



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Adopt a Resolution Authorizing the Finance Director to Renew a Business License Tax Data Exchange Agreement with the California Franchise Tax Board

BACKGROUND

Chapter 5.04 of the Sunnyvale Municipal Code is known as the Business License Tax Ordinance of the City of Sunnyvale. Section 5.04.100 states: "No person shall transact, engage in, or carry on any business within the City without first having procured a license from the City to do so and having paid the tax".

Department of Finance staff regularly conduct audits to locate businesses that are operating in Sunnyvale without a license in violation of Chapter 5.04 of the Municipal Code. This data exchange program began as a result of the enactment of Senate Bill 1146 on September 26, 2008. This act authorizes a city to enter into a reciprocal agreement with the California Franchise Tax Board (FTB) to exchange tax data. The data exchange enables both parties to identify any non-compliant businesses.

In 2009, the Council approved the initial agreement with the California Franchise Tax Board (FTB) to exchange data related to Business Licensing (RTC No. 09-232). The data exchange program has been renewed twice (RTC No. 12-053, RTC No. 15-0490). The current agreement expires on May 31, 2018. The City needs to enter a new agreement to continue the data exchange program through December 31, 2020.

EXISTING POLICY

Council Policy 7.1B.3.2 states: An aggressive collection system for all accounts receivable will be utilized to assure that monies due to the City are received in a timely fashion.

ENVIRONMENTAL REVIEW

This action is exempt from environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guideline Section 15378(b)(5) (government organizational and administrative activities that will not result in a direct or indirect physical change to the environment).

DISCUSSION

The City of Sunnyvale has conducted regular audits of business license data to ensure applicable taxes from businesses operating within city limits are received. Past audits included a comparison to property tax, sales tax, and phone book information to ensure the City receives the revenue it is legally entitled to collect. Staff also conducts field audits periodically to ensure all storefronts and offices have a business license.

The City's business license software is able to facilitate some of these audit functions through exception reports to identify business records that do not match business license information on file. As a result of the enactment of SB 1146, the software vendor created an exception report for FTB data as well. The software has been set up with the ability to import FTB data and export data files to send to the FTB with minimal staff involvement. Once the FTB data has been imported into the system, exception reports can be run on demand to compare FTB data to the City's business license data. These exception reports have enabled the City to bring in additional revenue from businesses operating in Sunnyvale that have not paid the Business License Tax.

Under the terms of the Agreement with the FTB, Sunnyvale will be required to send data to the FTB annually each June. The data required includes ownership name, address information, Employer ID number, and business start date. The FTB will send the City similar information from their database each year in December. The FTB will send information on taxpayers who file business related income tax returns. Under the terms of the Agreement, this data exchange will continue through December 2020. Neither the FTB nor the City of Sunnyvale would be reimbursed for the cost of providing data and neither party will be charged for receiving data from the other agency. Should the City wish to discontinue participating in the data exchange program, the Agreement may be terminated with thirty days written notice to the FTB.

FISCAL IMPACT

The City will receive additional Business License Tax revenue as a result of renewing this Agreement. Since the City started participating in the data exchange program, over 1,800 businesses have been discovered using the FTB data, generating over \$500,000 additional tax revenue. Businesses discovered through audits continue to generate tax revenue on an ongoing basis, providing additional revenue as long as the business continues to operate in Sunnyvale.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

RECOMMENDATION

Find that the action is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guideline Section 15378(b)(5) and adopt a Resolution authorizing the Finance Director to execute a reciprocal agreement with the California Franchise Tax Board for the exchange of business license tax data through December 31, 2020.

Prepared by: Stephen Napier, Administrative Services Manager

Reviewed by: Timothy J. Kirby, Director of Finance

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. State of California Franchise Tax Board Standard Agreement
2. Proposed Resolution Authorizing Agreement with the Franchise Tax Board