



ERIC GARCETTI
COUNCILMEMBER
PRESIDENT, LOS ANGELES CITY COUNCIL

January 4, 2009

Mr. Lloyd Greif
Mr. Craig Morris
Mr. Saúl Gómez
Ms. Melissa Patack
Mr. Mel Kohn
Mr. Michael Banner
Mr. Mel Wilson
Mr. Dwayne Gathers
Ms. Kathy Faulk
Los Angeles City Council c/o June Lagmay, City Clerk
200 N. Spring Street, Room 395
Los Angeles, CA 90012

Dear Business Tax Advisory Committee Member,

Welcome to the Business Tax Advisory Committee (BTAC). On behalf of the many unemployed and underemployed people in Los Angeles, I thank you in advance for your service. Now more than ever, we need to focus our efforts as a city to retain and create good jobs. Currently, the unemployment rate for Los Angeles is approximately 14 percent, four points higher than the national average. What you are here to accomplish is not just about today – it is about the future of Los Angeles, retaining jobs and growing important industries.

The Garcetti-Greuel tax reforms and other reforms implemented in the last decade have been among the most successful programs in the city's history. We have reduced tax liability by over \$100 million while increasing our revenues. It is time for us to take the next step, to focus on reforms which will jump start our local economy and create jobs.

To give some context to our work here today, it is important to recount the work of the past BTAC and city government:

1. Simplification of the Tax Code

Our previous tax reform efforts reduced the number of tax categories in which businesses were classified from 42 to 9. This has helped businesses better understand the tax code and reduce confusion about their tax category and liability.



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2. Business Tax Relief

Overall, business taxes have been reduced by over \$100 million annually.

This reduction took the form of both an overall across-the-board tax reduction and targeted tax reductions for businesses and industries that were deemed vital to Los Angeles, including:

- A graduated overall reduction by 15% from January 1, 2006, to January 1, 2009.
- Business tax rates have been reduced as follows:

December 31, 2005 Rate*	January 1, 2009 Rate
\$1.18	\$1.01
\$1.48	\$1.27
\$2.96	\$2.55
\$3.67	\$3.15
\$4.14	\$3.56
\$5.91	\$5.07

*Per \$1000 of gross receipt tax

- Small business tax exemption: All businesses whose gross tax receipts were less than \$100K annually were exempted from the business tax. This has eliminated the business tax burden for 60% of small business in Los Angeles
- New business tax exemption: New businesses that make less than \$500K per year are exempted from the business tax during their first two years of operation.
- Creative artist exemption: Artists earning less than \$300K annually are exempted from the business tax to help ensure that Los Angeles remains competitive as a center for the entertainment industry.

3. Revenue Enhancement

The adopted reforms and increased tax compliance through audits and enforcement have helped to increase revenues from \$397M to record high of \$467M annually between Fiscal Year 2004-2005 and Fiscal Year 2007-2008.

We have both long-term and short-term needs for using our tax policy to create jobs. In the next few months, we need to relieve the tax burden quickly, fairly, and effectively to help businesses struggling to make ends meet during these tough economic times and to encourage entrepreneurs to locate new endeavors in Los Angeles. In the next few years, we need to structure our business tax to build on our competitive strengths compared to the rest of the region and country to make Los Angeles a center for sustainable economic growth.

Furthermore, we can learn from our experience with business tax reform since the last set of reforms was adopted 5 years ago. The data compiled over the past 5 years can help us understand business tax reform's impact on job creation and the regional economy. I recommend that you utilize this data to examine some of the recommendations that have been suggested in the past few months including:

Short-Term Recommendations

- Additional reductions to Gross Receipts Tax rates
- Increasing the minimum gross receipts amount to qualify for Small Biz Exemption
- Increasing the maximum gross receipts to qualify for the New Biz Exemption
- Implementing a tax credit for local job creation

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Long-Term Recommendations

- Examining whether gross receipts is an effective mechanism for business taxes and the utilization of other revenue tools.
- Creating new incentives for emerging markets in which Los Angeles has a competitive advantage. This should include an examination of the hospitality, health care, entertainment, and clean tech industries.
- Specific requests of the Federal Government to provide incentives to reduce unemployment in high unemployment areas.

Again, I thank you in advance for your service and look forward to working together with all of you on this very important issue. If you have any questions or concerns please contact me or Marcel Porras at 213-473-7013.

Sincerely,

A handwritten signature in black ink, appearing to read "E. G." followed by a stylized flourish.

ERIC GARCETTI

President, Los Angeles City Council
Councilmember, 13th District