

# Temporary Expansion of Business Tax Financial Hardship Exemptions

## *Item 3.3*

**Presenters: Finance Department**  
**Julia H. Cooper, Director**  
**Rick Bruneau, Deputy Director**

City Council  
September 29, 2020

# Recommendation Objectives

Provide financial relief to businesses experiencing financial hardship due to the COVID-19 pandemic

- Broaden existing financial hardship exemption criteria so more businesses can qualify for the exemption
- Ease restrictions for prequalifying for financial hardship exemption
- Lengthen repayment terms

# Background: Business Tax Basics

- 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
- ~95,000 businesses registered; 21,000 approved for exemption
  - 15,000 or 71% of exemptions are for Financial Hardship
- Revenue reduction for FY20-21 Budget:

Revenue	FY 19-20 Estimate	FY 20-21 Budget	% Variance
Business Tax	\$28 million	\$25.7 million	-8.2%

- \$4-5M revenue foregone due to exemptions

# Existing Financial Hardship Exemption

## **Low revenue generating small businesses** §4.76.345

- 2x National Poverty Guidelines (Gross Receipts \$25,520)

## **Small business owners with limited household incomes** §4.76.345.5

- 4x National Poverty Guidelines (AGI \$51,040)

"Small business owner" means a single natural person who owns and operates a small business or owns and operates a small business with his or her spouse or domestic partner, or acts as a trustee or acts as a trustee with his or her spouse or domestic partner, as applicable. §4.76.120

# Expanded Financial Hardship Exemption

## **Temporary Expansion of Financial Hardship Exemptions** §4.76.345.6

- For the period of October 1, 2020 through September 30, 2021, any person engaged in business in the City, whether or not a small business or small business owner, may apply for a financial hardship exemption under Section 4.76.345 or Section 4.76.345.5.
  - With the expansion of the financial hardship exemption, ANY business may apply if their income is below the threshold
  - Not limited to definition of small business owner (i.e. no employees)
- Estimated that upwards of 6,000 businesses could be eligible
- FY20-21 Estimated Revenue Impact: (\$1,000,000)
- FY21-22 Estimated Revenue Impact: (\$350,000)

# Other Procedural Modifications

- All hardship applicants to use *anticipated* income for 2020 instead of reviewing 2019 taxes
  - Current practice of prequalifying a business for a hardship exemption relies on reviewing prior year tax returns
  - Verify 2020 taxes the following renewal period
- Extended Payment Plans; up to 12 months
  - Current practice allows for up to 3 months repayment terms

# Community Outreach and Language Accessibility

## Community Outreach

- Information posted on Finance Department's website and phone systems; written text will be translated in Spanish and Vietnamese
- Written summary of temporary expansion of financial hardship exemption to the Mayor's Office and City Council Offices

## Language Accessibility

- Dedicate certified bi-lingual staff as primary resources to assist customers over the phone
- Train all front-line staff to use Language Line Solutions as a secondary resource to assist with language accessibility

# Recommendation

Approve an ordinance amending Chapter 4.76 of Title 4 of the San José Municipal Code to add a new Section 4.76.345.6 to temporarily expand, retroactive to October 1, 2020, eligibility for the existing financial hardship exemptions for low-revenue generating small businesses and small business owners with limited household incomes to include all persons engaged in business in the City who satisfy certain financial hardship requirements.

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