

# Business Tax Certificates for Residential Lessors

## FAQs

### What is the Business Tax Certificate and to whom is it applicable?

- The City of San Mateo's business tax has been in effect since it was first approved by voters in 1932. The City of San Mateo Municipal Code requires all persons or businesses doing business in the City of San Mateo to pay an annual business tax (also sometimes called a business license). The payment of this tax is required prior to the commencement of business in San Mateo.
- The tax is applicable to any person or entity doing business in San Mateo. Specific definitions can be found in municipal code sections as shown below. In simplest terms, if you are doing any activity with the intent of generating revenue/income, you are subject to the tax.
- The business tax certificate does not indicate clearance or approval for zoning, fire code, occupancy, or any other City, County, State or Federal permit or license which may be required. It is the responsibility of the business to ensure that it is in compliance with all legal requirements.

### What changed and why are rental lessors now subject to the tax?

- Although the requirement to possess a current and active business tax certificate has been in place since 1932, it was recently determined that it was not being applied consistently to all businesses within the City. In 2018 the City hired the auditing firm HdL Companies to review compliance with the tax. The City and HdL completed the business tax audit for commercial lessors at the end of 2021 and commenced the residential lessor audit in July 2022 to ensure equal application of the business tax requirement. Ensuring all business entities subject to the tax are compliant allows for equitable application of the business license tax.
- The lease of residential properties is defined as a business pursuant to [San Mateo Municipal Code \(SMMC\) Section 5.03.070 "BUSINESS"](#), which states:

"Business" includes professions, trades, occupations and all and every kind of calling carried on for profit or livelihood.
- In addition, [SMMC Section 5.06.010 "TAX PAYMENT AND CERTIFICATE REQUIRED"](#) provides:

It is unlawful for any person, either for himself or for any person, to commence or carry on any business in the City, without first having paid the applicable business taxes and having obtained the tax certificate provided for in this title as proof of payment to the City, to do so, or without complying with any and all regulations of such business, contained in this title.

### What is the current annual business tax?

- Business taxes for residential lessors, like most existing businesses, is based on gross receipts. Please see the table below for the applicable fiscal year 2022-23 taxes\*\*:

| Annual Gross Receipts |           |   |
|-----------------------|-----------|---|
| From                  | To        | Business Tax  |
| \$0                   | \$30,000  | \$31.00   |
| \$30,001              | \$40,000  | \$37.50   |
| \$40,001              | \$50,000  | \$47.00   |
| \$50,001              | \$55,000  | \$56.50   |
| \$55,001              | \$65,000  | \$77.00   |
| \$65,001              | \$70,000  | \$86.50   |
| \$70,001              | \$75,000  | \$97.50   |
| \$75,001              | \$80,000  | \$107.00  |
| \$80,001              | \$85,000  | \$116.50  |
| \$85,001              | \$90,000  | \$127.50  |
| \$90,001              | \$95,000  | \$137.00  |
| \$95,001              | \$100,000 | \$143.50  |
| Over \$100,000        |           | \$143.50 plus \$3.60 for each \$5,000 or fraction thereof, thereafter |

The business tax is based on the total annual gross receipts for the preceding year. If not in business for a full year, the tax shall be based on an estimate of gross receipts for a 12-month period.

Gross receipts are the total amount charged or received on account of goods sold and services performed. Gross receipts shall include all receipts, cash, credits, and property without any deduction therefrom on account of cost of materials, labor or other expenses whatsoever. Excludable items include returned merchandise, cash discounts, refundable deposits, sales taxes and amounts collected for others where acting as an agent.

\*\*Taxes are subject to change depending on the date of filing.

**Do we have to pay any back taxes, penalties, or interest, or will this tax be only applicable prospectively?**

- The City is only requiring compliance prospectively and will not require residential lessor businesses to pay back taxes prior to July 5, 2022.

**Can the tax rate and/or who the tax is applicable to be changed?**

- Yes, but because it is a tax, a change would have to be approved by voters during a future election. The City did some initial study of increasing the business license tax in 2019 but ultimately decided not to pursue this course of action. Typically, interest from a segment of the community to take on an initiative like studying potential changes to a City ordinance (the business license tax is an ordinance in our municipal code) is generally taken up by Council during its annual strategic planning process, which begins at the start of each calendar year. That timing is not set in stone, however, and a majority of Council can direct staff to undertake a study like this at any time.

**Who can I speak to about any other questions or concerns?**

- HdL, the City's third party consultant that is supporting the business tax audit, can be reached at 650-443-9055.
- The City's Treasury Division in the Finance Department is also happy to try to answer any questions you may have. You can reach us by phone at 650-522-7100.

**Helpful Links**

A copy of the letter sent to Residential Property Owners:

<https://www.cityofsanmateo.org/304/Business-License>

The San Mateo Municipal Code – Title 5 Business Licenses and Regulations:

<https://sanmateo.ca.us.open.law/us/ca/cities/san-mateo/code/5>