



Business License Modernization Frequently Asked Questions

What is a business license tax?

A business license tax is a tax that businesses pay annually, either based on a percentage of gross receipts (revenues), the cost of operations, or as a flat amount, depending on business type.

Who pays the business license tax?

Any business that operates in Santa Monica, whether or not they have a physical location in the City, must pay for the applicable business license tax as set forth in the Santa Monica Municipal Code (S.M.M.C. Article 6). The City recognizes certain tax exemptions per local, state and federal law. Businesses are encouraged to consult with a tax professional regarding their specific situation.

Why is Measure F appearing on the November 2024 ballot?

Santa Monica's business license tax ordinance has not been revised since 1990. Much has changed over the past 30+ years. Today, there are new types of businesses that didn't exist when the current tax structure was last updated, and new ways of working, particularly remote and "gig" work. It is important for the City's business license tax code to reflect today's economic environment. Moreover, the impact of the COVID-19 pandemic and related economic downturn focused greater attention on the impact to small, local businesses. There is a concern that the current business license tax structure may place an unfair burden on Santa Monica's smaller businesses.

On June 25, 2024, the City Council voted unanimously to place Measure F on the November 5, 2024, general election ballot.

Which businesses would be affected by Measure F and how?

If passed by the voters, Measure F would primarily impact small businesses, retailers and restaurants generating less than \$5 million in gross revenue (receipts) annually, auto dealers, corporate administrative headquarters, and small property owners, as detailed below:

- **Small businesses.** Currently, businesses earning less than \$40,000 in gross revenue annually are exempt from the business license tax. Measure F would increase the exemption to \$100,000.
- **Retailers and restaurants.** Measure F would reduce the business license tax rate for retailers and restaurants that generate less than \$5 million in gross receipts annually.
- **Small property owners.** Measure F would reduce the rate of business license tax for those who own and rent out three or fewer residential units.



- **New businesses.** The taxes for the first and second fiscal years are calculated using the gross receipts of the first reporting period. The Measure would reduce the tax burden for new businesses in their first year of operation
- **Delinquent businesses.** Per the Santa Monica Municipal Code (SMMC 6.04.160), penalties can be assessed on unpaid tax liabilities starting at 20% for the first month late and 10% every month thereafter, up to 100%. The Measure would reduce the penalty maximum from 100% to 50%.
- **Auto dealers.** Since 1992 the maximum business license tax for auto dealers located in the city has been capped at \$25,000 annually. No other business type in Santa Monica has a cap on the amount of business license tax it pays. Measure F would eliminate the maximum cap for auto dealers.
- **Corporate/administrative Headquarters.** There are approximately 120 corporate/administrative headquarters located in Santa Monica. The current business license tax rate for these businesses is the lowest rate under the existing tax structure. Measure F would increase the business license tax rate from \$1.25 per \$1,000 of the cost of operations to \$2.50 per \$1,000 of the cost of operations.
- **Reinstate the Business License Processing Fee.** Measure F would reintroduce a \$40 processing fee. Measure F authorizes the City Council to increase this processing fee by resolution up to a maximum amount of \$100 per application.

Tax Rate Group	Gross Receipts Business Classification	Tax Rate per \$1,000 in Gross Receipts*
Group I	Corporate/Administrative Headquarters Manufacturer/Retail/Wholesaler Recreation and Entertainment/Utilities Residential and Non-Residential Property	0.125% \$1.25 per \$1,000
Group II	Auto Dealer	0.125% \$1.25 per \$1,000 Capped at \$25,000
Group III	Service/Agent/Broker Contractor/Specialty Contractor	0.30% \$3.00 per \$1,000
Group IV	Professions	0.50% \$5.00 per \$1,000w
SMMC 6.204.040**	Cannabis Related Businesses	Currently 3% for retail, 2% for medicinal, and 1% for distribution, manufacturing, cultivation, and laboratory testing

Tax Rate Group	Flat Rate Business Classification	Per Unit Fee
Group V	Delivery	\$50 per vehicle
Group VI	Planners and Promoters for Special or Community Events	\$150 per day
Group VII	Taxi	\$250 per Vehicle
SMMC §6.36	Vendor	\$50 per operational set up

* Corporate/Administrative Headquarters are taxed on annual cost of operations instead of gross receipts

** Effective January 1, 2025, the adult-use retailer tax rate will be increased to 4%. All Cannabis business tax rates are adjustable up to 10% and may be increased or decreased by resolution adopted by City Council

Does Measure F increase City revenues?

The business license tax increases set forth in Measure F would be phased in over a period of three years, to lessen the impact on affected businesses. Once fully implemented, Measure F is expected to generate incremental new revenues of approximately \$3 million annually for the City's General Fund. The City's current fiscal year General Fund revenues are estimated to be \$458.8 million.



What will the City do with the additional revenue?

As General Fund revenue, the incremental revenue from Measure F may be used for any governmental purposes, including to support essential City services, including police, fire, homeless response, parks and recreation.



If passed, when would Measure F go into effect?

If approved by voters, Measure F would go into effect on January 1, 2025.

How do the proposed Santa Monica business license tax rates in Measure F compare to those of other nearby cities?

If Measure F is approved by the voters, Santa Monica's business license tax rates will be less than those of nearby cities, with some exceptions. The table below is a comparison of Santa Monica's proposed business license tax rates to nearby cities.

Proposed Changes	Santa Monica	Los Angeles	Beverly Hills	Culver City
Auto Dealer	\$75+ \$1.25/\$1,000	\$1.27/\$1,000	\$75+ \$1.25/\$1,000	\$1.50/\$1,000 over \$200k
Auto Dealer Repair	\$75+ \$3/\$1,000	\$4.25/\$1,000	\$311+ \$0.6539 Per Payroll Hour	\$2/\$1,000 over \$200k
Corporate Administrative Headquarters	\$75+ \$2.50/\$1,000	\$4.25/\$1,000	\$311+ \$0.6539 Per Payroll Hour	\$3/\$1,000 over \$200k
Residential Rental Less than 3 Units	\$75+ \$1.25/\$1,000	\$1.27/\$1,000	\$12/\$1,000	\$1.30/\$1,000 over \$200k
Retail Rate Under \$5 Million	\$75+ \$1.15/\$1,000	\$1.27/\$1,000	\$75+ \$1.25/\$1,000	\$1.50/\$1,000 over \$200k
Small Business Exemption	\$100,000	\$100,000	N/A	1 st \$200,000
Penalty Maximum	50%	40%	50%	100%
Processing Fee	\$40	N/A	N/A	\$66-\$76

Measure F Ballot Language

To fund essential City services such as 911 emergency response, public safety, and addressing homelessness, shall the measure modernizing the City of Santa Monica's 1990 business license tax ordinance to improve tax equity, exempting small businesses from the tax, decreasing tax rates for most retailers and restaurants, raising the corporate headquarters rate to 0.25%, removing auto dealer tax exemptions, and restoring a business license processing fee, generating approximately \$3,000,000 annually, until ended by voters, be adopted?