

# Employer-Based Revenue Measures

Restructuring of the Business License Tax



**CITY OF  
CUPERTINO**

# Timeline

- **March:** 2018-19 Work Program adoption
- **May:** voter poll
- **June-July**
  - three Council study sessions
  - business and community outreach
- **July:** ballot language voter poll
- **July 31:** Council defers to 2020



## Traffic Woes

- 23% increase in jobs since 2009
- 75% of workers commute in single occupancy vehicles
- Resident's biggest concern is traffic

# Initial Voter Poll Summary

- 74% believe businesses should help pay for transportation infrastructure used by their employees
- 71% support increasing the BLT
- 63% support increase for general services
- 69% support for specific purposes

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# Business License Tax Structures

- Square Footage (current)
- Payroll
- Employee-Based

# Cupertino Business Tax Structure

| Example         | Base    | Square Footage | Rate   | Tax      |
|-----------------|---------|----------------|--------|----------|
| Sole Proprietor | \$144   | 400            | 0.0380 | \$159    |
| SM Restaurant   | \$144   | 2,000          | 0.0380 | \$220    |
| LG Restaurant   | \$334   | 5,000          | 0.0331 | \$334    |
| LG Grocer       | \$996   | 50,000         | 0.0287 | \$1,714  |
| LG Retail       | \$3,024 | 135,000        | 0.0189 | \$3,685  |
| LG Office       | \$3,969 | 1,000,000      | 0.0048 | \$8,049  |
| Apple Park      | \$3,969 | 2,800,000      | 0.0048 | \$16,689 |

# Payroll Taxes

- Tax rate applied to salaries/wages
- SF is transitioning away from a payroll tax to tax on gross receipts

| Agency  | Payroll Expense Threshold | Payroll Tax Rate |
|---|---------------------------|------------------|
| San Francisco, CA   | >\$300,000                | 0.711%           |
| Newark, NJ  | >\$2,500                  | 1%               |
| Jersey City, NJ (Proposed)                                | TBD                       | 1% (Proposed)    |
| Tri-Met Transportation District (Oregon)                  | All wages                 | 0.7537%          |
| Lane County Mass Transit District (Oregon)                | All wages                 | 0.73%            |
| New York City Metropolitan Transportation Authority (MTA) | >\$312,500 to \$375,000   | 0.11%            |
|   | >\$375,000 to \$437,500   | 0.23%            |
|   | >\$437,500                | 0.34%            |
|   | >\$437,500                |                  |

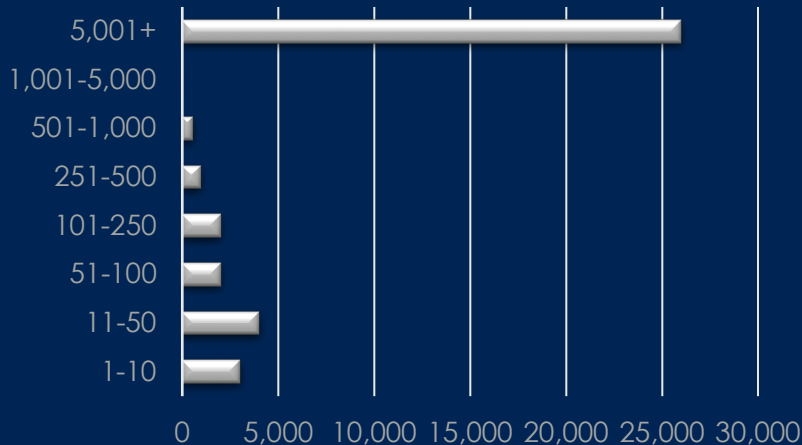
# Employee-Based Business Tax

- Employers pay a per employee (EE) amount
  - Flat rates for small businesses
  - Progressive per-EE rate increases as EE count increases



# Few Medium to Large Businesses

Estimated Employees  
by Business Size



- One business employs 2/3 of Cupertino workers
- About 90% of employers have less than 10 employees

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## Employee-Count Model Assumptions

- 3,500 non-exempt business licenses with 39,000 employees
- 2,200 out-of-town businesses
- Data from CA EDD, US Census, and City BL database
- No EE rate for first 99 employees
- No cap

# Model 1: per EE rate up to \$325

| Model 1: Per Employee Rates Up to \$325 |                 |                         |                       |           |               |              |                    |
|---|-----------------|-------------------------|-----------------------|-----------|---------------|--------------|--------------------|
| Employee Range                          | # of Businesses | % of Businesses in Tier | Estimated # Employees | Base Rate | Employee Rate | Total BL Tax | Effective Tax Rate |
| 1-9                                     | 3,128           | 89.4%                   | 3,400                 | \$150     | \$ -          | \$ 469,200   |                    |
| 10-49                                   | 300             | 8.6%                    | 4,000                 | \$250     | \$ -          | \$ 75,000    |                    |
| 50-99                                   | 40              | 1.1%                    | 2,400                 | \$500     | \$ -          | \$ 20,000    |                    |
| 100-249                                 | 25              | 0.7%                    | 3,350                 | \$500     | \$ <b>50</b>  | \$ 56,250    | \$ 17              |
| 250-499                                 | 5               | 0.1%                    | 1,350                 | \$500     | \$ 100        | \$ 50,250    | \$ 37              |
| 500-999                                 | 1               | 0.0%                    | 500                   | \$500     | \$ 175        | \$ 33,025    | \$ 66              |
| 1,000-4,999                             |                 | 0.0%                    |                       | \$500     | \$ 250        | \$ -         |                    |
| 5,000+                                  | 1               | 0.0%                    | 24,000                | \$500     | \$ <b>325</b> | \$ 7,295,250 | \$ 304             |
| Total                                   | 3,500           | 100.0%                  | 39,000                |           |               | \$ 7,998,975 |                    |

# Model 2: per EE rate up to \$425

| Model 2: Per Employee Rates Up to \$425 |                 |                         |                       |           |               |              |                    |
|---|-----------------|-------------------------|-----------------------|-----------|---------------|--------------|--------------------|
| Employee Range                          | # of Businesses | % of Businesses in Tier | Estimated # Employees | Base Rate | Employee Rate | Total BL Tax | Effective Tax Rate |
| 1-9                                     | 3,128           | 89.4%                   | 3,400                 | \$150     | \$ -          | \$ 469,200   |                    |
| 10-49                                   | 300             | 8.6%                    | 4,000                 | \$500     | \$ -          | \$ 150,000   |                    |
| 50-99                                   | 40              | 1.1%                    | 2,400                 | \$500     | \$ -          | \$ 20,000    |                    |
| 100-249                                 | 25              | 0.7%                    | 3,300                 | \$500     | \$ 50         | \$ 53,750    | \$ 16              |
| 250-499                                 | 5               | 0.1%                    | 1,300                 | \$500     | \$ 100        | \$ 45,250    | \$ 35              |
| 500-999                                 | 1               | 0.0%                    | 600                   | \$500     | \$ 200        | \$ 53,050    | \$ 88              |
| 1,000-4,999                             |                 | 0.0%                    |                       | \$500     | \$ 300        | \$ -         |                    |
| 5,000+                                  | 1               | 0.0%                    | 24,000                | \$500     | \$ 425        | \$ 9,407,775 | \$ 392             |
| Total                                   | 3,500           | 100.0%                  | 39,000                |           |               | \$10,199,025 |                    |

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## Potential Projects

- Transportation improvements
- Transit infrastructure
- Leverage revenue and partner on regional projects

# Outreach



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## PROPOSED BUSINESS LICENSE TAX MEASURE

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### Background

The Cupertino City Council is considering placing a measure on the November 2018 ballot to restructure the City of Cupertino's business license tax. The goal would be to generate \$10 million annually to fund transportation projects to improve the City's transportation infrastructure and alleviate local traffic congestion.

Most businesses in Cupertino pay a basic business license fee of \$144 a year plus a rate based on square footage occupancy.

### RESOURCES

June 5, 2018 Council Study Session

- [Staff Report - 6.5.18 Meeting](#)
- [Staff Presentation - 6.5.18 Meeting](#)
- [2018 Cupertino Business License Tax Rates](#)
- [Voter Poll](#)
- [Voter Poll Results](#)
- [2018 Election Timetable](#)

June 18, 2018 Council



CUPERTINO

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Business License Tax Measure

## Business License Tax Measure

# Businesses...

- Agree that traffic is an issue and that they need to be part of the solution
- Seek more time to engage with the City on solutions
- Want specific projects (spending plan)
- Would like to explore alternative funding options



## Ballot Language Poll

- 50-54% support for the proposed ballot measure (up to \$425 per-EE)
- Voters care most about a “well designed spending plan” and “long-term economic growth”

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# Outcome

- Defer measure to 2020
- Engage with stakeholders to create develop a spending and funding plan by December 2019
- Collaboration with Apple

# Considerations

- Rates for specified business
- Reduced rate for small income businesses
- Lower PT employee rate
- Require out-of-town businesses pay the same incremental tax rate, but prorated
- Authorize Council to adjust the tax for CPI
- Phased implementation

# Lessons Learned

- Take your time
- Develop a spending plan
- Build relationships with Large and Medium size businesses
- Election timing is crucial