

8-25-09
Item: 4.3

Business Cooperation Program

August 25, 2009

City of San Jose
Business Cooperation Program



Recommendation

- ❖ **Approve an ordinance amending Title 4 of the San Jose Municipal Code to add a new Chapter 4.86 to create a use tax allocation incentive program for the period of five years**

Business Cooperation Program Process Overview

- ❖ Firms making purchases of equipment, materials and fixtures from out of state
- ❖ Firms remit the use tax to the State of California through either a:
 - ❖ Direct Pay Permit (a State of California issued Permit)
 - ❖ Sub Seller Permit (construction contracts)
- ❖ Firms designate "San Jose" as the first function use of the equipment
- ❖ City would then reimburse firm for the administrative burden of monitoring and allocating the tax as determined by Council adopted ordinance

Before Business Cooperation Program Implementation (Current)

Purchase Price of Widget	\$5,000,000
Santa Clara Co. Tax Rate	9.25%
<i>Total Tax Collected by Buyer</i>	\$462,500

Ideal: City San Jose Portion (1%) **\$50,000**

WITHOUT THE BCP San Jose will either receive

City of San Jose (Countywide Pool Allocation
(43% of 1%)) **\$21,500**

OR

City of San Jose (Statewide Pool Allocation
(3% of 1%)) **\$1,500**

After Business Cooperation Program Implementation

Business Cooperation Scenario

Purchase Price of Widget	\$5,000,000
Santa Clara Co. Tax Rate	9.25%
<i>Total Tax Collected by Buyer</i>	\$462,500
Ideal: City San Jose Portion 1%	\$50,000
WITH THE BCP San Jose receives	
City of San Jose	\$40,000
and	
Participating firm (based upon a 20% reimbursement)	\$10,000

Suggested Ordinance

Rebate Thresholds:

Annual Net New Revenue Thresholds	Reimbursement
0-\$200,000	20%
\$200,001-\$500,000	25%
\$500,001 and greater	30%

Summary of Benefits

- ❖ Sales and Use Tax Revenue is being left on the table (i.e. in County/state pools)
- ❖ Creates a WIN-WIN for the City and Business
 - ❖ Grows General Fund Revenue for the City
 - ❖ Funds services for Businesses and Residents
 - ❖ This program reduces a firms liability in terms of allocation errors from 3rd party vendors
 - ❖ Administrative Burden to Company is remedied through cash reimbursement

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