

Business Tax Amnesty Program

Item 3.4

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Background on San José Business Tax

- San José Business Tax was first adopted in 1964
- On November 8, 2016, San José voters approved Measure G to modernize the general business tax, effective July 1, 2017
- Business Tax Modernization enacted an ordinance that:
 - Broadened and increased the minimum base tax
 - Established progressive tax rates
 - Raised the annual cap on the maximum amount of tax
 - Instituted an annual adjustment for inflation
- Pre/Post-modernization Revenue and Exemptions:
 - FY 16-17: \$13M Revenue with ~\$2-3M revenue foregone due to exemptions
 - FY 18-19: \$27M Revenue with ~\$3-5M revenue foregone due to exemptions

What is Amnesty and why now?

- Limited-time opportunity for persons engaged in business in San José to pay past due business tax in exchange for forgiveness of penalties and interest
- Recent Business Tax Modernization measure changed the tax structure and rates, effective July 1, 2017
- Proposed amnesty application and covered tax periods:
 - Application period: October 1, 2019 to March 27, 2020
 - Covered tax period: October 1, 2016 to March 27, 2020
- Planned compliance campaign following Amnesty Program

Goals of the Amnesty Program

- Encourage businesses operating in San José to obtain a business tax certificate and comply with Chapter 4.76 requirements
- Educate San José businesses on the availability of exemptions
- Allow never-registered or delinquent businesses an opportunity to bring their account current, by paying the principal tax owed
- Allow businesses an opportunity to update their tax parameters
- Facilitate voluntary compliance and reduce administrative costs
- Provide one-time and ongoing revenue for funding essential City services

Benefit of Amnesty Program

<u>Example</u>	<u>Tax</u>	<u>ADA Fee</u>	<u>Penalties</u>	<u>Interest</u>	<u>Total Without Amnesty</u>	<u>Total With Amnesty</u>
3 Prior Years + Current Year	\$744	\$10	\$75	\$214	\$1,043	\$754

Example of savings for business at base tax level:
\$289 savings by registering during Amnesty

Exemption Availability

- Businesses can continue to apply for one of the many exemptions during the amnesty period
- Businesses that qualify for an exemption, will not need to pay the tax, but are still required to register with the City
- Education on exemption availability is part of the outreach campaign

Updated Chapter 4.76 Definitions

Municipal Code changes to broaden the following definitions:

- Small business: updated to include a small business owned through a trust;
- Small business owner: updated to include a trustee;

Thereby making trusts and trustees eligible for either Financial Hardship Exemption.

Community Outreach

- Direct-mailing of approximately 60,000 notices informing never-registered and delinquent taxpayers of the Amnesty Program
- Radio Public Service Announcements
- Newspaper Advertisements
- Flyers to business/community groups to assist with circulation
- Information posting on City's homepage and television channel, community centers, and libraries
- Community meetings: Doing Business in San José
 - Educate businesses regarding the Amnesty Program
 - Educate businesses on qualifications for Business Tax Exemptions

Language Accessibility

- Translate outreach materials in Spanish and Vietnamese
 - Full translations will be posted on City's website
 - Concise statement regarding the availability of interpreting and translation services and links to website will be included on all correspondence
- Dedicate certified bi-lingual staff as primary resources to assist customers in-person and over the phone
- Train all front line staff to use Language Line Solutions as a secondary resource for in-person and phone interactions
- Provide onsite interpreter services or certified bi-lingual staff at community meetings to assist with language interpretation.

Customer Experience Improvements

- Online registration and payment portal
 - Payments received same-day as registration rather than months later
 - Ability to apply for exemption at the end of the registration workflow
 - Improved automation of back office registration processes
- Revised phone tree with improved call overflow capability
 - Leveraged existing phone system capabilities to streamline calls to overflow workgroup when wait times increase
- Automated phone payments via Interactive Voice Response (IVR)
 - Business tax renewals can bypass longer wait times by using the IVR function
 - Allows customer service staff to focus on inquiries rather than taking payments
- Self-service computers for new registrations in the 1st floor lobby

Recommendation

1. Approve an ordinance allowing forgiveness to taxpayers paying past due business taxes from liability for the remaining past due business taxes, interest, and penalties;
2. Approve an ordinance authorizing an Amnesty Program for the Downtown and Japantown Business Improvement District Assessments; and
3. Approve an ordinance amending chapter 4.76 to broaden the definitions of small business and small business owner in order to expend the eligibility requirements for the financial hardship exemptions to include trusts.