



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: December 9, 2014

TO: Mayor and Councilmembers

FROM: Administrative Division, Finance Department

SUBJECT: Business Tax Exemption For Artists Earning Less Than \$5,000 In Annual Gross Receipts

RECOMMENDATION:

That Council introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Adding Section 5.04.735 of the Santa Barbara Municipal Code to Create a Business Tax Exemption For Artists Earning Less Than \$5,000 In Annual Gross Receipts.

EXECUTIVE SUMMARY:

The proposed ordinance implements Council's direction of October 7, 2014, to create a business tax exemption for artists with less than \$5,000 in annual gross receipts.

DISCUSSION:

The Business License Tax Ordinance (Ordinance) was adopted in 1963 and was enacted solely to raise revenue, similar to other local taxes, for municipal purposes; it was not intended for regulatory purposes. The business license tax rate is structured either on a gross receipt basis or a flat fee basis, depending on the type of business. Per the Ordinance, the tax rate is applied based on business category or business type as defined in the code. The Ordinance also provides for certain exemptions to the tax, such as charitable, educational and religious organizations; minors; and disabled individuals. In addition, there is a reduced tax rate of \$5 for businesses with annual gross receipts of \$1,200 or less.

Starting in Fiscal Year 2013, the Finance Department hired a consultant to assist in identifying businesses in the City that may not be in compliance with the City's business license tax ordinance. This effort augmented existing audit efforts related to the City's Transient Occupancy Tax and Utility Users' Tax ordinances, and the collection of sales taxes per State law.

As a result of this audit effort, many artists were identified and, where appropriate, requested to come into compliance with the business license tax requirements. Representatives from various arts organizations and associations raised a number of concerns and questions with City Council and staff over the applicability of the Ordinance to artists given that many of the artists do not generate a significant amount of money from the sale of their art work.

For artists preferring to be categorized as a “professional artist,” the amount of tax is \$100 per year, pursuant to the Ordinance, Section 5.04.420. However, if any taxpayer has annual gross receipts of \$1,200 or less then the tax rate is \$5 (Section 5.04.730).

Staff presented this item to the Finance Committee on September 23, 2014 and the Committee unanimously voted to recommend a change for Artists which would exempt them from the business license tax for gross receipts of less than \$5,000.

On October 7, 2014, Council considered and approved in concept a proposed municipal code amendment to eliminate business taxes on artists earning less than \$5,000 in annual gross receipts. Unlike a measure to raise taxes, a vote of the electorate is not required to reduce taxes.

Under this proposal, both professional and home-based artists will be exempt from business taxes if they earn less than \$5,000 in annual gross receipts. Professional artists earning \$5,000 or more would be subject to the \$100 tax established by Santa Barbara Municipal Code section 5.04.020. Home-based artists earning \$5,000 or more would be subject to the business tax established in SBMC section 5.04.390 which prescribes a minimum tax of \$25 for businesses earning \$20,000 or less, and a maximum tax of \$400 for businesses earning up to \$1,000,000.

BUDGET/FINANCIAL INFORMATION:

The proposed amendment will result in a loss of revenue in the General Fund of approximately \$3,000 to \$5,000 per year.

PREPARED BY: Genie Wilson, Treasury Manager

SUBMITTED BY: Robert Samario, Acting Assistant City Administrator

APPROVED BY: City Administrator's Office