



Agenda Report

Fullerton City Council

MEETING DATE: MAY 4, 2021

TO: CITY COUNCIL / CITY MANAGER

SUBMITTED BY: CITY MANAGER'S OFFICE

PREPARED BY: ELLIS CHANG, ADMINISTRATIVE SERVICES DIRECTOR
RAMONA CASTAÑEDA, REVENUE MANAGER

SUBJECT: BUSINESS REGISTRATION CHARGES

SUMMARY

Provide an overview of business registration fees and taxes plus a comparison with other cities.

RECOMMENDATION

Receive and file.

PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

None.

DISCUSSION

Fullerton Municipal Code Chapter 4.02 governs business registration and requires all persons conducting business within the City of Fullerton to file an annual application or renewal and pay a fee and business taxes (if applicable). This requirement applies to commercial and industrial businesses, rental property (residential, commercial and industrial), retailers, wholesalers, manufacturers, service companies, self-employed persons, independent contractors and businesses conducted within the home (home occupations) and non-profit organizations.

The business registration application charges consist of two components – Regulatory and Revenue Generation.

Regulatory Charges (Fees)

The City may charge businesses to recover 100% of the cost of regulatory purposes (hereinafter referred to as Fees). Examples of regulatory purpose fees include: Community Development zoning review, Police Department review for certain business types such as massage establishments and Fire Department for various required inspections depending on business activities.

Specialized services are typically retained to calculate the cost of providing the regulatory activity to develop proposed fees. Fee changes up to 100% of cost recovery may be set by resolution by the City Council.

Revenue Generation (Taxes)

The majority of charges (other than the Fees for regulatory purposes) on the business registration application is to generate City General Fund revenue (herein referred to as Taxes). This includes charges assessed to administer business registration activities as well as all other non-regulatory fees.

As the primary purpose of a tax is to generate revenue, a two-thirds vote of City Council is required to place a tax on the ballot and requires a majority vote of the citizens to change the tax.

Business Registration Administration

The current business registration taxes are as follows:

Initial Application - \$17

Annual Renewal - \$11

Application Amendment - \$11

Base Tax – varies depending on type of business

In addition to these taxes, as mentioned above there are regulatory fees charged by other departments to regulate certain activities depending on the business type or activity. There is also a State mandatory fee of \$4 assessed on all business registrations per Assembly Bill 1379 (effective 1/1/2018). Although only 10% of the state mandated fee is passed on to the State, the 90% that is retained shall be used for certified access specialist training and certification to facilitate compliance with construction related accessibility requirements.

The focus of the remainder of this section is on business registration administration and the taxes collected.

The annual cost to administer business registration activities is approximately \$200,000 which includes salaries and benefits and operating costs. In fiscal year 2019-20 the city collected an estimated \$1,160,000 in total Business Registration Taxes of which an estimated amount of \$128,700 was collected for application processing (based on 1,100 new applications and 10,000 renewals).

The tax structure for business registration revenue generation varies greatly between local agencies. The City of Fullerton breaks out its business registration taxes by application and base taxes. Because of the varying ways in which local agencies charge the base tax, it is not feasible to provide a meaningful comparison of the base tax. However, the table below provides a comparison of the application tax.

Business License Tax/Registration - Application Charges Only									
Application Charges	Fullerton	Anaheim	Brea	Garden Grove	La Habra	Orange	Placentia	Santa Ana	Yorba Linda
New Application Fee	\$ 17	\$ 35	\$ -	\$ 25	\$ -	\$ 56	\$ -	\$ 36	\$ -
Renewals/Amendments Per Occurrence	\$ 11	\$ 35	\$ -	\$ 10	\$ -	\$ 37	\$ -	\$ 36	\$ -

If a business is based within the city or based outside of the City, but conducting business in the City, they are generally charged the same application/renewal/amendment and mandated State fees. Thereafter, they are taxed differently. The following is a general summary of different taxes depending on the business classification.

In-City Businesses

Businesses based within the City boundaries will also be charged depending on the business classification.

Example 1 – Retail Sales

Businesses that sell goods are taxed twenty-five dollars per year, plus ten cents per year for each one thousand dollars of the first ten million dollars of gross receipts, and five cents per year for each one thousand dollars of gross receipts in excess of ten million dollars.

Example 2a – Services

Businesses that provide services (such as hair salon, real estate, etc.) are taxed based on the number of persons engaged in the business. First two persons or less engaged in or employed in the business is \$25, next 10 persons is \$10 per person, and each person in excess of twelve is \$5 per person.

Example 2b – Professional Services

Businesses that provide professional services (such as doctor, lawyer, etc.) are taxed based on the number of persons engaged in the business. Professionals engaged in or employed in the business are \$50 each; support staff are first 10 persons at \$10 per person, and each person in excess of ten is \$5 per person.

Example 3a & 3b – Contractors

Contractors (construction) are charged \$60 for general contractors and \$40 for specialty contractors.

Examples of how taxes are charged are provided in Attachment 2.

Out of City Businesses

Businesses based outside the City, but doing business inside the city limits, pay a base business tax per year depending on the business classification. Examples of outside businesses are below.

- General Contractor – Base Tax \$60
- Specialty Contractor – Base Tax \$40
- Services (Real Estate, Doctor, Engineer) – Base Tax \$40
- Food Truck – Base Tax \$25 per truck

Attachments:

- Attachment 1 – Business Registration Application
- Attachment 2 – Examples of Computed Charges by Certain Business Types