

CITY OF CLAYTON BUDGET & AUDIT COMMITTEE

Sales Tax

Business License Tax

Overview

July 10, 2024

HdL[®] Companies





About HdL

**PROUD
TO SERVE**

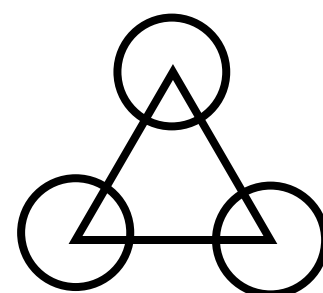
CITIES, COUNTIES &
SPECIAL DISTRICTS

FOR

40+ YEARS

100%

**EMPLOYEE
OWNED**



TRIFECTA

Superior service
Increased revenue
Decreased costs



COMPLIANCE

HdL helps clients reduce risk
by keeping current with
ever-changing legislation



RESULTS

Average city growth
rates are ~3%,
HdL clients are 2x that!

500+

Municipal
Clients

\$3billion+

Recovered
revenue

99.6%

Avg. Client
Retention



Sales Tax - What is taxed...



Sales tax is imposed on ALL sales of tangible personal property in CA

- Tax only levied once: when purchased or used by the ultimate consumer
 - Retailer buys at wholesale and pays no tax
 - Files resale permit with supplier



What is NOT taxed...

- Property – Land and Buildings
- Utilities – Gas, Electricity and Water sold in bulk or through pipes
- Merchandise Sold to the Federal Government
- Food Sold for Home Consumption
- Prescription Medicine
- Goods transmitted electronically
(Music, Books, Movies, Computer Software, etc.)

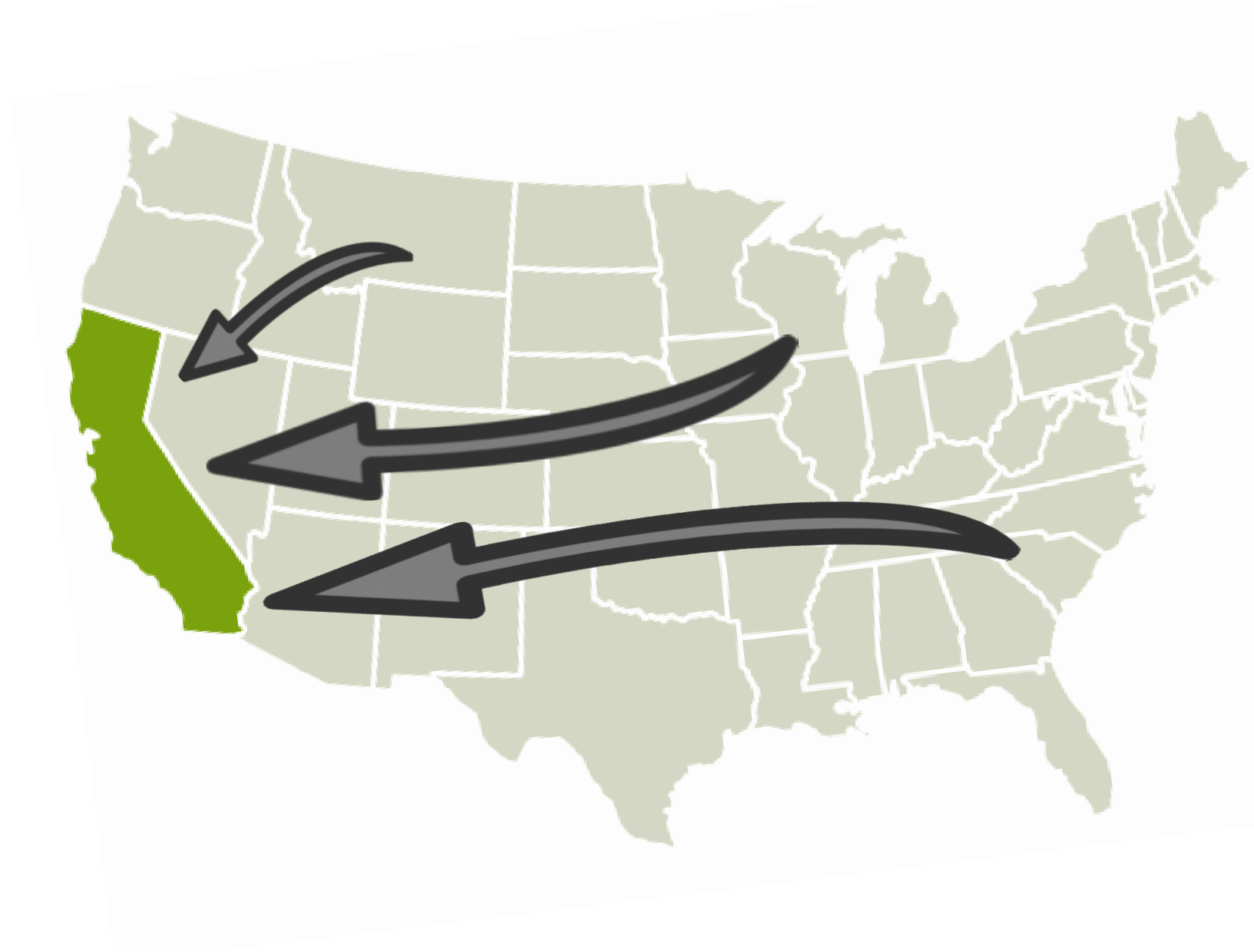


**And Lot's More: CDTFA [Publication 61](#)
*is 26 pages long with small print***



What is 'Use Tax'...

- Charged on goods sold to California customers from out-of-state retailers
- Collected but a local place of sale was not determined; county level only



HOW IS USE TAX DISTRIBUTED?

First – allocated into the county pool where the goods were delivered

Second – distributed from the pool to all county agencies, based on their pro-rata share of sales tax for that quarter.

Clayton's formulaic share of Contra Costa Pool over last year was 0.2%.



Confidentiality – Taxpayer Information

Sales tax data is required to be kept confidential by Revenue and Taxation Code Section 7056

COMBINED INFORMATION MAY BE DISCLOSED:

Groups of businesses may be revealed to the general public if the so-called “gang of four” and “80%” rule are followed.

- ***Gang of four – minimum of four separate businesses with sellers permits, and***
- ***80% rule – no single taxpayer has 80% or more of taxes within a group***

NOTE: “group” may be defined as businesses in the same shopping center, a specific business type such as new auto sellers, or businesses sharing the same major business group.



CA Base Sales Tax Rate Breakdown

State General Fund	3.9375%
County Realignment (<i>Mental Health/Welfare/PS</i>)	1.5625%
City/County General Fund (<i>Bradley-Burns</i>)	1.00%
Countywide Transportation Fund	0.25%
County Public Safety (<i>Prop 172</i>)	0.50%
Total	<u>7.25%</u>

State law allows local transaction taxes to be approved by voters in 1/8 cent increments with a 2% maximum; brings statewide sales tax rate to 9.25% cap

Over time, additional voter-approved taxes have created different tax rates for different jurisdictions



Tax Rate Breakdown:



CITY OF CLAYTON

Breakdown of 8.75% Sales Tax Rate Effective April 1, 2021

State General Fund	3.9375%
City/County General Fund (Bradley-Burns)	1.0000%
County Public Safety (Prop 172)	0.5000%
County Realignment (Mental Health/Welfare/Public Safety)	1.5625%
Countywide Transportation Fund	0.2500%
Contra Costa Transportation Authority (CCTA) (CCTA)	0.5000%
Fractional Code - BART in Contra Costa County (BART)	0.5000%
Contra Costa County Measure X (CCTU)	0.5000%
Total Rate	8.7500%

Current Sales Tax received

Countywide and Regional TUTs total 1.50% of rate; 1.00% applied against statewide cap

Special legislation – BART not applied to cap*

*** Rate above 9.25% cap: AB 723 and SB 1349 (2020) - BART rate is recipient of special legislation that allowed their transaction tax to not count against statewide 9.25% cap.**

***1% Transactions Tax Cap
space left for CLAYTON***



Online Sales... It Depends



GUIDELINES FOR ALLOCATION OF LOCAL TAX – ONLINE AND IN-STORE			
Place of Sale	Location of Goods at the Time of Sale	How Customer Receives Goods	Allocation of Tax
Online – Order is placed or downloaded outside California	California Fulfillment Center	Shipped to Customer from California Location	Local tax is allocated to the jurisdiction in which the fulfillment center is located
Online – Order is placed or downloaded in California	California Fulfillment Center	Shipped to Customer from California Location	Local tax is allocated to the jurisdiction where the order is placed
Online	Out of State Fulfillment Center	Shipped to California Customer	Local tax is allocated to the countywide pool based on point of delivery
Online	Out of State Fulfillment Center	Picked Up In-Store (Click & Collect)	Local tax is allocated to the countywide pool based on point of delivery

Assembly Bill 147 – Regulations on Out-of-State Online Retailers requiring them to collect and remit sales & use tax from all transactions.

- ✓ California's implementation of Supreme Court's decision in *South Dakota v. Wayfair*
- ✓ Effective October 1, 2019
- ✓ Amplified the effect to local agencies *with AND without* Fulfillment Centers

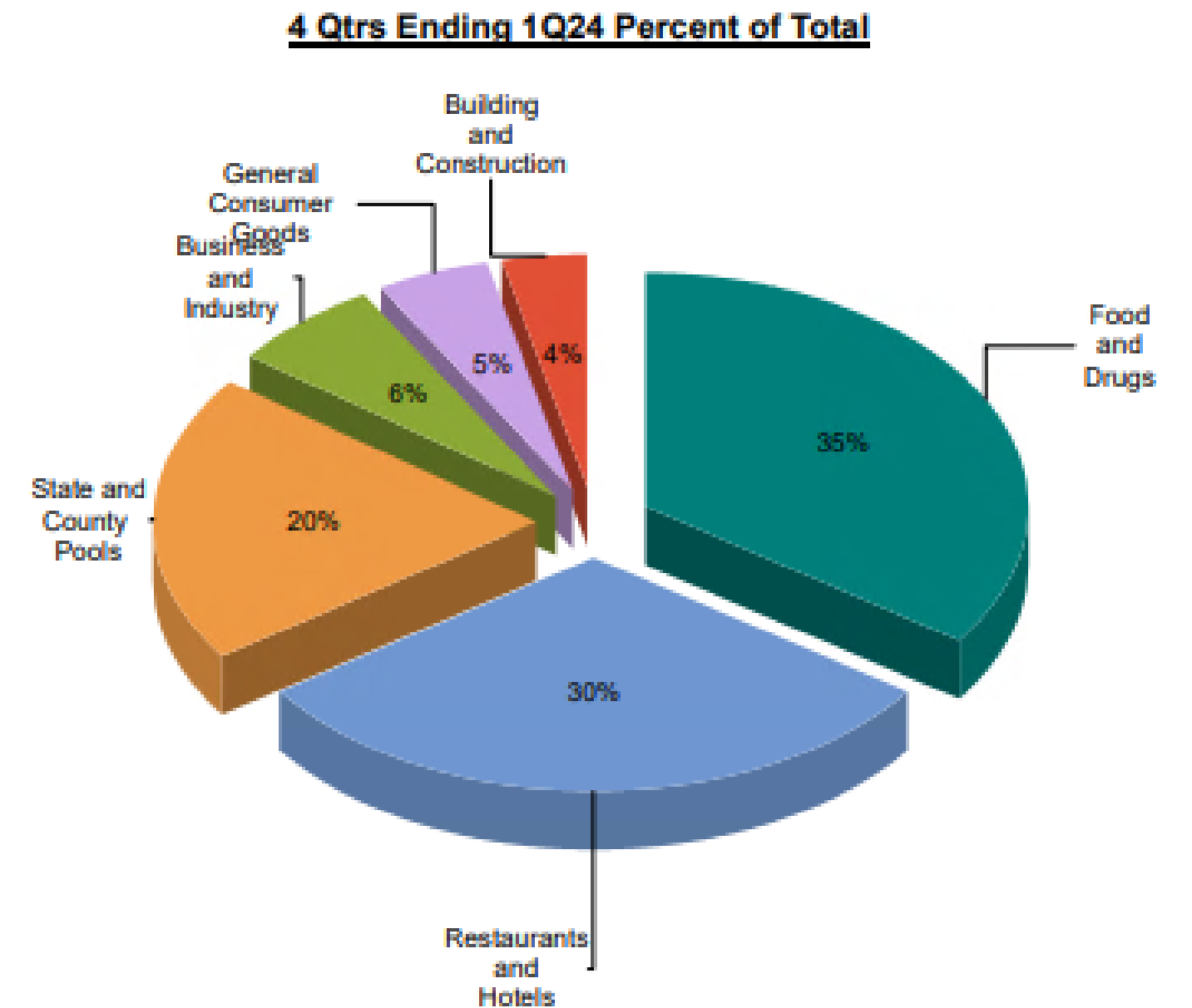
Tremendous amount of conversations re: 'what is fair & equitable?'



Clayton Data

Recent 4 Quarters Results:

- ✓ Food & Drugs: 35%
- ✓ Restaurants: 30%
- ✓ Pool Use Taxes: 20%
 - not local merchants



<u>Major Industry Group</u>	<u>Count</u>	<u>4 Qtrs Ending 1Q24</u>	<u>4 Qtrs Ending 1Q23</u>	<u>\$ Change</u>	<u>% Change</u>
Food and Drugs	10	191,499	203,941	(12,442)	-6.1%
Restaurants and Hotels	42	167,087	169,038	(1,951)	-1.2%
State and County Pools	-	110,260	114,685	(4,424)	-3.9%
Business and Industry	63	35,094	33,648	1,446	4.3%
General Consumer Goods	111	26,626	26,312	314	1.2%
Building and Construction	13	19,300	19,656	(356)	-1.8%
Transfers & Unidentified	16	775	190	585	308.7%
Autos and Transportation	6	(356)	(472)	116	24.5%
Total	261	550,285	566,997	(16,712)	-2.9%



SALES & USE TAX FORECASTING

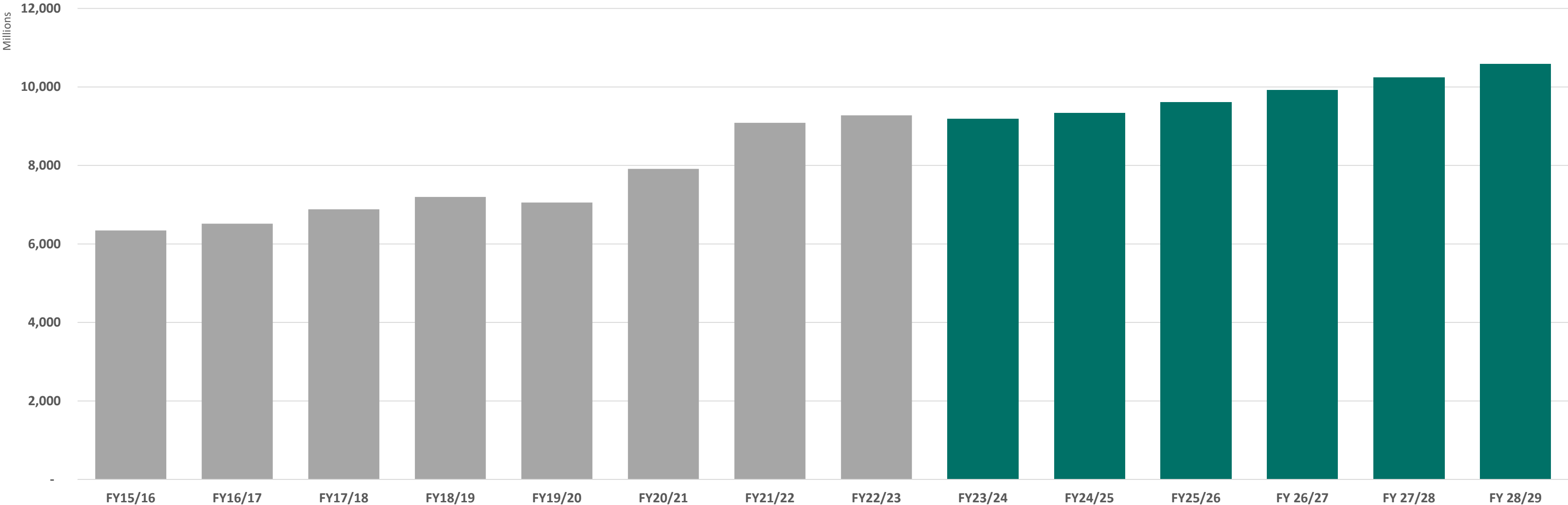




HdL Statewide Trend – Annual Outlook

% Change
YoY

16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
2.7%	5.6%	4.6%	-2.0%	12.1%	14.9%	2.1%	-1.0%	1.7%	3.0%	3.2%	3.2%	3.3%





Forecast & Takeaways

<u>HdL Forecast:</u>	<u>FY 22-23 act</u>	<u>FY 23-24 est</u>	<u>FY 24-25 est</u>
Sales Tax	\$ 539,134	\$ 533,676	\$ 548,426

Federal reserve action on interest rates delayed deeper into 2024. Consumers likely to delay or defer large purchases for cheaper alternatives.

Households continue to spend but cautiously. Competing demands for dollars.

Statewide, modest growth in FY 2024-25 will not make up for dollar declines in FY 2023-24.

Expect more retail and restaurant closure announcements. Expanding concepts in targeted markets.



Business License Notification Process

Can you describe the Business License notification process during discovery? How are businesses contacted, if not in compliance? How much time do they have before they are found to be delinquent? What are the penalties/fines if delinquent?

Businesses are contacted via postal mail and phone call based on data sources:

- Sales tax, Secretary of State, Property tax and online vendors such as Yelp and Google

They are delinquent if they are operating without a license

The number of businesses contacted is based upon permissions from City staff

Penalties follow the rates established in City ordinance:

- **5.04.720 - Delinquent Charges of Late Payments.**

The collector shall add a delinquent charge for payment after the date specified in Section 5.04.710 equal to ten percent (10%) of the amount of the tax due for each month or portion of a month that the tax remains unpaid. However, in no event may the amount of the delinquent charge exceed one hundred percent (100%) of the amount of the license tax.



Responses to October BL Contract Meeting

Total # of businesses HdL found in our work operating in Clayton? HdL worked with City staff to scrub data, 863 active registered businesses

Additional BL revenue generated since HdL took over this contracted service? City renews licenses on a July to June annual cycle; first official HdL effort underway in July. Will be able to determine answer once renewal cycle and discovery efforts are completed

Total # of delinquencies? Currently 54 are delinquent; length of time varies (all over 30 days); Discovery efforts may produce other business that are also delinquent

Data retention by City? Included in Section 7.2 of contract

Did HdL generate enough new revenue to cover \$19,00 contract cost? Unknown until first annual cycle is completed

Can HdL return to Council to provide update and feedback? Yes, suggest later in 2024 once annual renewal cycle is completed.

