



AGENDA REPORT

Finance Department

DATE:	December 19, 2023
TO:	Mayor Martinez and Members of the City Council
FROM:	Nickie Mastay, Deputy City Manager, Internal Services Andrea Miller, Director of Finance Mubeen Qader, Deputy Director of Finance Antonio Banuelos, Accounting Manager
Subject:	Ordinance Creating New Business Activity Classification, Class P – Wholesale, and the corresponding rates.
FINANCIAL IMPACT:	The financial impact of creating this new classification and rate structure will result in a decrease of approximately \$10,000 in Business Tax Revenue in the General Fund.
PREVIOUS COUNCIL ACTION:	
STATEMENT OF THE ISSUE:	The proposed Ordinance will create a new Business Activity, Class P – Wholesale, and the corresponding rates.
RECOMMENDED ACTION:	INTRODUCE an Ordinance (first reading) amending Chapter 7.04.103 of the Richmond Municipal Code by creating a new Business Activity Classification, Class P – Wholesale, and the corresponding rates – City Attorney’s Office (Dave Aleshire 510-620-6509); Finance Department (Nickie Mastay/Andrea Miller/Mubeen Qader/Antonio Banuelos 510-620-6741).

DISCUSSION:

City Council placed Measure U on the November 3, 2020, ballot that was approved by the voters. The Measure changed the business tax calculation methodology to be based

on gross receipts instead of the prior methodology that was based upon the number of employees employed by a business.

Measure U (Richmond Municipal Code 7.04) contains fifteen (15) Business Activity Classifications but does not include wholesale as a business activity classification class. City staff is requesting to amend the Ordinance by adding, Wholesale, in section 7.04.130) of the Richmond Municipal Code as follows:

7.04.130 Business Activity Classifications Class

Class	Industry
A	Retail Sales
B	Grocers
C	Automobile Sales, Manufacturing
D	Recreation and Entertainment
E	Hotel/Motel
F	Construction contractor
G	Business and personal services
H	Professional/semi-professional service
I	Administrative headquarters (payroll based, not gross receipts)
J	Miscellaneous
K	Residential and Commercial Rentals
L	Cannabis
M	Firearms Ammunition
N	Taxi and limousine service
O	Transportation, trucking
P	Wholesale

Additionally, this new Wholesale class will be assigned a new business tax at the rate provided below amending the ordinance to include this section after 7.04.205 (J):

7.04.205 Tax Rates for Class A through Class J, and Class P —Progressive Rates

K. Class P. Business engaged in Class P business activities shall pay a business tax as follows:

If annual gross is:	Then the business tax is:
Not over \$1,000,000	\$1.20 per \$1,000 of annual gross receipts
Over \$1,000,000 but not over \$2,500,000	\$1,200, plus \$1.50 per \$1,000 of annual gross receipts over \$1,000,000
Over \$2,500,000 but not over \$25,000,000	\$3,450, plus \$1.90 per \$1,000 of annual gross receipts over \$2,500,000
Over \$25,000,000 but not over \$50,000,000	\$46,200, plus \$2.20 per \$1,000 of annual gross receipts over \$25,000,000
Over \$50,000,000	\$101,200, plus \$2.40 per \$1,000 of annual gross receipts over \$50,000,000

A wholesale classification was omitted from the original voter approved ordinance. City staff attempted to clarify this oversight via an Administrative Ruling placing Wholesale businesses in the same classification as Retail Sales businesses. The issue with this approach is that the definition of “Retail Sales” in the approved Ordinance excludes the resale of items such as with wholesalers:

*“Retail sales” means the sale of goods, wares, or merchandise for any purpose other **than resale in the regular course of business**, including restaurants and peddlers. (emphasis added)*

Other communities have a wholesale category in their ordinances and the City has businesses that could be classified as wholesale. The definitions in the ordinance excluding wholesale from retail and vice versa create legal confusion which would make the Ordinance subject to challenge.

The new classification clarifies both Business Class and their respective Business Tax Rate structure for Wholesale Businesses. Currently, without a clear guidance for this category, Wholesale businesses fall into “Class J – Miscellaneous” which has significantly higher rates than “Class A – Retail Sales”.

AMENDMENT PROCESS

While any amendment to Measure U that would increase the rate of taxation is subject to approval by a vote of the voters, the City Council has the authority to adopt modifications that decrease the rate of taxation and that applies in this instance.

BUSINESS TAX UPDATE

City staff recently mailed out the 2024 renewal notices for both rental property businesses and non-rental businesses. The due date for the rental properties is March 1, 2024, while the due date for the non-rentals is April 1, 2024. The Finance Department is providing augmented business tax services to the Richmond business community in person, via phone calls, through our online payment portal, and through virtual online appointments.

The community can leave questions for City staff on the business tax hotline at 510-620-5555 or email to measure_u_info@ci.richmond.ca.us.

DOCUMENTS ATTACHED:

Attachment 1 – Administrative Ruling No. 1
Attachment 2 – Redline Ordinance
Attachment 3 – Final Ordinance