new business to apply for their Business Tax License (Business tax) online, and easier for current businesses to renew and/or update account information.
- Offer a six-month amnesty program that waived penalties to encourage unlicensed businesses to register and licensed businesses that have not paid their business tax to become current.

- Reduced penalties for non-payment or late payment.
- Offer a five percent (5%) discount incentive for businesses paying their business tax early or on time.
- Launch a proactive, concentrated, business-friendly educational campaign to inform and educate existing and potential new businesses regarding business tax requirements.
- Mailing additional reminders from the City regarding payment due dates.
- No new or increased fees.

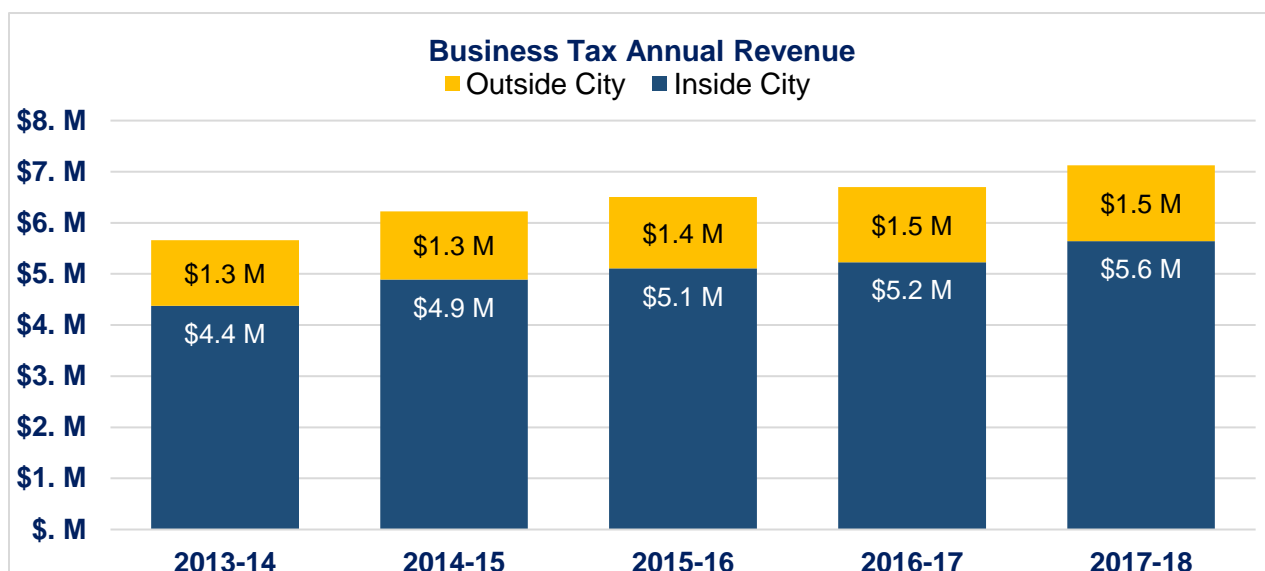
The Action Plan was presented to the Governmental Affairs Committee on August 2, 2017 and the City Council on August 22, 2017. The City Council approved the recommended enhancements to the City's Business Tax Administration Program along with the implementation of the six-month Business Tax Amnesty Program.

DISCUSSION:

A City of Riverside business tax license is required for all persons or companies conducting business within the City. Business taxes are paid annually and due in advance or before the expiration date of the current certificate.

The Business Tax Division processes applications for brick-and-mortar, home-based, and mobile businesses located inside of Riverside's City limits and businesses located outside of the City but doing business within the City, such as contractors and vendors. Revenue from the business tax goes into the City's General Fund which pays for City services and safety, benefiting both residents and businesses. Businesses located inside of the City generate stabilized revenues due to annual renewals. Businesses located outside of the City doing business within the City generate unpredictable annual revenues. As shown in Figure 1 below, inside businesses generate, on average, 78% of the annual Business Tax revenue.

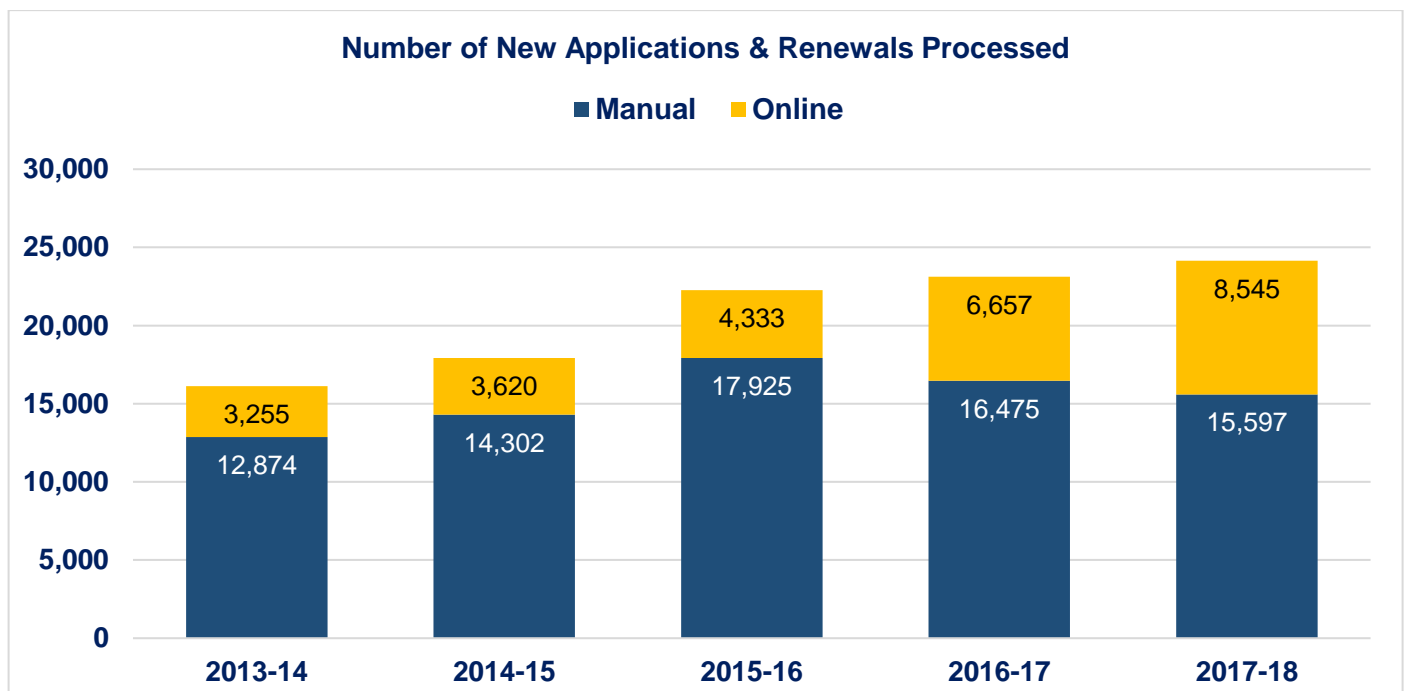
Figure 1



Enhanced Online Accessibility

Enhancing online capabilities was necessary to provide new businesses with the convenient option of applying for their Business Tax online. Additionally, new tools were added to enhance the existing online renewal capabilities. As a result of the online enhancements, web activities have increased. As shown in Figure 2 below, as of Fiscal Year 2017-18, 40% of all new applications were submitted via the web and the percentage of web use for new applications continues to increase. Business Tax staff encourages businesses to utilize the online tools with billing inserts and enhancements made to the billing envelope reminding customers of the online renewal process.

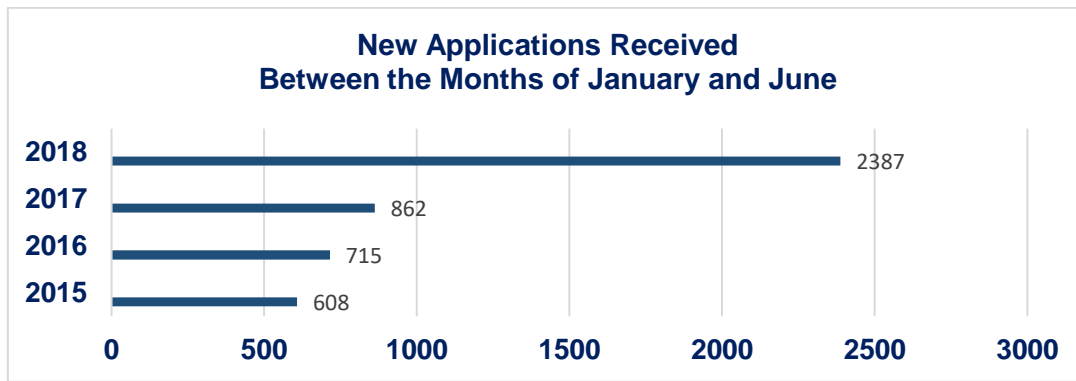
Figure 2



Amnesty Program

There has been significant effort to encourage unlicensed businesses to register for a business tax and for licensed businesses that have not paid their taxes to become current. This includes attending Chamber of Commerce events to educate new and existing businesses, as well as, utilizing Field Representatives to identify and visit non-compliant businesses. The amnesty program was proposed to assist with these efforts. During the launch of the six-month amnesty program, beginning on January 01, 2018, and concluding on June 30, 2018, penalties and interest were waived for businesses that applied and paid their business tax within the amnesty period.

At the conclusion of the amnesty program, a total of 2,387 new applications were processed. This is an increase of more than 175%, when compared to the same time period in 2017. The increase is believed due to a combined effort of the Amnesty Program, the educational marketing and outreach and the online enhancements.

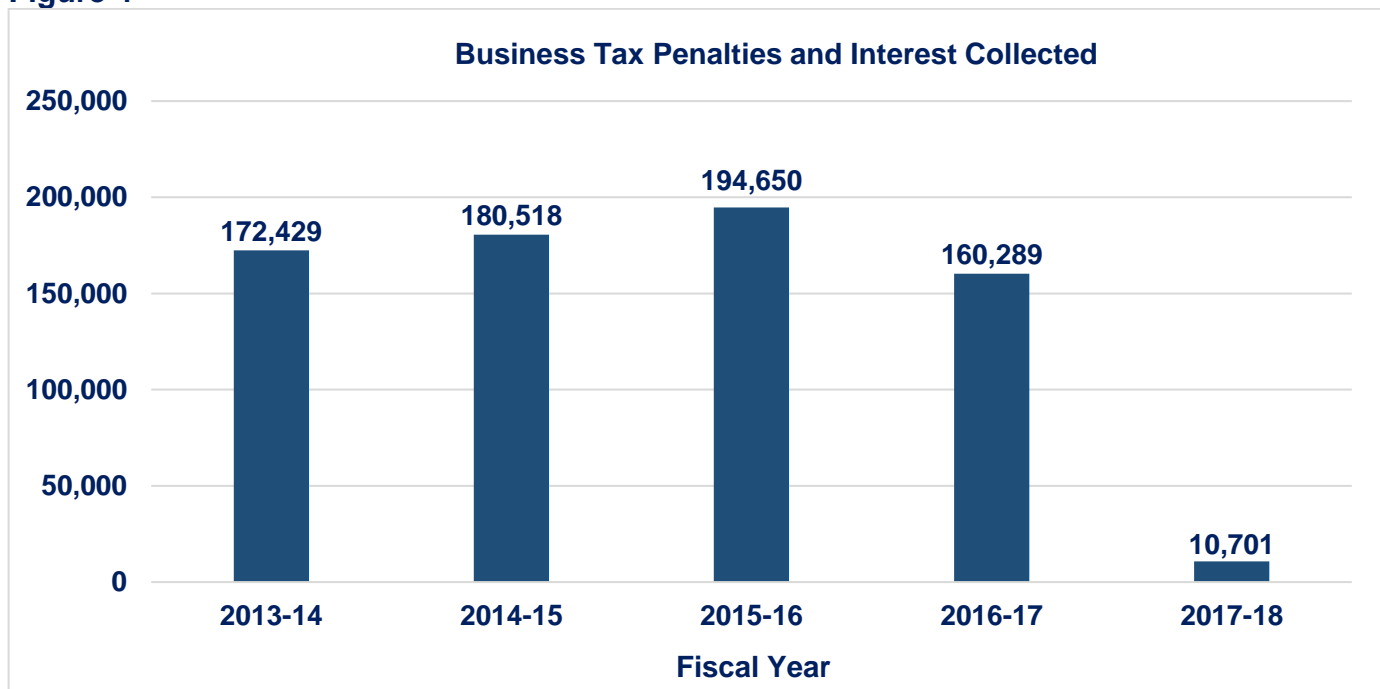


While the new applications brought increased revenue for FY 2017/18, ongoing revenue has not yet been determined. The Business Tax Division will continue to gather and monitor data on businesses inside and outside City limits to identify fiscal and operational impacts to both the City and businesses.

It is certain, that there will be both short and long term impacts attributed to the Amnesty Program. In order to determine the specific program impacts, Business Tax must develop a better understanding of the data collected, identify contributing factors, and determine how those factors will positively or negatively impact business tax revenue. Business Tax will monitor the new business applications generated by businesses located inside the City and compare the recurring revenue contributed in future fiscal years against any identified negative impacts such as lost revenue pertaining to penalties and interest.

On average, penalties and interest generate approximately \$160,000 - \$195,000 in revenue each year between the months of January and June. As shown in Figure 4, during the amnesty period January 01, 2018 through June 30, 2018, less than \$11,000 in penalties and interest were collected.

Figure 4



FISCAL IMPACT:

The Amnesty Program appears to have caused a reduction in fiscal year 2017/18 revenues related to Penalties and Interest by approximately \$149,588 when compared to fiscal year 2016/17. However, it has been successful in identifying and registering non-compliant businesses which could potentially increase ongoing business tax revenue. The ongoing revenue of these businesses has yet to be determined at this time.

The early renewal discounts of 5% are projected to cause a decrease in annual revenues by an additional \$180,000 per year. As of December 31, 2018, 2,268 business have taken advantage of this discount equating to a \$32,593 reduction in revenue thus far in fiscal year 2018/19. Additionally, the ongoing proactive education and outreach, including additional due date reminder notifications and marketing materials, will cost approximately \$80,000 per year.

Staff is hopeful that the Amnesty program encourages businesses to continue their partnership with the City on an ongoing basis resulting in increased revenue that will sufficiently cover these revenue reductions and additional expenditures.

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availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Lea Deesing, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Approved Business License Tax Action Plan
2. Presentation