



FROM THE OFFICE OF COUNCILMEMBER
WENDY GREUEL
ERIC GARCETTI

Council District 2
(213) 473-7002

Council District 13
(213) 473-7013

GREUEL-GARCETTI TAX REFORM PACKAGE

The guiding principle behind the Greuel-Garcetti Business Tax Reform proposal is to create a tax system that works to attract business, create jobs and invest in Los Angeles' economy. The reform proposal will reduce the overall tax burden and simplify the system making it equitable and business friendly. The proposal will invest in the economy by further targeting tax relief for small and medium size businesses.

Los Angeles has the 11th largest economy in the world and its businesses deserve a tax system that is competitive with neighboring cities, working to create jobs and a growing economy.

What is the Greuel-Garcetti proposal?

The Greuel-Garcetti proposal aims to simplify the system, make taxes more equitable, and provide tax relief for businesses. The goal is to attract businesses to the City, create jobs with decent wages, and invest in the City's economy.

The Greuel-Garcetti proposal includes the following components:

- **Eliminate Taxes for Small Business**
- **15% Across the Board Tax Cut**
- **Eliminate Taxes on Bad Debts**
- **Allow Taxpayers Option of Paying on Cash Basis or Accrual Basis**
- **Reduce the Number of Tax Categories**
- **Re-assign Rates**
- **Targeted Incentives for Growth Industries**

Eliminate Taxes on Small Business

Businesses with gross receipts of \$100,000 or less will not pay the business tax. This would eliminate the gross receipt tax for nearly 60% of the businesses currently in the City's tax database, simplifying the system for thousands of taxpayers and reducing the administrative burden on the Office of Finance. The Greuel-Garcetti proposal does not intend for these businesses to pay a filing fee in place of the tax.

15% across the board tax cut

Businesses that do not qualify for the small business exemption and pay taxes based on their gross receipts will receive a 15% tax cut over 5 years starting in 2006. This provision aims to improve the business climate in Los Angeles, making the City more competitive with neighboring jurisdictions in its quest to attract and retain businesses.

Eliminate Taxes on Bad Debts

Businesses should be permitted to deduct bad debts, money that has been billed but not collected, from their gross receipts. Forcing business to pay tax on money that has not been collected is an unfair tax. This provision aims to make the business tax system more equitable.



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Allow Taxpayers Option of Paying on Cash Basis or Accrual

Businesses that do not keep their books on an accrual basis should be given the option of paying the tax on a cash basis instead. This provision aims to make the tax system simpler for businesses.

Reduce the Number of Tax Categories

MBIA reports that there are a total of 59 different categories. 56 of those were in active use in the 2003 tax year. There are 28 gross receipts tax categories, and 28 non-receipts tax categories. This provision will eliminate the 3 categories that were not used in 2003. Additionally, by giving non-receipt businesses the option to switch to gross receipts and receive the 15% tax cut, this proposal will reduce the number of categories in a simple and business friendly way.

Re-assign Rates

Both LAEDC and MBIA have identified several industries that have been improperly assigned the highest rate (\$5.91). Additionally, many industries' gross receipts are not reflective of their "ability to pay" because they are seriously impacted by "pass throughs." The Greuel-Garcetti proposal aims to re-assign rates for a select number of industries to begin make the system more equitable.

Target Incentives for Growth Industries

The City needs to be strategic in attracting growth industries to keep and attract jobs to Los Angeles. Although film and media production companies play a vital role in the City's economy, Los Angeles is not competitive with neighboring cities, states and countries who lure production away by offering tax incentives.

The Greuel-Garcetti proposal will reduce the tax burden on small and medium sized film production companies by adjusting the scale at which companies pay taxes and eliminate the business tax on individual artists earning up to \$300,000 in gross receipts. Writers, directors, actors, musicians and craft workers function as employees, not businesses. Eliminating the tax would make the system more fair and equitable. Targeted incentives can be expanded in future years to include such growth industries like bio-medical and green technologies.

Can the City afford to cut taxes in tough fiscal times?

The Greuel-Garcetti proposal provides relief for Los Angeles businesses while protecting the delivery of basic city services. The City has set aside money in the Business Tax Reform Trust Fund that will offset costs of reform package. Compliance will increase through more efficient auditing enabling the City to improve its compliance rate that is currently lower than the national average. The elimination of taxes on small businesses will remove nearly 60% of the businesses in the City's database allowing the Office of Finance to focus on companies that are not paying their fair share of taxes.

The reform package will be implemented in a 5-year, phased-in approach beginning in 2006 to not only allow the Trust Fund to grow, but to allow the City to absorb the reform through the budget process.



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Who supports the Greuel-Garcetti Tax Reform Package?

Because the reform proposal invests in Los Angeles' economy while protecting the delivery of basic city services, the Greuel-Garcetti package has received support from a broad coalition including but not limited to: SEIU, Locals 347 and 434B; National Association of Women Business Owners – Los Angeles Chapter; VICA; Greater African American Chamber of Commerce; Los Angeles Area Chamber of Commerce; United Chambers of Commerce of the San Fernando Valley; Valley Vote; Los Angeles Fashion District BID; and Neighborhood Councils from the Westside Council to the Sunland Tujunga Council

How does the current business tax system work?

The City of Los Angeles' business tax is archaic, cumbersome, and ripe for reform. Under the existing system, businesses are required to file taxes under as many as 59 different categories. Each category has different calculation rules and businesses must track the portion of sales activity both inside and outside of the City limits using a complex apportionment formula. Many businesses are currently taxed at high rates that do not match their ability to pay. Furthermore, the tax is not equitable because some revenue is "double-taxed," meaning some businesses pay taxes on money they receive to pay another business or sub-contractor. Other businesses are taxed on income they never actually receive. The business tax system needs major reform to create more jobs and to maximize the City's competitiveness with neighboring jurisdictions.

Why does the business tax system need to be reformed?

Los Angeles' business tax system is inequitable and onerous, creating an unattractive climate for businesses. Established in 1940, the system has developed into a complex set of ordinances that taxes many businesses at rates that are too high given their ability to pay. In some cases, tax rates have been assigned arbitrarily, using the "Miscellaneous Services" Category, which has the highest tax rate of \$5.91 per \$1,000, as a dumping ground for businesses. As a result, both lawyers and gardeners – for example – are taxed at the highest rate.

Because of the system's complexities, there are relatively high levels of non-compliance as taxpayers routinely underreport their taxes or fail to report them at all. About 20% of business activity is not reported by taxpayers and as many as 30% of taxpayers fail to file their taxes at all.

Furthermore, the tax system has few incentives for growth industries, those businesses that have the ability to generate significant numbers of jobs with decent wages. Several studies have documented that Los Angeles' business tax rates are higher than those levied in neighboring jurisdictions, making Los Angeles less competitive in its pursuit to attract and retain businesses.



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How does the City of Los Angeles' business tax compare with neighboring jurisdictions?

Several studies have documented that Los Angeles' business tax rates are higher than those levied in neighboring jurisdictions, such as Glendale, Burbank, and Calabasas. Glendale and Calabasas do not have a business tax, while Burbank taxes on a payroll basis at rates that are much lower than Los Angeles. Los Angeles' reliance on the business tax is higher than the larger cities in the Los Angeles County region as well as most of the larger the cities in California.

Why can't the City just tax business' profits?

California cities are precluded from taxing incomes. Revenue and Taxation Code Section 17041.5 prohibits a city from levying or collecting a tax upon the income of any person, resident or nonresident. It should be noted that the Code later states, "...[t]his section shall not be construed so as to prohibit the levy or collection of any otherwise licensed tax upon a business measured by or according to gross receipts."

Why can't you just "axe" the tax?

Los Angeles' business tax is the fifth largest revenue source for the City and makes up approximately 11% of the City's revenue. Last year, the tax raised \$360 million in revenue. This year it is expected to generate \$373 million in revenue, money that is used to pay for roads, police, tree-trimming, and firemen. While the City cannot afford to eliminate the tax entirely, the Greuel-Garcetti proposal will reduce the City's dependence on the tax by 25% over five years.