

Receipts Tax to Be Reevaluated

The Los Angeles City Council is exploring the possibility of modernizing its business tax, supporting small businesses' future.

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Since opening a bilingual daycare in Mid-City six years ago, Paloma Corona has felt the rising cost of running a business in Los Angeles.

Rent and insurance hikes pile on soaring grocery bills, workers' compensation rates and taxes. In a typical year, Corona takes home less than a third of the \$200,000 her two Little Sprouts Language Immersion Preschool centers earn.

"Child care is underpaid, and running a child care (center) can be very, very expensive," Corona said. "We're showing like we're making a lot of income, but at the same time, we have to pay a lot of things."

While she and her husband have discussed moving the business out of the city to lower operating costs, Corona said it would mean starting from



Entrepreneur: Paloma Corona runs Little Sprouts Language Immersion Preschool. (Photo by Rich Schmitt)

scratch and leaving the strong community of client families she's built.

"Relocating for someone like me will be losing everything," she said.

However, for the past few weeks, Corona has sat with the hope that a touch of relief may soon come for small businesses like hers.

The L.A. City Council is exploring the possibility of

modernizing its business tax, which since 2007 has exempted firms with \$100,000 or less in gross receipts.

On Feb. 25, the council voted unanimously to approve Councilwoman Monica Rodriguez's motion to study the fiscal impact of raising the threshold to shield more small businesses and, as Rodriguez said ahead of the vote, "effectively compete" against



Lloyd Greif

neighboring municipalities with softer business taxes.

“This two-decade-old figure, despite inflation and despite rising operating costs, has continued to leave us at a competitive disadvantage,” Rodriguez said.

Of the 88 cities in Los Angeles County, only a handful ask businesses to pay a gross receipts tax, including the city of L.A., Santa Monica, Culver City, Inglewood, Hawthorne and Gardena. Other cities base their business taxes on employee count, square footage or have flat fees. Rodriguez’s motion suggests the L.A.’s business tax is one of the many fixed costs that drive entrepreneurs toward cities like Burbank and Calabasas, which market themselves as more business friendly.

If the city raised the threshold in step with inflation, which has pushed consumer prices up roughly 56% in the last 20 years, the updated figure would sit at around \$160,000. The Office of Finance plans to report on scenarios involving

gross receipts caps of \$200,000 and \$500,000, a city official familiar with the matter told the Business Journal.

Dire fiscal backdrop

Compared to its sales, property and income counterparts, L.A.’s business tax eats a relatively minute portion of a firm’s income, ranging from 0.1% to 0.425%. Child care providers like Corona sit at the lower end of that spectrum, paying about \$1 for every \$1,000 of gross receipts a year. Nevertheless, the tax has been a staple of the city of L.A.’s revenue, generating \$837 million in the 2024-25 budget year.

Rodriguez’s call to raise the exemption threshold comes as Los Angeles faces a deep fiscal

crisis and a \$1-billion budget shortfall. However, proponents of easing the tax say lower rates or higher exemptions would have a net-positive economic impact by attracting businesses into the city or improving profitability for existing firms.

Lloyd Greif, the investment banker behind Greif & Co. and former chair of the City of L.A.’s Business Tax Advisory Committee, has long seen the benefit in cutting the business tax. About a decade ago, under his leadership, the committee suggested just that – a phased repeal that, in theory, could encourage business and job growth.

“Our repeal recommendation was based on the fact that it would be a spur to the businesses relocating to the city of L.A. and would generate employment, would generate all kinds of ancillary taxes that you get from permits, licenses & fees, sales taxes, and property taxes, that would go into the city’s coffers instead,” Greif said.

The city only heeded the group’s advice in part amid concerns that an outright repeal would set off cuts to city ser-

vices. Los Angeles kept the gross receipts tax in place but gradually reduced its top rate between 2016 and 2018. It also offered a two-year exemption to qualifying new businesses that expired in late 2017.

Renewed calls for repeal

The levy's structure hasn't changed since, but talks of a repeal rekindled last summer, when a coalition of L.A. business leaders proposed a ballot measure to eliminate the tax.

The measure, dubbed the "Los Angeles Cost of Living Relief Initiative," came from members of the Central City Association, the Los Angeles Area Chamber of Commerce, the Greater San Fernando Valley Chamber of Commerce, and the Valley Industry and Commerce Association.

The groups raised the 140,000 signatures they needed to qualify for the ballot, a VICA representative told the Business Journal. It remains unclear whether the measure will appear on the June or November ballot this year.

While Greif believes limiting tax changes to an increased exemption would only be a "drop in the bucket," he said

the city's dire fiscal challenges likely wouldn't make broader reforms or reductions popular.

The new study into the tax will focus solely on the impact of raising the exemption threshold and not on more capital changes, the city official familiar with the matter said.

The report City Council will receive in about a month will also not attempt to estimate the impact of any potential business relocation or growth that could come with an expanded exemption.

Some pay anyway

Even for L.A.'s smallest businesses, like street vendors and dog walkers, the gross receipts exemption isn't automatic. It applies only to those who file an exemption request by a given deadline – leaving some small business-owners to pay the tax anyway, or else face a penalty fee for late filing.

In her time running a low-income taxpayer clinic, USC law professor Ariel Jurow Kleiman noticed that clients often didn't know their low gross receipts shielded them from the tax, or that they were required to submit documentation to receive an exemption.

The city's re-examination of the tax would benefit from improved messaging and education around small business-owners' responsibilities, Jurow Kleiman said.

"I don't think it is a bad tax. I understand why the city needs the tax and needs a revenue source," she said. "It would be great if the fact that businesses have to register every year were better publicized, and perhaps if reminders were sent out to taxpayers so that they didn't miss the filing deadline."