



## Business Tax Update

Ordinance Creating New Business Activity Classification, Class P – Wholesale, and the corresponding rates.

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FINANCE DEPARTMENT AND CITY ATTORNEY'S OFFICE

FEBRUARY, 2024

# Agenda

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Background

Business Tax Classifications

Business Tax Rates

Recommended Action

Questions

# Measure U Background



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Measure U Approved by Voters in November 2020

Changed the way the tax is calculated

- New Methodology is based on the Business Gross Receipts
  - Tax is a percentage of the Gross Receipts and changes based on the Business Category and the amount of Gross Receipts
- Businesses making less than \$250,000 pay the Minimum Tax of \$100 Per Year

# Wholesale Background



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Measure U contained no classification for Wholesalers

Staff created Administrative Ruling 1.0 that categorized Wholesale Businesses under Class A-Retail Sales.

Definition of Retail Sales excludes wholesale sales:

“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)

Definition of Retail Sales excluding wholesale sales creates need for a new Business Tax Class for Wholesale Businesses

Approximately 15 business in Richmond are wholesalers and financial impact is estimated at \$10,000 decrease to the General Fund revenues.

If a business does not fall clearly into any class, they are then placed in Class J - Miscellaneous



# Business Tax Classifications

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



# Current Rates For All Classes

Class	Industry	Under \$1M	\$1M to \$2.5M	\$2.5M to \$25M	\$25M to \$50M	Over \$50M
<b>A</b>	<b>Retail Sales</b>	<b>0.120%</b>	<b>0.160%</b>	<b>0.200%</b>	<b>0.240%</b>	<b>0.320%</b>
<b>B</b>	Grocers	0.060%	0.100%	0.130%	0.015%	0.200%
<b>C</b>	Automobile Sales, Manufacturing	0.120%	0.220%	0.310%	0.410%	0.500%
<b>D</b>	Recreation and Entertainment	0.450%	0.460%	0.470%	0.480%	0.500%
<b>E</b>	Hotel Motel	0.180%	0.280%	0.380%	0.480%	0.500%
<b>F</b>	Construction contractor	0.180%	0.210%	0.240%	0.270%	0.300%
<b>G</b>	Business and personal services	0.180%	0.270%	0.360%	0.500%	0.540%
<b>H</b>	Professional/semi-professional service	0.360%	0.410%	0.450%	0.500%	0.680%
<b>I</b>	Administrative headquarters (payroll based, not gross receipts)	0.120%	0.150%	0.190%	0.220%	0.240%
<b>J</b>	<b>Miscellaneous</b>	<b>0.240%</b>	<b>0.310%</b>	<b>0.380%</b>	<b>0.450%</b>	<b>0.480%</b>
<b>K</b>	Residential and Commercial Rentals	1.081% if 4 properties or less and 2.880% if 5 properties or more				
<b>L</b>	Cannabis	5.000%	5.000%	5.000%	5.000%	5.000%
<b>M</b>	Firearms Ammunition	2.400%	2.400%	2.400%	2.400%	2.400%
<b>N</b>	Taxi and limousine service	\$75 for each ambulance or limousine and \$180 for each taxicab permit				
<b>O</b>	Transportation, trucking	Tax based on current employee total				



# Proposed Rates for Class P

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

If annual gross receipts are:	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



# Rates For All Classes including Class P

Class	Industry	Under \$1M	\$1M to \$2.5M	\$2.5M to \$25M	\$25M to \$50M	Over \$50M
<b>A</b>	<b>Retail Sales</b>	<b>0.120%</b>	<b>0.160%</b>	<b>0.200%</b>	<b>0.240%</b>	<b>0.320%</b>
<b>B</b>	Grocers	0.060%	0.100%	0.130%	0.015%	0.200%
<b>C</b>	Automobile Sales, Manufacturing	0.120%	0.220%	0.310%	0.410%	0.500%
<b>D</b>	Recreation and Entertainment	0.450%	0.460%	0.470%	0.480%	0.500%
<b>E</b>	Hotel Motel	0.180%	0.280%	0.380%	0.480%	0.500%
<b>F</b>	Construction contractor	0.180%	0.210%	0.240%	0.270%	0.300%
<b>G</b>	Business and personal services	0.180%	0.270%	0.360%	0.500%	0.540%
<b>H</b>	Professional/semi-professional service	0.360%	0.410%	0.450%	0.500%	0.680%
<b>I</b>	Administrative headquarters (payroll based, not gross receipts)	0.120%	0.150%	0.190%	0.220%	0.240%
<b>J</b>	<b>Miscellaneous</b>	<b>0.240%</b>	<b>0.310%</b>	<b>0.380%</b>	<b>0.450%</b>	<b>0.480%</b>
<b>K</b>	Residential and Commercial Rentals	1.081% if 4 properties or less and 2.880% if 5 properties or more				
<b>L</b>	Cannabis	5.000%	5.000%	5.000%	5.000%	5.000%
<b>M</b>	Firearms Ammunition	2.400%	2.400%	2.400%	2.400%	2.400%
<b>N</b>	Taxi and limousine service	\$75 for each ambulance or limousine and \$180 for each taxicab permit				
<b>O</b>	Transportation, trucking	Tax based on current employee total				
<b>P</b>	<b>Wholesale</b>	<b>0.120%</b>	<b>0.150%</b>	<b>0.190%</b>	<b>0.220%</b>	<b>0.240%</b>



# Proposed Rates for Class P

Current Richmond Rates						
Class	Industry	\$250k to \$1M	\$1M to \$2.5M	\$2.5M to \$25M	\$25M to \$50M	Over \$50M
A	Retail Sales	0.120%	0.160%	0.200%	0.240%	0.320%
P	Proposed Wholesales	0.120%	0.150%	0.190%	0.220%	0.240%
Approved Oakland Rates in 2022 with Measure T - effective 1/1/2023						
	Industry	Under \$1M	\$1M to \$2.5M	\$2.5M to \$20M	\$20M to \$50M	Over \$50M
	Retail Sales	0.090%	0.110%	0.200%	0.220%	0.240%
	Wholesales	0.110%	0.120%	0.180%	0.200%	0.250%
Current San Francisco Rates updated with Proposition F in 2020						
	Industry	Under \$1M	\$1M to \$2.5M	\$2.5M to \$20M	\$25M to \$50M	Over \$50M
	Retail Sales	0.053%	0.070%	0.095%	0.224%	0.224%
	Wholesale Trade	0.105%	0.140%	0.189%	0.224%	0.224%
Current Berkeley Rates						
	Industry	Under \$1M	\$1M to \$2.5M	\$2.5M to \$20M	\$25M to \$50M	Over \$50M
	Retail Sales	0.120%	0.120%	0.120%	0.120%	0.120%
	Wholesale Trade	0.120%	0.120%	0.120%	0.120%	0.120%



# Examples of Business Tax

Gross Receipts	Class A - Retail Sales	Proposed Class P - Wholesale	Class J - Miscellaneous	Oakland Wholesale
\$900,000	\$1,080	\$1,080	\$2,160	\$990
\$2,000,000	\$2,800	\$2,700	\$5,500	\$2,300
\$3,000,000	\$4,600	\$4,400	\$8,950	\$3,800
\$10,000,000	\$18,600	\$17,700	\$35,550	\$16,400
\$25,000,000	\$48,600	\$46,200	\$92,550	\$44,400
\$50,000,000	\$108,600	\$101,200	\$205,050	\$94,400

# Recommended Action to City Council on February 6th Meeting

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INTRODUCE an Ordinance (first reading) amending Chapter 7.04.103 of the Richmond Municipal Code to create a new Business Activity Classification, Class P – Wholesale, and provide the corresponding rates.

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# Questions?