SPECIAL MEETING OF THE MILPITAS CITY COUNCIL

AGENDA

MONDAY, AUGUST 3, 2026
CITY COUNCIL CHAMBER, 455 E. CALAVERAS BLVD, MILPITAS, CA
5:30 PM

For assistance in the following languages, you may call:
Đối với Việt Nam, gọi 408-586-2400
Para sa Tagalog, tumawag sa 408-586-3051
Para español, llame 408-586-3072

** To access written translation during the meeting, scan the QR Code.*

The City Council meeting is held in the City Council Chamber at City Hall, 455 E. Calaveras Blvd., Milpitas and via teleconference/Zoom webinar.
You may watch the Council meeting without providing public comment by accessing it via links here.

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PUBLIC COMMENT INSTRUCTIONS

Members of the public may provide oral public comment in person during the City Council meeting or remotely via Zoom. Individual speakers are generally limited to three (3) minutes or less, as determined by the Mayor. Members of the public may provide one comment per agenda item and one comment during General Public Comment. Written comments may be submitted by email to CityClerk@milpitas.gov. To participate via Zoom, please register at:

https://ci-milpitas-ca-gov.zoom.us/webinar/register/WN_IDgv0p-SRhyVBjt9xaN96Q

NOTE: If a member of the public wishes to share any presentation materials for Council consideration, they must be submitted to the Clerk's Office by email to CityClerk@milpitas.gov by 12:00 p.m. on the day of the meeting. No presentations will be accepted in person in the Council Chambers.

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MILPITAS CITY COUNCIL CODE OF CONDUCT

- Be respectful and courteous (words, tone, and body language).
- Model civility.
- Avoid surprises.
- Praise publicly and criticize privately.
- Focus on the issue, not the person.
- Use electronic devices appropriately while on the Council dais.
- Disclose conflicts of interest and affiliations related to agenda items.
- Separate governing from campaigning.
- The Council speaks with one voice after making policy on issues.
- Respect the line between policy and administration.
- Council will hold one another accountable to comply with this Code of Conduct.

CALL MEETING TO ORDER by Mayor and ROLL CALL by City Clerk (5:30 PM)

PLEDGE OF ALLEGIANCE

PUBLIC FORUM

Members of the public are invited to speak on items listed on today's agenda only. Comments will be limited to three minutes or less at the Mayor's discretion. When called to speak, you are encouraged to state your name for the record.

ANNOUNCEMENT OF CONFLICT OF INTEREST AND CAMPAIGN CONTRIBUTIONS

READING OF THE CITY COUNCIL CODE OF CONDUCT

APPROVAL OF AGENDA

AGENDA ITEMS

1. **Adopt a Resolution Submitting the City of Milpitas Business Tax Modernization Measure to the Voters at the November 3, 2026 General Election and Reiterating the Request that the Election be Consolidated with Other Elections Held on that Date and Taking Certain Related Actions (Staff Contact: Madison Nguyen, Interim Economic Development Director, 408-586-3046; and Jeannie Young, Senior Special Projects Associate, 408-586-3007)**

   Recommendation: Adopt a resolution by a 4/5 vote calling for the placement of a General Tax Measure on the Ballot for the November 3, 2026 General Election for submission to the qualified voters of an Ordinance of the City of Milpitas repealing Title III, Chapter 1 ("Business Licenses") of the Milpitas Municipal Code and adding Title III, Chapter 10 ("Business Tax") to modernize and modify the method of levying the City's business tax; requesting the Board of Supervisors of the County of Santa Clara to consolidate the General Election to be held on November 3, 2026 with the Statewide General Election on that date and taking certain related actions.

ADJOURNMENT

KNOW YOUR RIGHTS UNDER THE OPEN GOVERNMENT ORDINANCE

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions and other City agencies exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and City operations are open to the people's review. For more information on your rights under the Open Government Ordinance or to report a violation, contact the City Attorney's office at Milpitas City Hall, 455 E. Calaveras Blvd., Milpitas, CA 95035
e-mail: cao@milpitas.gov / Phone: 408-586-3040

The Open Government Ordinance is codified in the Milpitas Municipal Code as Title I Chapter 310 and is available online at the City's website www.milpitas.gov by selecting the Milpitas Municipal Code link.

Materials related to an item on this agenda submitted to the City Council after initial distribution of the agenda packet are available for public inspection at the City Clerk's office at Milpitas City Hall, 3rd floor 455 E. Calaveras Blvd., Milpitas and on City website. City Council agendas and related materials can be viewed online: www.milpitas.gov/government/council/agenda_minutes.asp (select meeting date)

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CITY OF MILPITAS
AGENDA REPORT
(AR)

Item Title:	**Adopt a Resolution Submitting the City of Milpitas Business Tax Modernization Measure to the Voters at the November 3, 2026 General Election Reiterating the Request that the Election be Consolidated with Other Elections Held on that Date and Taking Certain Related Actions (Staff Contact: Madison Nguyen, Interim Economic Development Director, 408-586-3046; and Jeannie Young, Senior Special Projects Associate, 408-586-3007)**
Category:	Leadership and Support Services
Meeting Date:	8/3/2026
Recommendation:	Adopt a resolution by a 4/5 vote calling for the placement of a General Tax Measure on the Ballot for the November 3, 2026 General Election for submission to the qualified voters of an Ordinance of the City of Milpitas repealing Title III, Chapter 1 ("Business Licenses") of the Milpitas Municipal Code and adding Title III, Chapter 10 ("Business Tax") to modernize and modify the method of levying the City's business tax; requesting the Board of Supervisors of the County of Santa Clara to consolidate the General Election to be held on November 3, 2026 with the Statewide General Election on that date and taking certain related actions.

BACKGROUND:
On January 21, 2025, as part of the City Council's prioritization of additional workplans, the City Council directed staff to evaluate potential updates to the City's business license tax while minimizing impacts on small businesses. To carry out this direction, the City retained HdL Companies, a firm specializing in providing service to public agencies with specialties in business license and taxation programs, to review the City's current business license tax structure and develop recommendations for a modernized business tax structure. The review included input from the business community and other stakeholders and was guided by the following objectives to:

- Minimize impacts on small businesses;
- Establish a simple and transparent tax structure;
- Better reflect today's economy and business environment;
- Maintain competitiveness with comparable jurisdictions; and
- Generate revenue to help maintain City services.

All businesses operating within the City of Milpitas, including businesses located outside Milpitas that conduct business within City limits, are required to obtain a business license and pay the applicable business license tax, unless otherwise exempt. The current business license tax structure includes more than 17 business classifications and multiple calculation methods, including a primarily employee-based tax. Most retail, service, manufacturing, wholesale, professional, and real estate businesses pay a base annual tax of $35 plus an employee-based charge of $5.00 per employee for the first 10 employees in excess of the owner or manager and $1.00 per employee thereafter, with an additional bracket of $0.25 per employee above 100 employees for the retail and manufacturing categories. Other businesses, such as home occupations, contractors, lodging establishments, apartment complexes, and businesses without a fixed place of business in the City pay a flat amount, per unit charges, and vehicle-based assessments depending on their business type. These business license tax rates were established by Ordinance 76.10 on June 1, 1976, and have remained the same for more than 50 years.

The City's business license framework originated with the adoption of Ordinance No. 76 in 1959, which established unpaid business license taxes as a debt to the City. The ordinance was amended throughout the 1960s and early 1970s to add licensing requirements, posting requirements, and exemptions. In 1976, the City adopted its current business license tax ordinance, which has remained substantially unchanged since its adoption. The City evaluated potential updates to the business license tax in 2018 and 2023; however, none of those efforts advanced to the ballot. On April 7, 2026, the City Council approved participation in a state data exchange program to assist in identifying businesses operating without a City business license.

ANALYSIS:

The business tax is classified as a general tax, meaning that revenue collected from the tax is deposited into the City's General Fund and may be used for any lawful city purpose. Under California Government Code Section 53724(b), placing a proposed change to a general tax on the ballot requires approval by a two-thirds vote of the City Council. For the five-member Milpitas City Council, this means at least four Councilmembers must vote in favor of placing the proposed business tax measure on the November 3, 2026, General Election ballot.

Community Survey and Citywide Community Engagement

As part of modernizing the tax structure, the City conducted community surveys and extensive community engagement with residents, businesses, and community stakeholders. The City retained Fairbank, Maslin, Maullin, Metz & Associates (FM3) to conduct two statistically valid community surveys in December 2025 and June 2026 to assess voter attitudes toward a potential business tax modernization:

- December 2025: A survey of 623 likely voters (±4.9% margin of error) tested potential business tax modernization options. Both gross receipts and employee-based tax structures were generally viable, with the gross receipts structure testing more favorably because it was easier for respondents to understand. The results indicated that support for a potential modernization measure was 73% if placed on the ballot.

- June 2026: A follow-up survey of 409 likely voters (±4.0% margin of error) further evaluated a potential modernization measure using a gross receipts tax structure. The survey found that 76% of likely voters would support the measure, demonstrating voter support for this approach.

Alongside this research, the City conducted a Citywide engagement program to gather input from residents, business owners, and community members. Engagement activities included:

- Four City Manager Small Business Roundtables with 12 small business owners and representatives,
- Four virtual business forums, with invitations emailed to approximately 2,400 current business license tax holders,
- Seven virtual and in-person drop-in business tax update sessions, also promoted via email to the same 2,400 current business license tax holders,
- Direct outreach to major employers, business organizations including the Milpitas Chamber of Commerce and City commissions,
- Research into best practices and discussions with cities that have recently approved business tax measures, adopted gross receipts tax structures, or are considering updating their business taxes.

To support broad and inclusive engagement, the City implemented a comprehensive outreach strategy that included utility bill inserts, informational mailers, and coordinated messaging through official communication channels such as Facebook, X (formerly Twitter), LinkedIn, Instagram, Nextdoor, the *Milpitas Matters* newsletter, Citywide e-blasts to more than 3,000 residents, and electronic message signage at key locations. Additional outreach included stakeholder letters emailed to small businesses and community leaders, as well as distribution of "Your Voice Matters" postcards at high-traffic community locations including City Hall, the Milpitas Library, the Senior Center, the Sports Center, during the *Earth Day* event in April, and flyers promoting the virtual and in-person drop-in sessions regarding the business tax update at the *Taste of Milpitas and More* event in June. More than 700 residents participated in the City's community priorities survey, with respondents identifying fiscal stability, supporting small businesses, maintaining neighborhood infrastructure, and addressing blight and illegal dumping as top priorities.

Feedback received through business outreach identified several recurring themes. Overall, businesses expressed satisfaction with City services and recognized the business tax rates need to be updated after remaining unchanged for over 50 years. Businesses also emphasized the importance of a business tax structure and process that is simple and easy to understand, while some expressed concern about the potential impact on small businesses with lower profit margins. Staff incorporated this feedback by proposing a simplified tax structure with tax tiers, increasing the annual gross receipts threshold from $500,000 to $700,000 for the flat-rate taxes, and establishing tax rates generally lower than those in comparable cities.

Existing Business License Tax Findings

The City's current employee-based business license tax structure generates approximately $347,000 annually for the General Fund. In FY 2022-2023, which is the most recent comparison year available, Milpitas ranked last among comparable cities – including, but not limited to, Fremont, Santa Clara, San Jose, Sunnyvale, and Pleasanton – in both business tax revenue per capita and business tax revenue per business, as shown in Appendix B, Peer Jurisdiction Rate Schedules, to Attachment B. The tax structure has remained unchanged despite more than five decades of population growth, economic development, evolving business practices, and the emergence of new industries, including the technology sector. As the local economy has changed, employee count alone may not fully reflect the level of economic activity or revenue-generating capacity of a business. For example, technology companies and highly automated businesses may generate substantial gross receipts while employing relatively few employees. As a result, the current employee-based tax structure may not consistently reflect the range of business models operating in Milpitas.

Other findings:

- *Employee concentration with limited tax contribution.* The top 100 businesses account for approximately 36% of total reported employees but generate only about 14% of total business license tax revenue, highlighting the limitations of the employee-based tax structure.

- *Smaller businesses pay more than larger businesses.* Smaller businesses with fewer employees pay proportionally more per employee than larger businesses with more employees.

- *No inflationary adjustments.* Business license tax rates have remained unchanged since 1976 and have not been adjusted to account for inflation.

- *Limited revenue generation.* Milpitas' business license tax rates are the lowest and oldest among comparable cities, limiting the revenue available to maintain City services.

Recommended Gross Receipts Business Tax Structure

The proposed business tax structure would replace the current employee-based tax with a gross receipts-based tax. Under the proposal, business tax would be based on a business' reported gross receipts rather than the number of employees as shown in Table 1.

Table 1
Recommended Business Tax Schedule Effective January 1, 2028

Gross Receipts Tiers	Flat Rates*	Gross Receipts Tax Rate Per $1,000
Exempt Businesses	$0	$0
Less than $25,000	$25	$0
At least $25,000 and less than $100,000	$115	$0
At least $100,000 and less than $250,000	$250	$0
At least $250,000 and less than $700,000	$400	$0
At least $700,000 and less than $10,000,000	$400	$0.25 per $1,000 in excess of $700,000
At least $10,000,000 and less than $25,000,000	$400	$0.25 per $1,000 between $700,000 and $10,000,000, then $0.30 per $1,000 in excess of $10,000,000 up to $25,000,000
At least $25,000,000	$400	$0.25 per $1,000 between $700,000 and $10,000,000, then $0.30 per $1,000 in excess of $10,000,000, then $0.35 per $1,000 in excess of $25,000,000

** Subject to automatic annual adjustments commencing July 1, 2029*

A gross receipts-based tax structure creates a balanced and more predictable business tax system than the current employee-based approach. When compared to the City's goals for updating the business tax, the proposed gross receipts structure provides important benefits:

1. ***Equity*** – A gross receipts tax bases a business' tax more closely on the economic activity generated in Milpitas, rather than only on the number of employees it has.
2. ***Small Business Protection*** – Approximately 85% of all Milpitas businesses have annual gross receipts under $700,000 or less and would pay only a flat tax.
3. ***Regional Competitiveness*** – Current projections show that revenue per resident and per business would place Milpitas within the middle range of comparable cities.
4. ***Administrative Clarity*** – A tiered gross receipts system simplifies the tax structure by reducing the need for numerous industry-specific calculations and making the tax basis easier to understand.
5. ***Future Adaptability*** – A gross receipts system better reflects today's economy, including technology, automation, remote work, and newer business models that may have fewer employees.
6. ***Revenue Sustainability*** – The graduated tax structure allows City revenue to grow with the local economy instead of remaining mostly fixed as business practices and employment patterns change.

Businesses with annual gross receipts of $700,000 or less would pay a flat annual tax. Businesses with annual gross receipts exceeding $700,000 would pay a flat annual tax plus an additional tax based on a percentage of their Milpitas-based gross receipts. Gross receipts are already tracked and reported by businesses for tax and financial reporting purposes. Using assumptions developed for the gross receipts business tax model, HdL Companies estimates the proposed tax structure would generate approximately $2.81 million in annual revenue.[1] For purposes of the proposed ballot measure and related public communications, staff used a rounded estimate of approximately $3.0 million in annual revenue.

<u>Anticipated Changes for Businesses</u>

The proposed business tax structure would treat commonly owned and integrated businesses, and multiple locations of the same business, as a single business for purposes of calculating gross receipts, rather than taxing each business location separately. This change primarily affects businesses with multiple locations and results in a reduction in the estimated number of businesses subject to the tax from about 5,600 business locations to approximately 5,400 businesses.

- *Annual gross receipts less than $700,000.* Of the City's approximately 5,400 businesses, an estimated 85% (approximately 4,600 businesses) would either pay a flat annual business tax or qualify for an exemption. Businesses with cumulative annual gross receipts of $700,000 or less would pay only a flat annual business tax ranging from $25 to $400 and not be subject to an additional tax based on gross receipts. Of the estimated 4,600 businesses in this category, approximately 170 businesses, including nonprofit organizations and other qualifying entities, are proposed to remain exempt from the business tax and not be required to pay a business tax.

- *Annual gross receipts greater than $700,000.* The remaining estimated 15% of businesses (approximately 800 businesses) would pay both a flat annual business tax and an additional tax based on their cumulative Milpitas-based gross receipts. For these businesses, the total business tax would consist of two components:

    1. *Flat-rate tax.* Businesses with annual gross receipts of more than $700,000 would pay a flat annual tax of $400.

    2. *Gross receipts.* Businesses would pay an additional amount calculated by applying the applicable rate to Milpitas-based gross receipts above $700,000. The tax would be calculated on a marginal basis, meaning each rate applies only to the portion of gross receipts within the applicable tier:

[1] HdL Companies' financial modeling for gross receipts is estimated based on reported data when available; otherwise, they are estimated using sales tax information or industry-level receipts per employee, with validation focused on the City's largest businesses. Estimated receipts are then adjusted using standardized discounts based on business location, contractor status, and application or renewal stage.

a. Gross receipts over $700,000 and up to $10,000,000:	$0.25 per $1,000
b. Gross receipts over $10,000,000 and up to $25,000,000:	$0.30 per $1,000
c. Gross receipts over $25,000,000:	$0.35 per $1,000

Illustrative example under the proposed structure: A business with annual gross receipts of $12.0 million pays the $400 flat rate, plus $0.25 per $1,000 on the $9,300,000 of gross receipts between $700,000 and $10,000,000, plus $0.30 per $1,000 on the $2,000,000 of gross receipts between $10,000,000 and the business' actual gross receipts of $12.0 million. The total business tax for such a business is $3,325 ($400 plus $2,325 plus $600).

Other proposed changes:

- *New businesses in their first tax year.* A flat tax of $115 applies to businesses operating in Milpitas for the first time after January 1, 2028. The tax amount is the same regardless of the business's projected annual gross receipts or the length of time the business operates during the calendar year.

- *Established businesses (operating in the City for at least one full year).* The business tax is calculated based on the business' gross receipts from the prior year.

- *Annual cost-of-living adjustment*. Beginning July 1, 2029, flat business tax rates will be adjusted annually based on changes to the regional Consumer Price Index (CPI). The purpose of these annual adjustments is to account for inflation and preserve the value of the tax rates over time. Without annual adjustments, the purchasing power of business tax revenues gradually declines as the cost of maintaining City services increases.

- *Exemptions*. Exemptions include occasional transactions conducted by individuals with no fixed place of business in Milpitas for no more than five calendar days, as well as caregivers who receive compensation for providing care to a family member who is ill, disabled, and/or elderly.

- *Aggregate gross receipt amount for multiple locations.* Treats the same business operating at multiple locations as one business for purposes of calculating gross receipts.

Proposed Ballot Measure Language

The proposed ballot question complies with the 75-word maximum established by California Elections Code §13247 (note that "City of Milpitas" is a proper noun and counts as a single word). In addition, California Elections Code §13119(b) requires any ballot measure imposing or increasing a tax includes the estimated annual amount of revenue expected to be raised, as well as the rate and duration of the tax. These disclosures are required by law to provide voters with key information about the proposed tax and therefore must be incorporated into the ballot question.

> **City of Milpitas Local Funding Measure.**
>
> *Shall an ordinance to update City of Milpitas's 50-year-old business tax be adopted, with no tax increase to residents, so small businesses pay less than larger businesses, with all paying an annual flat rate, plus 0.025% to 0.035% of gross receipts for larger businesses, providing approximately $3,000,000 annually for general city services such as maintaining fiscal stability, neighborhood safety/cleanliness; requiring public disclosure, all funds invested locally, until ended by voters?*

Proposed Business Tax Ordinance

The proposed ordinance would repeal the existing Title III, Chapter 1 of the Milpitas Municipal Code and add a new Chapter 10 to Title III, entitled "Business Tax" (Ordinance). The Ordinance would replace the City's current business license tax structure, which is based on the number of employees, flat-rate fees, and per-unit charges, with a business tax based on gross receipts. The Ordinance would apply to all business activities conducted within the City. Businesses subject to the Ordinance would be required to obtain a business tax certificate, pay an annual business tax, and continue to comply with all applicable zoning, building, fire, safety, permitting, and other regulatory requirements. The Ordinance also defines key terms used in administering the tax, including business, gross receipts, and fixed place of business.

The proposed tax consists of a flat-rate amount to all applicable businesses, plus an additional tax for businesses with annual gross receipts exceeding specified thresholds beginning at $700,000. The Ordinance establishes rules for determining taxable gross receipts, allocating gross receipts for businesses operating both inside and outside the City, collecting annual tax payments, conducting audits, maintaining the confidentiality of tax information, processing refunds, handling appeals, and imposing penalties and enforcement measures.

Beginning July 1, 2029, the flat-rate portion of the tax would be adjusted annually based on changes in the regional Consumer Price Index. The City Council would retain authority to reduce business tax rates in the future, subject to applicable legal requirements. Any future amendments to the tax rates or sections in the Ordinance would be considered through the City's legislative process and would be subject to any required notices, hearings, or voter approval requirements. The Ordinance also provides exemptions for certain entities and activities, including those required by state law, such as eligible nonprofit and religious organizations, and veterans as sole proprietors. In addition, staff recommend exempting non-Milpitas based businesses with five or fewer annual transactions and continuing exempting qualifying participants in City-sponsored events.

Implementation Communications and Programs
To support implementation of the proposed business tax structure, the City would provide businesses with information and administrative resources before and after the November 3, 2026, General Election should the voters approve the proposed measure.

- *Following City Council Action (August 3, 2026).* If the City Council places the proposed measure on the ballot, staff will develop informational materials to explain the proposed business tax structure and the methodology for calculating taxes if approved by voters. Materials would include illustrative tax examples based on varying gross receipts levels, an online business tax calculator, and frequently asked questions.

- *Following Voter Approval (November 3, 2026).* If approved by a majority vote of Milpitas voters, the City would implement an outreach and education program to provide businesses with information regarding the new tax structure. Resources would include an online portal for business tax information, reporting, and payments, standardized reporting forms, and staff assistance to respond to questions and support compliance with the new requirements. Educational materials and outreach resources would be made available in multiple languages, including Spanish, Vietnamese, and Chinese.

- *Business Tax Amnesty Program.* Staff would return to the City Council with a proposed Business Tax Amnesty Program for consideration. If approved, the program would allow eligible businesses to become current with applicable business tax obligations without penalties or interest during the amnesty period.

Ballot Measure Primary Argument Form Process
State Elections Code Section 9287(a) provides that if more than one Ballot Measure Primary Argument Form for or against a city measure is submitted, the City Clerk gives preference and priority in a set order, beginning with the City Council or any member(s) of the City Council, bona fide association of citizens, or any combination of voters and associations. If the City Council authorizes certain Councilmember(s) to submit an argument on the Council's behalf, that argument is given preference over any other argument submitted in favor of the measure. If the Council chooses not to authorize an argument, the City Clerk follows the priorities in Section 9287(a) in selecting an argument to be printed in the Voter Information Guide.

Staff recommends the City Council adopt the resolutions without designating any Members of the City Council to submit a written argument in favor of the measure. This approach is consistent with past City practice, including the 2024 Public Services Reauthorization Measure (Measure J), and provides greater opportunities for local associations and/or voters to submit ballot arguments.

Impartial Analysis by the City Attorney
The State Elections Code Section 9280 authorizes the City Council to direct the City Attorney to prepare an impartial analysis of the measure. The authorization is included in the attached resolution.

Timeliness of Approvals for Potential Business Tax Measure
If the City Council decides to move forward with placing the business tax modernization measure on the November 3, 2026 ballot, the Council must adopt the measure and related resolution and submit them on or before August 7, 2026 to meet the California Elections Code deadlines. The proposed increase in the business tax would not take effect unless and until approved by a vote of at least 50% plus one on the question at the election. The table below outlines the timeline of actions for the measure.

Day of Week	Date	Action
Monday	August 3, 2026	Special City Council meeting to place the measure on the November ballot and call the election
Friday	August 7, 2026	Last day to submit the measure to the County Registrar of Voters
Tuesday	August 11, 2026	Ballot Measure Primary Argument Forms in favor or opposed to the measure due to the Milpitas City Clerk
Tuesday	August 18, 2026	Rebuttals to Arguments to be submitted to the Milpitas City Clerk
Tuesday	August 18, 2026	Milpitas City Attorney Impartial Analysis due to the Milpitas City Clerk
Tuesday	November 3, 2026	Election Day
Thursday	December 3, 2026	County Registrar of Voters scheduled to certify final election results
Tuesday	December 15, 2026	City Council scheduled to certify the Measure's results

POLICY ALTERNATIVE(S):

Alternative 1: Take no action and do not move forward with a ballot measure.

Pros: Maintain the current tax structure to avoid additional tax impacts on businesses and save additional one-time upfront expenditures.

Cons: The City will forgo an opportunity for the voters to decide whether to retain a 50-year-old tax structure and rates that no longer reflect today's economy. As a result, smaller businesses would continue to pay a disproportionately higher share than larger businesses, the City's business tax rates would remain among the lowest of its peer cities, and the City would have fewer options to address long-term revenue needs and maintain current service levels.

Alternative 2: Develop an alternative business tax structure and rates for future City Council discussion.

Pros: Provides the Council alternatives to consider different tax structures or rates that differ from the proposed measure.

Cons: Due to election deadlines, the time required to develop and evaluate alternative tax structures, conduct fiscal analysis, prepare implementing documents, and complete meaningful stakeholder and community outreach, it is not feasible to place an alternative business tax measure on the November 3, 2026 ballot. Delaying consideration would postpone any business tax modernization and the associated revenue needed to maintain City services, while the City's outdated 50-year-old business tax structure would remain in place.

Reason for Not Recommending Alternatives 1 and 2: The City Council's primary objective in reviewing the current business tax structure is to minimize impacts on small businesses. The proposed gross receipts tax structure achieves this objective by reducing the disproportionate tax burden small businesses pay under the current per-employee tax system. The proposed structure and rates are based on extensive stakeholder outreach, fiscal analysis, comparisons with similar cities, and legal review. At this stage, developing a new alternative proposal would not allow sufficient time for the analysis, public engagement, and Council review needed to meet the August 7, 2026 deadline for the November 3, 2026 ballot. Pursuing an alternative would delay implementation of business tax modernization and postpone future revenue needed to maintain City services.

FISCAL IMPACT:

If approved by voters, the proposed business tax is estimated to generate approximately $3.0 million in annual revenue. All revenue from this measure would be deposited into the Milpitas General Fund to be used at the City Council's discretion. The City currently collects approximately $347,000 annually in business tax revenue. Estimated ongoing administrative costs to implement and administer the new tax structure are approximately $500,000 annually, resulting in projected net annual revenue of approximately $2.15 million above current collections. The overall one-time total cost for the business tax modernization ballot measure effort is an estimated $535,000. The estimated cost breakdown is as follows: $86,000 for two surveys, $182,000 for communications and business tax analysis consultants, $147,000 for community outreach and engagement efforts, and $120,000 for estimated County charges. This cost has been funded through FY 2025-26 City Manager's unanticipated expenditures monies.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA):

The action is a fiscal activity of the City government or an action to create a City government funding mechanism that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment and is not a project pursuant to California Code of Regulations, Title 14, Section 15378.

ATTACHMENT(S):

(a) Resolution Submitting the City of Milpitas Business Tax Modernization Measure to the Voters at the November 3, 2026 General Election; Reiterating City's Request that the Election be Consolidated with Other Elections Held on that Date and Taking Certain Related Actions

    (1) Exhibit A – Ordinance to be Submitted to the Voters

(b) City of Milpitas Business Tax Modernization Detailed Analysis and Finding Report, HdL Companies, July 23, 2026

RESOLUTION NO. XXXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MILPITAS, CALIFORNIA, SUBMITTING TO THE VOTERS AN ORDINANCE TO MODERNIZE AND MODIFY THE METHOD OF LEVYING THE BUSINESS TAX, REQUESTING THAT THE ELECTION BE CONSOLIDATED WITH OTHER ELECTIONS HELD ON THAT DATE, AND TAKING CERTAIN RELATED ACTIONS

WHEREAS, the City of Milpitas adopted a business tax ordinance (Ordinance No. 76) in 1959, the current rate structure of which was adopted in 1976; and

WHEREAS, over the past 50 years, the City's economy and business community have changed significantly, while the business tax structure has remained largely unchanged and no longer reflects today's business environment; and

WHEREAS, the City Council desires to submit to the voters of the City a measure to modernize and modify the method of levying the business tax at the General Municipal Election to be held on November 3, 2026; and

WHEREAS, the proposed ordinance is attached to and incorporated into this resolution as Exhibit A; and

WHEREAS, currently, some smaller businesses pay over 70 times more per employee than what larger businesses and corporations pay; and

WHEREAS, the proposed measure will update the outdated structure to address this disparity, and ensure that larger businesses contribute more than smaller businesses to fund essential city services; and

WHEREAS, this measure will not raise taxes for Milpitas residents and applies only to businesses; and

WHEREAS, the City needs additional local funding to help clean up and prevent illegal dumping/neighborhood blight, and address homelessness by helping move people off the street and into shelter, treatment, and supportive services to ensure Milpitas is safe and clean; and

WHEREAS, all of Milpitas' public funds are subject to accountability provisions, including full public disclosure of all spending and a requirement that all funds be invested locally to benefit Milpitas residents; and

WHEREAS, this measure will help maintain Milpitas' city services and fiscal stability, and address additional community priorities, such as replacing aging water and sewer lines; repairing storm drains; increasing the number of local good-paying jobs; and keeping neighborhood streets and sidewalks clean and well-maintained; and

WHEREAS, over the past seven months, the City engaged members of the business community, community organizations, and residents, through the City Manager's Small Business Roundtable and a variety of outreach efforts, including community surveys, informational mailers, stakeholder communications, community events, official City communication channels, virtual meetings, and drop-in hours, to gather public feedback on the community's priorities and potential update to the proposed City's business tax modernization; and

WHEREAS, the proposed measure is a general tax, the proceeds of which would be deposited in the City's General Fund and may be used for any lawful municipal purpose, subject to voter approval pursuant to Article XIII C of the California Constitution and Government Code section 53723; and

WHEREAS, Elections Code section 10403 authorizes the City Council to request consolidation of the General Municipal Election with the statewide General Election to be held on November 3, 2026, and to request that the Santa Clara County Registrar of Voters conduct the election on behalf of the City; and

WHEREAS, it is in the public interest to consolidate the City's election with the statewide General Election to be held on November 3, 2026, and to request that the Santa Clara County Registrar of Voters conduct the election and provide related election services on behalf of the City.

NOW, THEREFORE, the City Council of the City of Milpitas hereby finds, determines and resolves as follows:

1. The foregoing recitals are true and correct and incorporated herein.

2. Pursuant to Elections Code Section 9222 and Government Code Section 53723, the ordinance attached hereto as Exhibit "A" and incorporated herein by reference, (the "Ordinance") shall be submitted to the voters of the City at the General Municipal Election to be held on November 3, 2026.

3. The question submitted regarding the Ordinance shall appear on the ballot as follows:

<table>
<tr><td rowspan="2">City of Milpitas Local Funding Measure. Shall an ordinance to update City of Milpitas's 50-year-old business tax be adopted, with no tax increase to residents, so small businesses pay less than larger businesses, with all paying an annual flat rate, plus 0.025% to 0.035% of gross receipts for larger businesses, providing approximately $3,000,000 annually for general city services such as maintaining fiscal stability, neighborhood safety/cleanliness; requiring public disclosure, all funds invested locally, until ended by voters?</td><td>YES</td></tr>
<tr><td>NO</td></tr>
</table>

4. Pursuant to Article XIII C of the California Constitution and Government Code sections 53723 and 53724, adoption of the Ordinance requires approval by a majority vote of those voting on the measure. The type of tax, rate of tax, and method of collection are set forth in the Ordinance.

5. Pursuant to Elections Code Section 10403, the Board of Supervisors of the County of Santa Clara is requested to consent to and order the consolidation of the City's General Municipal Election with the Statewide General Election to be held on Tuesday, November 3, 2026, for the purpose of submitting the Ordinance to the qualified voters of the City.

6. The Santa Clara County Registrar of Voters is authorized to canvass the returns and perform all proceedings incidental to and connected with the Election. Pursuant to Elections Code sections 10403 and 10418, the Election shall be held and conducted in accordance with the laws governing the Statewide General Election.

7. The City's vote centers for the Election shall be operated in accordance with Elections Code section 10242 and applicable provisions of the California Elections Code. The hours of opening and closing of the polls shall be the same as provided for general elections.

8. In all particulars not recited in this Resolution, the Election shall be held and conducted as provided by law for holding municipal elections.

9. The City Clerk is authorized and directed to take all actions necessary to administer the Election.

10. The Board of Supervisors is requested to issue instructions to the Registrar of Voters to take any and all steps necessary for the holding of the consolidated election.

11. The City recognizes that additional costs will be incurred by the County by reason of this consolidation and agrees to reimburse the County for all costs.

12. The City Clerk is directed to transmit the Ordinance to the City Attorney with a request that the City Attorney prepare an impartial analysis of the measure pursuant to Elections Code section 9280.

13. Pursuant to Section 9282 of the Elections Code, the City Council, or any member or members of the City Council authorized by the body, or any individual voter who is eligible to vote on the measure or bona fide association of citizens, or any combination of voters and associations, may file a written argument, not to exceed 300 words in length, accompanied by the printed name(s) and signature(s) of the person(s) submitting it, or if submitted on behalf of an organization, the name of the organization, and the printed name and signature of at least one of its principal officers, for or against the measure. In the event that more than one argument for or against a measure is timely submitted, the City's elections official shall give preference and priority first, to arguments submitted by member(s) of the City Council, as authorized by this Resolution, and second, to individual voters, bona fide associations, or a combination thereof, in the order set forth in Section 9287 of the Elections Code.

14. Notice of the election is hereby given, and the City Clerk is authorized, instructed and directed to give further or additional notice of the election, in time, form and manner as required by law.

15. Pursuant to Elections Code section 9223, the full text of the Ordinance shall not be printed in the voter information guide. Instead, the ballot shall include the notice required by law advising voters that copies of the Ordinance and this Resolution may be obtained from the City Clerk at no cost upon request.

16. The City Clerk is authorized, instructed, and directed to coordinate with the Registrar of Voters to procure and furnish any and all official ballots, notices, printed matter and all supplies, equipment and paraphernalia that may be necessary in order to properly and lawfully conduct the Election.

17. The City Clerk shall certify to the passage and adoption of this Resolution and enter it into the book of original resolutions.

18. The City Clerk shall transmit certified copies of this Resolution to the Board of Supervisors and the Registrar of Voters.

PASSED AND ADOPTED this _______ day of August 2026, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST: APPROVED:

_________________________________ _________________________________

Suzanne Guzzetta, City Clerk Carmen Montano, Mayor

APPROVED AS TO FORM:

____

Christian M. Curtis, City Attorney

<u>REGULAR</u>

NUMBER: ___.__

TITLE: **AN ORDINANCE OF THE CITY OF MILPITAS REPEALING MILPITAS MUNICIPAL CODE TITLE III ("BUSINESS AND PROFESSIONS"), CHAPTER 1 ("BUSINESS LICENSES") AND ADDING TITLE III, CHAPTER 10 ("BUSINESS TAX") TO MODERNIZE AND MODIFY THE METHOD OF LEVYING THE BUSINESS TAX**

HISTORY: This Ordinance was approved by the voters at the general election on ______________.

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

____

Suzanne Guzzetta, City Clerk

APPROVED:

____

Carmen Montano, Mayor

APPROVED AS TO FORM:

____

Christian M. Curtis, City Attorney

ORDINANCE NO. XXXX

AN ORDINANCE OF THE CITY OF MILPITAS REPEALING MILPITAS MUNICIPAL CODE TITLE III ("BUSINESS AND PROFESSIONS"), CHAPTER 1 ("BUSINESS LICENSES") AND ADDING TITLE III, CHAPTER 10 ("BUSINESS TAX") TO MODERNIZE AND MODIFY THE METHOD OF LEVYING THE BUSINESS TAX

THE PEOPLE AND THE CITY COUNCIL OF THE CITY OF MILPITAS DO HEREBY ORDAIN AS FOLLOWS:

SECTION 1. REPEAL OF EXISTING ORDINANCE

Title III, Chapter 1 of the Milpitas Municipal Code, as it currently exists, is hereby repealed in its entirety.

Except as provided above, nothing contained in this Ordinance shall be deemed to repeal, amend, be in lieu of, replace or in any way affect any requirements for any license or permit required by, under or by virtue of any provision of any other Chapter of the City Code or any other ordinance or resolution of the City or of its Council. Nothing herein shall be deemed to preclude the adoption or amendment of any other ordinance requiring business licenses.

SECTION 2. ENACTMENT OF MILPITAS MUNICIPAL CODE TITLE III, CHAPTER 10

A new Title III, Chapter 10 of the Milpitas Municipal Code is hereby enacted to read as follows:

TITLE III - BUSINESS AND PROFESSIONS

Chapter 10 - BUSINESS TAX

Table of Contents

SECTION 3 - TAX IMPOSED

SECTION 4 - ALLOCATION OF GROSS RECEIPTS

SECTION 5 - PAYMENT

SECTION 6 - BUSINESS TAX CERTIFICATE REQUIRED

SECTION 7 - EXEMPTIONS

SECTION 8 - ADMINISTRATION AND ENFORCEMENT

Section 1 - General Provisions

III-10-1.10 Revenue and Regulation

This Chapter is enacted to raise revenue for municipal purposes and not for the purpose of regulation. The payment of a Business Tax required by this Chapter, and its acceptance by the City, and the issuance of a Business Tax Certificate to any Person shall not entitle the holder thereof to carry on any business unless they have complied with all of the requirements of the City Code and all other applicable laws, nor to carry on any business in any building, on any premises, or in any location designated in such Business Tax Certificate in the event that such building, premises or location is situated in a zone or locality in which the conduct of such business is in violation of any law.

III-10-1.20 Effect on Other Fees and Charges

Persons required to pay a Business Tax for transacting and carrying on any business under this chapter shall not be relieved from the payment of any other charge, fee, or tax as may be imposed by the City, and such Persons shall remain subject to the regulatory provisions of all other ordinances, codes, and resolutions of the City, including but not exclusive to regulations for zoning, building, fire and safety.

III-10-1.30 Chapter Controlling

To the extent that the provisions of this Chapter are inconsistent with the provisions of any other Title or Chapter of the City Code or parts thereof, the provisions of this Chapter shall be deemed controlling.

Section 2 - Definitions

The words and terms used in this Chapter shall have the following meanings unless the context clearly indicates otherwise:

III-10-2.10 Authorized City Official

The term “Authorized City Official” shall mean any official or employee of the City who has been authorized in writing by the Director to exercise one or more of the specific powers enumerated in this Chapter. At the Director's discretion, "Authorized City Official" may include employees outside of the Finance Department, including but not limited to code enforcement officers and police officers.

III-10-2.20 Business

The term "Business" shall include all activities engaged in or caused to be engaged within the City including any commercial or industrial enterprise, trade, profession, occupation, vocation, calling, or livelihood including rental or lease of Residential or Nonresidential Real Estate and Mobile Home Parks, or work as an independent contractor, whether or not carried on for gain or profit, but shall not include the services rendered by an employee to their employer.

III-10-2.30 Business Day

"Business Day" means Monday through Friday, except legal public holidays recognized by the City. Any submission received after 5 p.m. Pacific Time may be deemed to be submitted on the next Business Day.

III-10-2.40 Business Tax

"Business Tax" or "Tax" means the tax due for engaging in business in the City.

III-10-2.50 Business Tax Certificate

"Business Tax Certificate" or "Certificate" means:

(a) the certificate issued by the City to the taxpayer upon completion of the business tax application and payment of the tax prescribed by this Chapter; or

(b) the certificate issued by the Director pursuant to section III-10-7.30 upon determination by the Director that an applicant for an exemption from payment of the Business Tax under provisions of this Chapter is exempt.

III-10-2.60 City

"City" means the City of Milpitas, a municipal corporation of the state of California, in its present incorporated form or in any later reorganized, consolidated, enlarged or reincorporated form.

III-10-2.70 CPI Index

"CPI Index" means the Consumer Price Index-All Urban Consumers for All Items for the San Francisco-Oakland-Hayward Area published by the United States Department of Labor, Bureau of Labor Statistics or any successor to that index designated by the United States Bureau of Labor Statistics.

III-10-2.80 Day

"Day" means a calendar day unless otherwise specified.

III-10-2.90 Director; Designee

"Director" means the Director of the Finance Department of the City or their duly authorized subordinate. "Designee" or "Director's Designee" shall mean any person authorized in writing by the Director to exercise the specific authority referenced, including but not limited to duly Authorized City Officials, employees, and independent contractors.

III-10-2.100 Engaged in Business

“Engaged in Business” means the commencing, conducting, operating, managing or carrying on of a business and the exercise of corporate or franchise powers, whether done as an owner, or by means of an officer, agent, manager, employee, servant or otherwise, whether operating from a fixed location in the City or coming into the City from an outside location to engage in such activities.

III-10-2.110 Finance Department

“Finance Department” means the Department of the City as established by Municipal Code Title VI, Chapter 3 – VI-3-1.00 – Establishment of Departments of the City.

III-10-2.120 Fiscal Year

“Fiscal Year” means the taxpayer's annual accounting period used for reporting income to the Internal Revenue Service or the California Franchise Tax Board, or, for a taxpayer not subject to such reporting, the annual accounting period the taxpayer regularly uses in keeping its books. If a taxpayer has no such annual accounting period, the Fiscal Year is the calendar year.

III-10-2.130 Fixed Place of Business

A “Fixed Place of Business” means any building, structure, room, space, or other physical location within the City that is used or maintained for the conduct of business on a regular or continuing basis. A Fixed Place of Business may include locations where no employee, agent, or representative of the business is physically present during regular business hours, provided that the business owns, leases, occupies, controls, or otherwise maintains the location for business operations, storage, distribution, equipment placement, or other commercial purposes.

A Fixed Place of Business includes, without limitation, office space, retail space, warehouse or storage space, manufacturing or assembly space, research and development space, data centers, server co-location facilities, and automated or unmanned commercial operations where goods, equipment, or data are maintained for business purposes.

III-10-2.140 Gross Receipts

"Gross Receipts" means, except as otherwise specifically provided in this Chapter, the total gross receipts of the Measuring Year calculated on either a cash or accrual basis consistent with the method of accounting used by the taxpayer for federal income tax reporting purposes.

"Gross Receipts" includes the total amounts actually received or receivable from all sales and the total amounts actually received or receivable for the performance of any act, service, or employment, of whatever nature it may be, for which a charge is made or credit allowed, whether or not such act, service, or employment is done as part of or in connection with the sale of materials, goods, wares, or merchandise.

"Gross Receipts" further includes, without limitation: sales and commissions; gains realized from trading in stocks, bonds, or other securities; interest income, carrying charges, and fees; rents, royalties, licensing fees, and franchise fees; dividends and distributions from business entities; investment income and proceeds from the sale of property; and all receipts in the form of cash, credits, and property of any kind or nature, without any deduction on account of the cost of the property sold, the cost of materials used, labor or service costs, interest paid or payable, losses, or any other expense whatsoever.

As to a developer, or a developer-general contractor, who sells real property it has developed or constructed, "Gross Receipts" means and includes the sales price of real property. As to a general contractor who performs the construction, alteration, repair, or improvement of real property under a contract and does not sell the property, "Gross Receipts" means and includes the total contract price payable to the general contractor under the contract, without deduction for amounts paid to subcontractors except as provided in subsection (j) of this definition.

"Gross Receipts" shall not include the following:

(a) Cash discounts allowed and taken on sales;

(b) Credit allowed on property accepted as part of the purchase price and which property may later be sold;

(c) Any tax required by law to be included in or added to the purchase price and collected from the consumer or purchaser or paid by the retailer without respect to whether imposed tax is imposed on the retailer or on the consumer;

(d) The part of the sale price of property returned by the purchaser upon rescission of the contract of sale that is refunded either in cash or by credit;

(e) Amounts collected for others where the business is acting as an agent or trustee, to the extent such amounts are paid to those for whom collected, provided that the agent or trustee has furnished the City with the names and addresses of such Persons and the amounts paid to them;

(f) Receipts of refundable deposits, except that refundable deposits forfeited and taken into income of the business shall not be excluded;

(g) The amount derived from a business activity sold or otherwise transferred to another Person during the preceding Measuring Year;

(h) Any amount received from or charged to any Person which is a Related Entity of the taxpayer, as defined in this chapter, except where such amount is compensation for activities including selling, renting, or services performed by the taxpayer for any Person which is not a Related Entity of the taxpayer;

(i) Any uncollectible amount which has been written off as a bad debt in compliance with tax reporting guidelines. Any portion of bad debt subsequently recovered by the taxpayer shall constitute taxable Gross Receipts in the year of recovery;

(j) Amounts received by a general contractor that represent payments to subcontractors taxed under this Chapter, provided that the general contractor furnishes the Director with the names, state subcontractor’s license numbers, and addresses of the subcontractors and the amounts paid to each;

(k) Receipts that the City is prohibited from taxing under the Constitution or laws of the United States or the Constitution or laws of the State of California.

III-10-2.150 Measuring Year

“Measuring Year” means the 12-month period whose gross receipts the taxpayer reports to calculate the tax due for a Tax Year, determined as follows:

(a) except as provided in subsection (b) or (c), the Measuring Year is the calendar year, January 1 through December 31, immediately preceding the due date established under section III-10-5.10(a);

(b) for a taxpayer that has made the election under section III-10-5.10(b) to report on its Fiscal Year, the Measuring Year is the taxpayer's Fiscal Year that most recently ended before its due date; and

(c) where the Tax Year is a partial year or an irregular year under section III-10-2.200(c), the Measuring Year is the corresponding period determined under rules adopted by the Director pursuant to section III-10-5.10(e)(2).

III-10-2.160 NAICS Code

“NAICS Code” means the numerical classification for business activities established in the North American Industry Classification System.

III-10-2.170 Person

"Person" means any natural person, sole proprietor, domestic or foreign corporation, firm, association, syndicate, joint-stock company, partnership of any kind, joint venture, club, Massachusetts business or common law trust, society, individual, estate, business trust, receiver, retirement plan, trustee, or any other group or combination acting as a unit.

Any number of Related Entities shall constitute only a single Person for the purposes of this Chapter.

III-10-2.180 Related Entities

“Related Entities” means any business units that are commonly owned and integrated in a way that transfers value among the business units and includes any business units that comprise part of a “unitary business” as defined by California law and any business units that are required to, actually do, or may, file a combined report pursuant to California Revenue and Taxation Code section 25102, or any successor statute.

III-10-2.190 Rental or Lease of Residential or Nonresidential Real Estate and Mobile Home Parks

As used in this Chapter, the rental or lease of Residential or Nonresidential Real Estate and Mobile Home Parks shall include all forms of rental or lease, without regard to whether they form a tenancy or are transient use.

III-10-2.200 Tax Year

“Tax Year” means:

(a) except as provided in (b) or (c), the calendar year in which the tax is due and payable;

(b) for a taxpayer that has made the election under section III-10-5.10(b) to report on its Fiscal Year, the twelve (12) month period commencing on the start of the fiscal year in which the tax is owed; or

(c) where required by context, any period of less than twelve months (“partial year”) or more than twelve months (“irregular year”) as a result of the taxpayer’s election under section III-10-5.10(b), a taxpayer's change to or from a Fiscal Year reporting basis, or any other circumstance creating a partial or irregular year.

A taxpayer's first “Tax Year" is the Tax Year in which that taxpayer commences business in the City. A reference in this Chapter to a taxpayer's first, second, or subsequent Tax Year is a reference to that taxpayer's own Tax Years, and not to the first Tax Year in which this Chapter is operative.

Section 3 - Tax Imposed

III-10-3.10 Tax Imposed

Every Person commencing, engaged in, conducting or carrying on a business within the City shall pay an annual Business Tax. The amount of the tax shall be:

(a) For any Person who has conducted business in the City for a full Measuring Year, an amount determined by using the table in section III-10-3.20 using their Gross Receipts for the Measuring Year.

(b) For any Person commencing business in the City on or after January 1, 2028, in its first Tax Year, a flat tax of $115. This first-year flat tax is not measured by, and shall not be adjusted, prorated, estimated, reconciled, trued up, or refunded by reference to, the Person's Gross Receipts. The amount of this tax shall be adjusted for inflation in the same manner as provided in section III-10-3.30.

(c) For any Person that is beyond its first Tax Year but that has not yet conducted business in the City for a full Measuring Year, the tax shall be determined by using the table in section III-10-3.20, applied to the Gross Receipts the Person received during the Measuring Year, as adjusted by rules adopted by the Director pursuant to section III-10-5.10(e)(3).

The Business Tax imposed by this Chapter is in addition to any fees required for permits or licenses, including, without limitation, a business license fee. The Tax consists of two (2) components: a “flat rate” calculated pursuant to section III-10-3.20 and a “Gross Receipts rate” calculated pursuant to section III-10-3.20. The Gross Receipts rate is calculated by applying the ratio for each tier to the value of the receipts in that tier, rounded down to the nearest dollar.

III-10-3.20 Tax Schedule

BUSINESS TAX SCHEDULE

Gross Receipts Tier	Flat Rate*	Gross Receipts Rate Per $1,000
Exempt Persons and organizations (per Section 7 of this Chapter)	$0	$0
Less than $25,000	$25	$0
At least $25,000 and less than $100,000	$115	$0
At least $100,000 and less than $250,000	$250	$0
At least $250,000 and less than $700,000	$400	$0
At least $700,000 and less than $10,000,000	$400	$0.25 per $1,000 above $700,000
At least $10,000,000 and less than $25,000,000	$400	$0.25 per $1,000 between $700,000 and $10,000,000, then $0.30 per $1,000 above $10,000,000

BUSINESS TAX SCHEDULE		
Gross Receipts Tier	**Flat Rate***	**Gross Receipts Rate Per $1,000**
At least $25,000,000	$400	$0.25 per $1,000 between $700,000 and $10,000,000, then $0.30 per $1,000 between $10,000,000 and $25,000,000, then $0.35 per $1,000 above $25,000,000

** Subject to Automatic Adjustment as described in III-10-3.30*

III-10-3.30 Automatic Adjustment

Commencing July 1, 2029, and annually thereafter, each flat rate set forth in section III-10-3.20 and section III-10-3.10(b) shall automatically adjust by a percentage equal to the annual change in the CPI for February of that year. For purposes of this section, the base period for the first adjustment period commencing on July 1, 2029, shall be the CPI reported for February 2028 to February 2029. The base period for each subsequent adjustment period thereafter shall be February to February.

Automatic adjustments are applied to the flat rate, rounded down to the nearest dollar ($1.00). For purposes of this automatic adjustment, in no event shall any rate be reduced below the rate in effect immediately prior to the applicable adjustment. The Director shall be responsible for calculating and publishing the new rate no later than May 1 of each year.

III-10-3.40 Adjustment by Council Action

The City Council may, by resolution or ordinance and without voter approval, modify the rate of the Business Tax, provided that in no event may the City Council set any flat rate or Gross Receipts rate that exceeds the corresponding rate set forth in the Business Tax schedule in section III-10-3.20, as adjusted pursuant to section III-10-3.30, without approval of the voters.

Section 4 - Allocation of Gross Receipts

III-10-4.10 Allocation

When the Gross Receipts are derived from or attributable to activities engaged both within and without the City, Gross Receipts shall be allocated in a manner that is fairly calculated to determine the amount of Gross Receipts derived from or attributable to engaging in business in the City. This allocation shall be made on the basis of payroll, value and situs of tangible property, general expense, or by reference to any of these or other factors, or by another method of allocation that will fairly determine the amount of Gross Receipts derived from or attributable to engaging in business in the City. Gross Receipts derived from isolated or occasional transactions at places outside the City but within the State of California, where the registrant is not regularly engaged in a course of business transactions, shall be deemed to be Gross Receipts derived from engaging in business in the City. Gross Receipts derived from or attributable to sources within this City include:

(a) Gross Receipts from tangible or intangible property located or having situs in this City;

(b) when not contrary to law, Gross Receipts from any activities carried on in this City regardless of whether carried on in interstate, intrastate or foreign commerce; and

(c) Gross Receipts from a contract for the construction, alteration, repair, or improvement of real property located within the City, regardless of whether the Person performing the work maintains a Fixed Place of Business within the City and regardless of where the contract is entered into or payment is received.

III-10-4.20 Formulae

Allocation formulae designed to carry into effect the purpose of section III-10-4.10 shall be adopted by the Director by rules and regulations. The Director is hereby authorized, in the application to individual cases of the rules and regulations and the formulae they contain, to make any modifications in formulae that may be necessary to carry out the intent of section III-10-4.10. If the Director reallocates Gross Receipts upon the Director's examination of any return, the Director shall, upon the written request of the registrant, disclose to the registrant the basis upon which the reallocation has been made.

Section 5 - Payment

III-10-5.10 Advance Payment Due Date

(a) **Annual payment; default due date.** All taxes imposed by this Chapter shall be paid in a single advance annual payment for the full year. Except as provided in subsection (c) or (d), payment shall be due on the first day of each calendar year and must be paid within seventy-five (75) days thereafter.

(b) **One-time election to report on Fiscal Year.** A taxpayer whose Fiscal Year is other than the calendar year may, with the approval of the Director, elect to have its Measuring Year and due date determined by reference to its Fiscal Year rather than the calendar year. The election shall be made on a form and in the manner prescribed by the Director, is available only once, and once made is irrevocable.

Notwithstanding the foregoing, the Director may create rules to allow changes to a taxpayer's Fiscal Year election where the change is necessitated by a bona fide change in the taxpayer's Fiscal Year for federal or state income tax purposes, a merger, acquisition, or corporate reorganization, or a similar qualifying event established by the Director. Any such change is subject to conditions the Director may impose to prevent or mitigate tax avoidance.

(c) **Effect of election.** If a taxpayer's election under section (b) is approved, taxes shall thereafter be due the day following the close of the taxpayer's Fiscal Year and must be paid within seventy-five (75) days thereafter. The Measuring Year shall be the Fiscal Year that immediately precedes the due date, as provided in section III-10-2.150(b).

(d) **New businesses.** For taxpayers first commencing business in the City on or after January 1, 2028, the flat tax payment under section III-10-3.10(b), shall be due on the date the taxpayer commences business within the City and must be paid within seventy-five (75) days thereafter. The taxpayer shall thereafter report on the calendar year and may not elect to report on its Fiscal Year for the second Tax Year. The one-time election under subsection (b) shall first be available after the taxpayer's second Tax Year.

(e) **Administrative rules.** The Director may adopt rules and regulations governing:

(1) the timing, form, and circumstances of the election under subsection (b), including the qualifying events for which the Director may permit a further change under subsection (b) and the conditions applicable to any such change;

(2) the method of calculating any tax due for any partial or irregular year created by the election under subsection (b), by a taxpayer's change to or

from a Fiscal-Year reporting basis, or any other circumstances creating a partial or irregular year;

(3) the method of calculating any tax due when a taxpayer had not yet commenced business in the City at the start of the applicable Measuring Year; and

(4) measures helpful to manage administrative burden or to prevent or mitigate tax avoidance.

Any rule adopted under subsection (e)(2) shall be written to ensure that a taxpayer neither pays tax twice on the same Gross Receipts nor omits any Gross Receipts from taxation as a result of the change and shall be applied consistently among similarly situated taxpayers.

(f) **Closure of City offices.** If the due date for any taxpayer falls on a day during a period in which City offices are closed by action of the City Council, the due date shall be extended to the seventh day after City offices reopen, and no penalty or interest shall accrue during the closure period or the resulting extension.

(g) **Tax fully earned; effect of discontinuance.** The annual Business Tax is imposed for the privilege of engaging in business at any time during the Tax Year and is fully earned when due. A Person that discontinues, dissolves, or otherwise ceases business during a Tax Year remains liable for the full annual tax for that Tax Year, and no proration, credit, or refund shall be made on account of the discontinuance, as provided in section III-10-6.160(b). Discontinuance during a Tax Year does not relieve a Person of any tax, penalty, or interest that accrued before the discontinuance, and does not shorten the assessment periods provided in sections III-10-8.60 and III-10-8.90.

III-10-5.20 Initial Tax Year Under This Chapter; Transition

(a) The tax imposed by this Chapter is first due on January 1, 2028, and must be paid on or before March 16, 2028.

(b) Notwithstanding any other provision of this Chapter, for the 2028 Tax Year, every taxpayer that was Engaged in Business in the City at any time during calendar year 2027 and that is Engaged in Business in the City on or after January 1, 2028 shall pay on or before March 16, 2028, as follows:

(1) a taxpayer that was Engaged in Business in the City for all of calendar year 2027 shall pay the amount determined under Section III-10-3.10(a), and the Measuring Year for that payment shall be the calendar year commencing January 1, 2027, and ending December 31, 2027; and

(2) a taxpayer that commenced business in the City during calendar year 2027 shall pay the amount determined under Section III-10-3.10(c), and the Measuring Year for that payment shall be that portion of calendar year 2027 during which the taxpayer was Engaged in Business in the City.

(c) No election to report on a Fiscal Year under section III-10-5.10(b) shall take effect before January 1, 2029.

III-10-5.30 Proof of Timely Submittal

(a) Whenever any payment, statement, report, request or other communication received by the Director is received after the time prescribed by this Chapter for the receipt thereof, but is in an envelope bearing a postmark showing that it was mailed prior to the time prescribed in this Chapter for the receipt thereof, or whenever the Director is furnished substantial proof that the payment, statement, report, request or other communication was in fact deposited in the United States mail prior to the time prescribed for receipt thereof, the Director may regard such payment, statement, report, request or other communication as having been timely received.

(b) If the due day falls on Saturday, Sunday or a City-recognized holiday, the due day shall be the next regular Business Day on which the City Hall is open to the public or when City services are available to the public.

III-10-5.40 When Taxes Deemed Delinquent

Unless otherwise specifically provided under other provisions of this Chapter, all Business Taxes required to be paid pursuant to this Chapter shall be deemed delinquent if not paid on or before the date specified for payment in sections **Error! Reference source not found.** and III-10-5.20.

III-10-5.50 Notice Not Required by City

The Director is not required to send a renewal, delinquency or other notice or bill to any Person subject to the provisions of this Chapter and failure to send such notice or bill shall not affect the validity of any tax or penalty due under the provisions of this Chapter.

III-10-5.60 Statement for Renewal of Business Tax

Every Person subject to a Business Tax shall, before the Business Tax becomes delinquent, file with the Director such information as required by the Director to enable the Director to administer the provisions of this Chapter and shall pay at such time the amount of the tax computed thereon.

III-10-5.70 Penalty and Interest for Delinquency

Any Person who fails or refuses to pay any Business Tax required to be paid pursuant to this Chapter on or before the due date shall pay penalties and interest as follows:

(a) A penalty equal to twenty-five percent (25%) of the amount of the tax in addition to the amount of the tax, plus interest on the unpaid tax calculated from the date the tax is deemed delinquent at the rate of 0.83% per month, equal to 10% per year.

(b) An additional penalty equal to twenty-five percent (25%) of the amount of the tax if the tax remains unpaid for a period exceeding thirty (30) days after the date the tax is deemed delinquent, plus interest on the unpaid tax and interest on the unpaid penalties calculated at the rate of 0.83% per month, equal to 10% per year.

III-10-5.80 Returned, Unpaid Checks

Whenever a check is submitted in payment of a Business Tax and the check is subsequently returned unpaid by the bank upon which the check is drawn, and the check is not redeemed prior to the due date, the taxpayer will be liable for the tax amount due plus penalties and interest as provided for in this section plus any amount allowed under state law.

Section 6 - Business Tax Certificate Required

III-10-6.10 Business Tax Certificate Requirement

(a) It shall be unlawful for any Person to commence, transact or carry on any business in the City without first having procured a Business Tax Certificate from the City to do so, or without complying with any and all provisions contained in this Chapter. A Person that has applied under section III-10-6.30 and that pays the Business Tax within the period allowed under section III-10-5.10 does not violate this subsection during that period, notwithstanding that a Business Tax Certificate has not yet become valid under section III-10-6.80. If the tax is not paid within that period, this exception does not apply, and the violation shall be deemed to have commenced on the due date established under section III-10-5.10. The carrying on of any business without complying with any and all provisions of this Chapter shall constitute a separate violation of this Chapter for each and every day that such business is so carried on.

(b) The Business Tax Certificate required to be obtained and the Business Tax required to be paid are declared to be required pursuant to the taxing power of the City solely for the purpose of obtaining revenue and are not regulatory permit fees.

III-10-6.20 Conflict with Other Statutes

This section shall not be construed as to require any Person to obtain a Business Tax Certificate prior to doing business within the City if such requirement conflicts with applicable statutes of the United States or of the State of California.

III-10-6.30 Application

Every Person required to have a Business Tax Certificate under the provisions of this Chapter shall make application for the same, or for renewal of the same, to the Director. Such application shall be a written statement upon a form or forms provided by the Director and shall be signed by the applicant under penalty of perjury. The application shall set forth the applicant’s Gross Receipts together with such additional information as may be therein required by the Director to properly determine the amount of the tax to be paid or to facilitate the Director’s administration of the provisions of this Chapter.

Each Person who is liable for a Business Tax pursuant to this Chapter and who is engaged in the rental or lease of Residential or Nonresidential Real Estate or Mobile Home Parks shall file with the Business Tax application a separate list of real estate owned, leased or rented in the City by street address and by county assessor parcel number for each lot or space held for rental or lease and a complete list of lessees or sublessees for each property.

No application shall be conclusive as to the matters set forth therein, nor shall the filing of the same preclude the City from collecting by appropriate action such tax as is actually due and payable under this Chapter. Each application, and all statements and information therein contained, shall be subject to review, audit and verification by the Director or their Designee. All Persons Engaged in Business in the City are hereby required to permit examination of their books, records and papers for the purposes set forth in this Chapter.

III-10-6.40 Confidentiality

(a) The information or data obtained from such examination or audit, or from any application required hereunder, shall be deemed to be confidential, subject to the exceptions set forth in this section. The foregoing information is referred to as Business Tax records.

(b) Publicly available information that is required to be included in the Business Tax application or is specified in the Business Tax application, including without limitation, the name, address, Business Tax account number, NAICS Code and any other business classifications as the Director deems appropriate for the identification and tracking of the business, and the administration of this Chapter, is subject to disclosure.

(c) The provisions of this section shall not be construed to prevent the disclosure of Business Tax records by a City official, employee or agent for the purpose of administering or enforcing any provisions of this Chapter.

(d) The provisions of this section shall not be construed to prevent the disclosure of Business Tax records to, or the examination of Business Tax records by, federal or state tax officials, or the tax officials of another City or county or City and county if a reciprocal arrangement exists for the exchange of tax information in order to assist the City with the enforcement of this Chapter.

(e) The provisions of this section shall not be construed to prevent the disclosure of Business Tax records in response to a subpoena or court order, but the City shall not be deemed to have waived any evidentiary privileges belonging to the City.

(f) The provisions of this section shall not be construed to prohibit any disclosure as may be required by applicable state or federal law.

III-10-6.50 Same Business at Multiple Locations

Notwithstanding any language in this Chapter to the contrary, each branch establishment or location at or from which a Person carries on the same business shall not be deemed a separate business, but all such branches and locations shall be treated as one business.

III-10-6.60 Concession-Basis Business

Every Person operating any business, whether upon a cost, rental or commission basis as a concession or upon rented floor space in or upon the premises of any other Person Engaged in Business under any provision of this Chapter, shall be required to pay the tax and obtain a separate and independent Business Tax Certificate pursuant to the appropriate provisions hereof, and shall be subject to all the provisions of this Chapter.

III-10-6.70 Employees

The tax imposed by this Chapter shall not apply to any business performed by a natural Person when acting as an employee. In determining whether a Person is an employee or an independent contractor, the Director may rely on the classification reported on the Person or employer's federal and California income tax returns. Upon request of the Director, any Person or business in the City shall supply such documentation or information as the Director deems necessary to determine the status of any employees and independent contractors.

III-10-6.80 Term

(a) Any certificate evidencing payment of the Business Tax which is payable on an annual basis shall become valid on the date on which the City receives payment in full of the tax and, if applicable, interest and penalties, and upon becoming valid shall be effective retroactively to the date as of which it is dated under this subsection. Regardless of the date of payment of the Business Tax, the certificate evidencing payment of the Business Tax by a new business shall be dated as of the date on which the business commenced and the certificate evidencing the annual payment of the Business Tax shall be dated as of the due date for payment of the Business Tax.

(b) The certificate issued on an annual basis shall remain valid until the due date for the annual payment of the Business Tax as specified in section III-10-5.10.

III-10-6.90 Failure to Apply

If any Person has failed to apply for and secure a valid Business Tax Certificate, the Business Tax due shall be that amount due and payable from the first date on which the Person was Engaged in Business in the City, together with applicable penalties and interest calculated in accordance with section III-10-5.70, above.

III-10-6.100 Waiver of Penalties

The Director may waive the first and second penalties of twenty-five percent each imposed upon any Person if the Person provides evidence satisfactory to the Director that failure to pay timely was due to circumstances beyond the reasonable control of the Person and occurred notwithstanding the exercise of ordinary care and the absence of willful neglect, and the Person paid the delinquent Business Tax and accrued interest owed the City prior to applying to the Director for a waiver.

The waiver provisions specified in this section shall not apply to interest accrued on the delinquent tax and no Person shall be granted more than one waiver during any twenty-four-month period.

III-10-6.110 Transferability

Business Tax Certificates issued pursuant to this Chapter are not transferable or assignable to any other Person, nor shall any tax paid by any Person under the provisions of this Chapter be applied in whole or in part to the payment of any tax due or to become due from any other Person. It shall be unlawful for any Person to sell, give or otherwise transfer to another Person, or allow any other Person to use or display, damage or remove, or to possess, except as authorized by this Chapter, any Business Tax Certificate issued to another Person.

III-10-6.120 Amendments

(a) Every Person issued a Business Tax Certificate shall apply to the Director for the issuance of an amended Business Tax Certificate prior to changing the location of the principal place of business, business name, or business mailing address specified in the Business Tax Certificate. Issuance of an amended Business Tax Certificate shall be subject to the payment of the application fee specified in the schedule of fees and charges established by resolution of the City Council.

(b) For purposes of this Chapter, the transfer of the stock or assets of any business which results in a change in the control of the business constitutes a change of ownership. A change of ownership does not require an amended Business Tax Certificate under subsection (a). Where a change of ownership results in a different Person carrying on the business, that Person shall apply for a new Business Tax Certificate under Section III-10-6.30.

III-10-6.130 Posting or Carrying Required

Every Person issued a Business Tax Certificate under the provisions of this Chapter for engaging in business at a Fixed Place of Business shall keep such Business Tax Certificate posted for exhibition, while in force, in some conspicuous place and in plain public view in the place of business. Every Person having such a Business Tax Certificate and not having a Fixed Place of Business shall carry such Business Tax Certificate at all times while carrying on the business for which the same was issued. Every Person having a Business Tax Certificate shall produce and exhibit the same whenever requested to do so by any police officer or any Person authorized to issue or inspect Business Tax Certificates.

III-10-6.140 Vehicle Identification Stickers

The Director may require any Person who uses vehicles in the conduct of business to display prominently within such vehicle a sticker, device, sign or Business Tax Certificate or facsimile which shall have printed thereon the words "Milpitas, California," or any abbreviation thereof, together with the current term of the Business Tax Certificate and shall be in such form and color and contain such other information as the Director shall determine.

No Person to whom a vehicle identification tag has been issued shall give away, sell or transfer any such identification tag or permit its use by any other Person.

III-10-6.150 Duplicate Certificates

Duplicate certificates may be issued by the Director to replace any Business Tax Certificate previously issued which has been lost or destroyed upon the filing of an affidavit attesting to such fact, and at the time of filing such affidavit paying to the Director a fee as set forth in the schedule of fees and charges established by resolution of the City Council.

III-10-6.160 Refunds and/or Credits

(a) No refund shall be made of any tax collected pursuant to this Chapter except as provided in section III-10-6.170.

(b) No refund of any tax collected pursuant to this Chapter shall be made because of the discontinuation, dissolution or other termination of a business.

(c) Any Person entitled to a refund of taxes paid pursuant to this Chapter may elect in writing to have such refund applied as a credit against such Person's Business Taxes for the next succeeding Tax Year.

III-10-6.170 Refund Procedures

(a) Whenever the amount of any Business Tax, penalty or interest has been overpaid, paid more than once, or has been erroneously or illegally collected or received by the City under this Chapter, it may be refunded to the claimant who paid the tax provided that a written claim for refund is filed with the Director, and the provisions of California Government Code section 910 et seq. are satisfied.

(b) The Director or their Designee shall have the right to examine and audit all the books and business records of the claimant in order to determine the eligibility of the claimant to the claimed refund. No claim for refund shall be allowed if the claimant therefore refuses to allow such examination of claimant's books and business records after request by the Director to do so.

(c) In the event that the Business Tax was erroneously paid and the error is attributable to the City, the entire amount of the tax erroneously paid shall be refunded to the claimant. If the error is attributable to the claimant, the City shall retain the amount set forth in the schedule of fees and charges established by resolution of the City Council from the amount to be refunded to cover processing expenses.

(d) In the event the overpayment was attributable to both the business and the City, the processing expenses will be prorated between refunded amount due to City error and taxpayer error.

(e) The Director shall initiate a refund of any Business Tax which has been overpaid or erroneously collected whenever the overpayment or erroneous collection is uncovered by a City audit of Business Tax receipts. Subsections (c) and (d) shall govern the allocation of processing expenses for any such refund.

(f) Under any of the following circumstances, no refund shall be made pursuant to this section unless and until the claimant surrenders to the Director the Business Tax Certificate evidencing payment of the tax for which refund is sought.

   (1) Where the tax was paid for a new business, but the new business did not become operational within sixty days of the payment of the tax.

   (2) Where the tax was paid to renew a Business Tax Certificate for a business not in existence at the time the tax was paid.

   (3) Where a Business Tax Certificate was issued for a business for which another Business Tax Certificate had been issued for the same time period.

Section 7 - Exemptions

III-10-7.10 General Provisions

The tax created by this Chapter shall not be deemed or construed to apply to any Person when imposition of the tax upon that Person would violate the Constitution of the United States or that of the State of California or preemptive federal or state law. This section, however, shall not relieve any Person of the obligation to submit an application under section III-10-6.30, or to provide such documentation or evidence as the Director deems necessary to verify whether the tax shall apply.

III-10-7.20 Application

Any Person desiring to claim exemption from the payment of the Business Tax shall make an application therefore upon forms prescribed by the Director and shall furnish such information and make such affidavits as may be required.

III-10-7.30 Issuance Conditions

Upon the determination being made that the applicant is entitled to exemption from the payment of the Business Tax for any reason set forth in this Chapter, the Director shall issue a Business Tax Certificate free to such Person, which shall show upon its face that the business is exempt from payment of the tax.

III-10-7.40 Grounds for Revocation

The Director may revoke any Business Tax Certificate issued pursuant to section III-10-7.30, upon information that an exemption from payment of the tax is not warranted.

III-10-7.50 Notice

Notice of revocation shall be given in the same manner and within the same time period as is provided for notices of assessment in section III-10-8.120.

III-10-7.60 Rights of Hearing and Appeal

The Person to whom the notice of revocation was issued shall have the same right of hearing and of appeal as is provided in sections III-10-8.130 through III-10-8.160.

III-10-7.70 Nonprofit and Religious Organizations

The tax imposed by this Chapter shall not apply to any nonprofit organization that is exempted from taxes by Chapter 4 (commencing with section 23701) of Part 11 of Division 2 of the Revenue and Taxation Code or Subchapter F (commencing with section 501) of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, or the successor of either, or to any minister, clergyperson, Christian Science practitioner, rabbi, or priest of any religious organization that has been granted an exemption from federal income tax by the United States Commissioner of Internal Revenue as an organization described in section 501(c)(3) of the Internal Revenue Code or a successor to that section.

III-10-7.80 Occasional Transactions

(a) The provisions of this chapter shall not apply to Persons having no Fixed Place of Business within the City who come into the City for the purpose of transacting a specific item of business at the request of a specific patient, client or customer, provided that such Person does not come into the City for the purpose of transacting business on more than five days during any Measuring Year.

(b) For any Person not having a Fixed Place of Business within the City who comes into the City for the purpose of transacting business and who is not exempt as provided in Subsection (a), of this section, the Business Tax payable by such Person may be apportioned by the Director in accordance with administrative rules promulgated pursuant to section III-10-8.20.

III-10-7.90 Veterans

A veteran who is honorably discharged or honorably relieved from the Armed Forces of the United States and is a resident of this state shall not be required to pay any local Business Tax for a business selling or providing services if the veteran is the sole proprietor of the business.

III-10-7.100 City-Sponsored Events

Any Person that performs or sells merchandise at City-sponsored events is exempt from payment of the Business Tax under the provisions of this chapter if the Person meets the following criteria:

(a) The Person enters into an agreement with the City to perform at the City-sponsored event for no charge or for a charge deemed nominal by the Director of Recreation and Community Services and the Director; or

(b) The Person enters into an agreement with the City to sell merchandise at the City-sponsored event that is hand-crafted; or

(c) The Person enters into an agreement with the City to sell any food products at the City-sponsored event.

Any Person exempted from the provisions of this chapter pursuant to this section shall be exempted only for the duration of the City-sponsored event and only if this is the sole extent of business performed in the City of Milpitas during the Tax Year in which the business is performed.

III-10-7.110 Family Caregiver

(a) Any family member who receives compensation for providing care services to another family member who is ill, disabled and/or elderly shall be exempt from the payment of any Business Tax imposed under the provisions of this chapter as a result of receiving compensation for the provision of such care.

(b) For purposes of this section, the following definitions apply:

(1) "Care services" means assistance with one or more of the following: dressing, feeding, toileting, bathing, grooming, mobility, monitoring or supervising daily living activities and related tasks.

(2) "Family member" means a spouse, registered domestic partner, parent, stepparent, aunt, uncle, sibling, child, the lineal ancestor or descendant of each of these, and legal guardian.

III-10-7.120 Other Exemptions

An exemption or partial exemption may apply if adopted pursuant to a duly adopted tax-sharing agreement, franchise agreement, or similar instrument approved by the City Council.

Section 8 - Administration and Enforcement

III-10-8.10 Duties of the Director of Finance and Chief of Police

It shall be the duty of the Director, and they are hereby directed, to enforce each and all of the provisions of this Chapter, and the Chief of Police shall render such assistance in the enforcement of this Chapter as may from time to time be required by the Director.

III-10-8.20 Rules and Regulations

For purposes of administration and enforcement of this Chapter generally, the Director may from time to time promulgate administrative rules and regulations.

III-10-8.30 Inspection of Business Tax Certificates

The Director and Authorized City Officials shall have the power and authority to enter, free of charge, during business hours, any place of business taxed by the provisions of this Chapter and to demand exhibition of a Business Tax Certificate and evidence of amount of tax paid. Any Person to whom a Business Tax Certificate has been issued and who fails to exhibit the Business Tax Certificate or to provide evidence of the amount of the Business Tax paid in response to a lawful demand shall be guilty of a misdemeanor.

III-10-8.40 Inspection and Examination of Places of Business

The Director and Authorized City Officials, in the exercise of the duties imposed upon them, shall have the authority to inspect and examine all places of business in the City to ascertain whether or not the provisions of this Chapter have been complied with.

III-10-8.50 Audit and Examination of Records and Equipment

The Director and their Designees shall have the power to audit and examine all books and records, and, where necessary, all equipment, of any Person Engaged in Business in the City, for the purpose of ascertaining the amount of Business Tax, if any, required to be paid by the provisions hereof, and for the purpose of verifying any statements or any item thereof when filed by any Person pursuant to the provisions of this Chapter. If such Person, after written demand by the Director, or their Designee, refuses to make available for audit, examination or verification such books, records or equipment as the Director or their Designees requests, the Director may, after full consideration of all information within their knowledge concerning the business and activities of the Person so refusing, make an assessment in the manner provided in sections III-10-8.90 through III-10-8.160 of any taxes estimated to be due.

III-10-8.60 Statute of Limitations

The Director may issue a notice of assessment of tax at any time within three years of the date on which the tax was due, provided that the taxpayer timely filed a Business Tax application and timely paid the tax. For a taxpayer that did not timely file or pay, the assessment period is extended to seven years. For a taxpayer whose nonpayment is determined by the Director to be due to fraud, there is no limitations period, and an assessment may be issued at any time.

III-10-8.70 Tax Deemed Debt to City

The amount of any Business Tax, penalties and interest imposed by the provisions of this Chapter shall be deemed a debt to the City and any Person carrying on any business without first having procured a Business Tax Certificate under this Chapter from the City to do so shall be liable to an action in the name of the City in any court of competent jurisdiction for the amount of the tax, and penalties and interest imposed on such business.

III-10-8.80 Liability – Evidence of Doing Business

In any action brought under or arising out of any of the provisions of this Chapter, the fact that a party thereto represented that the party engaged in any business for the transaction of which a Business Tax Certificate is required hereunder, or that such party exhibited a sign indicating such business, shall be prima facie evidence of the liability of such party to pay a Business Tax for such business.

III-10-8.90 Deficiency Determinations

If the Director is not satisfied that any statement filed as required under the provisions of this Chapter is correct, or that the amount of tax is correctly computed, they may compute and determine the amount to be paid and make a deficiency determination upon the basis of the facts contained in the statement or upon the basis of any information in their possession or that may come into their possession. One or more deficiency determinations of the amount of tax due for a period or periods may be made. When a Person discontinues engaging in a business, a deficiency determination may be made at any time within three years thereafter as to any liability arising from engaging in such business whether or not a deficiency determination is issued prior to the date the tax would otherwise be due. Whenever a deficiency determination is made, a notice shall be given to the Person concerned in the same manner as notices of assessment are given under section III-10-8.120.

III-10-8.100 Tax Assessment

Under any of the following circumstances, the Director may make and give notice of an assessment of the amount of tax owed by a Person under this Chapter:

(a) If the Person has not filed a statement or return required under the provisions of this Chapter;

(b) If the Person has not paid any tax due under the provisions of this Chapter;

(c) If the Person has not, after demand by the Director, filed a corrected statement or return, or furnished to the Director adequate substantiation of the information contained in a statement or return already filed, or paid any additional amount of tax due under the provisions of this Chapter;

(d) The notice of assessment shall separately set forth the amount of any tax known by the Director to be due or estimated by the Director, after consideration of all information within the knowledge of the Director concerning the business and activities of the Person assessed, to be due under each applicable section of this Chapter, and shall include the amount of any penalties or interest accrued on each amount to the date of the notice of assessment.

III-10-8.110 Fraud

(a) If the Director determines that the nonpayment of any Business Tax due under this Chapter is due to fraud, a penalty of twenty-five percent of the amount of the tax shall be added to the tax due, in addition to penalties and interest imposed in this Chapter.

(b) Nonpayment of any portion of the Business Tax due may result in revocation of the Business Tax Certificate. Notice of revocation shall be given in the same manner and within the same time period as is provided for notices of assessment in section III-10-8.120, and the Person to whom the notice of revocation was issued shall have the same right of hearing and of appeal as is provided in sections III-10-8.130 through III-10-8.160.

III-10-8.120 Notice Requirements

The notice of assessment shall be served upon the Person either by handing it to the Person, or by a deposit of the notice in the United States mail, postage prepaid thereon, addressed to the Person at the address of the location of the business appearing on the face of the Business Tax Certificate issued to the Person or to such other address as the Person registered with the Director for the purpose of receiving notices provided under this Chapter; or, should the Person have no Business Tax Certificate and should the Person have no address registered with the Director for such purpose, then to such Person's last known address. For the purposes of this section, a service by mail is complete at the time of deposit in the United States mail.

III-10-8.130 Request for Hearing

A Person receiving a notice of assessment may request a hearing by submitting a written request to the Director within ten (10) Business Days after date of service of the notice. If a request for hearing is not filed within this period, the assessment shall become final.

III-10-8.140 Scheduling of Hearing

Upon receipt of a timely request, the Director shall schedule a hearing within thirty (30) Business Days, unless a later date is agreed to by the Director and the Person requesting the hearing. Notice of the hearing shall be provided at least ten (10) Business Days prior to the hearing date.

III-10-8.150 Conduct of Hearing

At the hearing, the Person requesting the hearing may present evidence demonstrating why the assessment should not be confirmed or should be modified.

III-10-8.160 Determination

Following the hearing, the Director or an appointed hearing officer shall determine the amount of tax due and shall provide written notice of the determination in the manner prescribed in section III-10-8.120. The determination shall be final.

III-10-8.170 Conviction for Chapter Violation – Taxes Not Waived

The conviction and punishment of any Person for failure to pay the required Business Tax shall not excuse or exempt such Person from any civil action for the Business Tax debt unpaid at the time of such conviction. No civil action shall prevent a criminal prosecution for any violation of the provisions of this chapter or of any state law requiring the payment of all taxes.

III-10-8.180 Violation Deemed Misdemeanor - Penalty

Any Person violating any of the provisions of this Chapter or any regulation or rule passed in accordance herewith, or knowingly or intentionally misrepresenting to any officer or employee of this City any material fact in procuring the Business Tax Certificate herein provided for shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punishable by a fine or by imprisonment, or by both such fine and imprisonment as set forth in Title I, Chapter 1, section 4.09 of the Milpitas Municipal Code.

III-10-8.190 Operative Date

The operative date of this Chapter shall be January 1, 2028.

III-10-8.200 Application of Chapter – Payment of Tax

If approved by a majority of the voters at the November 2026 general election, the provisions of this Chapter shall go into effect on January 1, 2028. Persons Engaged in Business in the City with a Business Tax payment due date on or after January 1, 2028, shall be responsible for calculating and paying the Business Tax pursuant to this Chapter.

III-10-8.210 Effect of State and Federal Reference/Authorization

Unless specifically provided otherwise, any reference to a state or federal statute in this Chapter shall mean such statute as it may be amended from time to time, provided that such reference to a statute herein shall not include any amendment thereto, or to any change of interpretation thereto by a state or federal agency or court of law with the duty to interpret such law, to the extent that such amendment or change of interpretation would, under California law, require voter approval of such amendment or interpretation, or to the extent that such change would result in a tax decrease. To the extent voter approval would otherwise be required or a tax decrease would result, the prior version of the statute (or interpretation) shall remain applicable; for any application or situation that would not require voter approval or result in a decrease of a tax, provisions of the amended statute (or new interpretation) shall be applicable to the maximum possible extent.

To the extent that the City's authorization to collect or impose any tax imposed under this Chapter is expanded as a result of changes in state or federal law, no amendment or modification of this Chapter shall be required to conform the tax to those changes, and the tax shall be imposed and collected to the full extent of the authorization up to the full amount of the tax imposed under this Chapter, to the extent that said increase is within the scope of and not explicitly exempted by the requirements of this ordinance.

III-10-8.220 Remedies Cumulative

All remedies and penalties prescribed by this Chapter or which are available under any other provision of law or equity, including but not limited to the California False Claims Act (Government Code section 12650 et seq.) and the California Unfair Practices Act (Business and Professions Code section 17000 et seq.), are cumulative. The use of one or more remedies by the City shall not bar the use of any other remedy for the purpose of enforcing the provisions of this Chapter.

III-10-8.230 Amendment or Repeal

This Chapter may be repealed or amended by the City Council without a vote of the people. However, as required by Article XIII C of the California Constitution, voter approval is required for any amendment provision that would increase the rate of any tax levied pursuant to this Chapter. The people of the City of Milpitas affirm that the following actions shall not constitute an increase of the rate of a tax:

(a) The restoration of the rate of the tax to a rate that is no higher than that set by this Chapter, if the City Council has acted to reduce the rate of the tax;

(b) An action that interprets or clarifies the methodology of the tax, the method of apportioning Gross Receipts, or any definition applicable to the tax, so long as interpretation or clarification (even if contrary to some prior interpretation or clarification) is not inconsistent with the language of this Chapter;

(c) Any change to the dates on which tax payment is due or any change to definitions of and alignment between Measuring Year and Tax Year, so long as the change does not cause any Person to be taxed twice on the same Gross Receipts;

(d) The establishment of a class of Person that is exempt or excepted from the tax or the discontinuation of any such exemption or exception (other than the discontinuation of an exemption or exception specifically set forth in this Chapter); or

(e) The collection of the tax imposed by this Chapter, even if the City had, for some period of time failed to collect the tax.

SECTION 3. SEVERABILITY

The provisions of this Ordinance are separable, and the invalidity of any phrase, clause, provision or part shall not affect the validity of the remainder.

SECTION 4. EFFECTIVE DATE AND POSTING

No part of this ordinance, including the repeal or modification of any existing ordinances, shall go into effect unless this ordinance is approved by the voters. If approved by the voters, this ordinance shall become effective January 1, 2028.

Business Tax Modernization Detailed Analysis & Findings Report

July 23, 2026

HdL Companies

SUBMITTED BY
HdL Companies
120 S. State College Blvd., Ste 200
Brea, CA 92821
hdlcompanies.com

Table of Contents

Executive Summary

The City of Milpitas engaged HdL Companies to review its Business License Tax (BLT) program and evaluate opportunities to modernize the City's tax structure. This study evaluates the City's current Business License Tax structure and provides a recommended modernization approach designed to improve equity, administrative clarity, and long-term revenue sustainability.

The analysis found that business license tax revenues experienced modest growth well below economic and peer benchmarks, over the past five years and are substantially lower than those of peer jurisdictions. Milpitas currently generates approximately $4.32 in business license revenue per resident and approximately $58.59 per business, the lowest among the peer cities evaluated in this study. The existing employee-based structure also does not consistently align tax liability with economic activity, allowing businesses with significantly different revenues to pay similar amounts.

The recommended model combines modest flat fees with graduated gross receipts rates. Approximately 85.5 percent of businesses would be either exempt or pay only a flat fee, while businesses with annual gross receipts above $700,000 would contribute through graduated rates applied on receipts within defined tiers. Only about 2 percent of businesses fall within the two highest tiers. The model is projected to generate approximately $2.81 million annually, compared with approximately $334,000 in FY 2023-24. HdL concludes that the recommended model provides a balanced modernization approach. It improves equity, protects small businesses, strengthens the City's long-term fiscal position, and remains within the range of business tax obligations observed among peer jurisdictions.

1. Problem Statement and Study Purpose

Problem Statement

The City's Business License Tax structure has remained largely unchanged since its adoption in 1976. It relies primarily on employee counts and numerous industry-specific classifications. Changes in technology, automation, remote work, and modern business models have weakened the relationship between employee counts and actual business activity.

While the City's business community has continued to grow and diversify, annual business license tax revenues have remained within a narrow range of approximately $312,700 to $347,500 from FY 2020–21 through FY 2025–26. Comparative analysis also shows that Milpitas ranks last among the peer jurisdictions in both revenue per capita and revenue per business.

The current structure raises additional questions regarding equity. Businesses with significantly different levels of economic activity can pay similar taxes because they employ comparable numbers of workers. The City's largest businesses also represent a substantial share of reported business activity while contributing a comparatively smaller share of total business license tax revenue.

Study Purpose

The purpose of this study is to provide the City Council with an evaluation of the existing Business License Tax program and identify opportunities to modernize the structure in a manner that is equitable, transparent, administratively workable, and sustainable. To that end, this report addresses the following goals of the study.

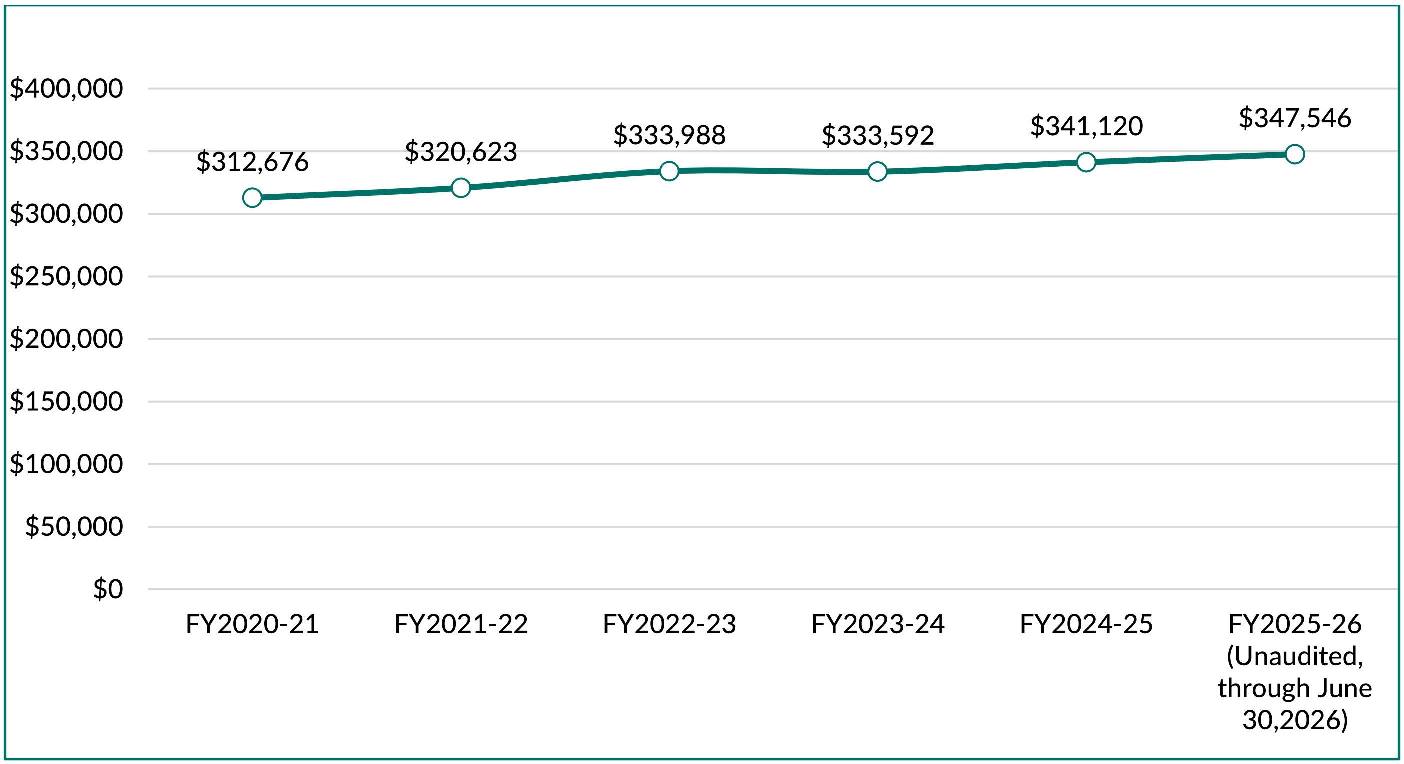
- Evaluate the current business license registry and historical revenue performance.
- Compare Milpitas' tax structure and revenue productivity with peer jurisdictions.
- Assess whether the existing structure appropriately aligns tax liability with business activity.
- Evaluate an alternative structure that protects small businesses while improving equity and fiscal sustainability.
- Identify implementation considerations and recommended next steps.

2. Current Business License Registry Assessment

The City's registry includes approximately 5,638 active businesses across retail, contracting, professional services, manufacturing, home occupations, rental activity, and other business types. The current ordinance applies more than 17 classifications and several calculation methods, including employee-based taxes, flat fees, per-unit charges, and vehicle-based assessments.

This variety reflects the local economy's diversity, but it also makes the program more difficult to administer and creates uneven outcomes across businesses. The exhibits below summarize the registry, revenue performance, and distribution of the current tax burden.

Exhibit 2.1: Six-Year Business License Tax Revenue Trend

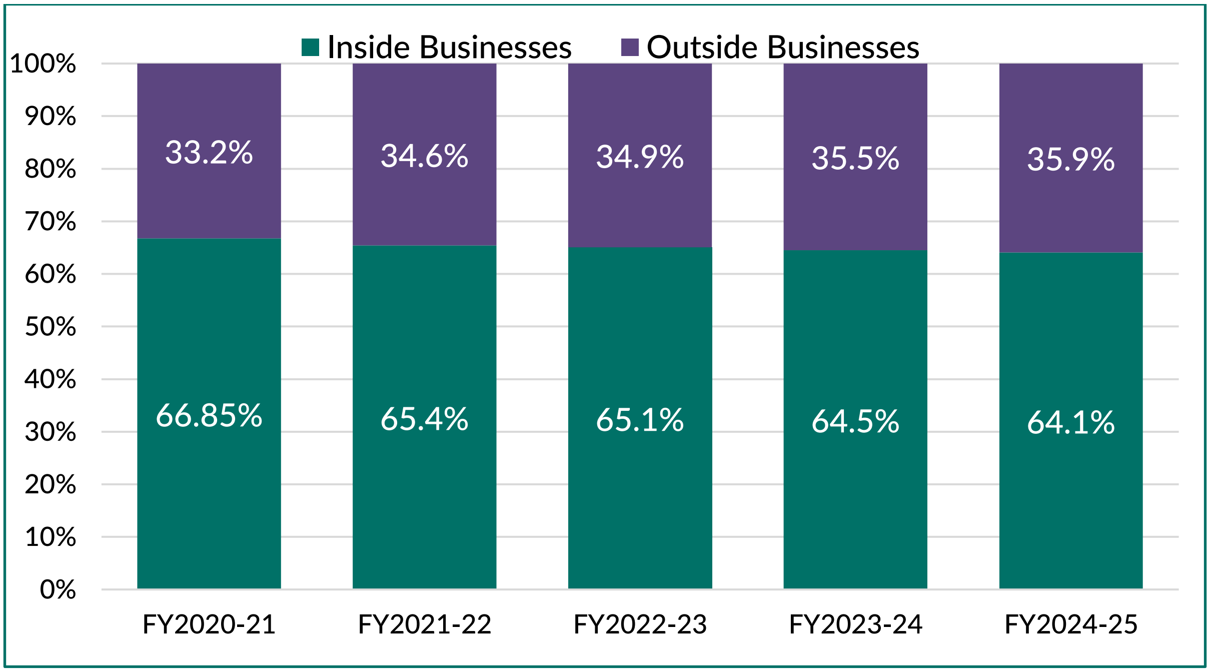


Source: City of Milpitas business license registry; HdL analysis.

Finding: Annual business license tax revenue remained essentially flat over the six-year period, grew modestly, by approximately 11 percent over the six-year period, well below the growth in the City's business base and economic activity over the same period.

Policy Implication: The current structure has limited elasticity relative to the growth of the local economy and does not convert growth in business activity into corresponding revenue growth.

Exhibit 2.2: Five-Year Business License Count Trend



Source: City of Milpitas business license registry; data limited to records available in the HdL database.

While revenues have remained relatively unchanged, the composition of the City's business community has gradually shifted. For purposes of this analysis, inside businesses are businesses with a physical location in Milpitas, while outside businesses are businesses located outside the City that conduct business within Milpitas. Outside businesses increased from 33.24 percent of all businesses in FY 2020–21 to 35.9 percent in FY 2024–25, an increase of 2.73 percentage points. During the same period, the share of inside businesses declined from 66.82 percent to 64.14 percent, a decrease of 2.74 percentage points. This trend indicates that outside businesses represent a growing share of the City's overall business base.

Most outside businesses are contractors located outside Milpitas that operate within the City while completing specific projects. Because their activity is project-based rather than permanent, the number of active outside businesses and the associated business license tax revenue may fluctuate with construction activity, contract awards, and broader economic conditions. Accordingly, the growing share of outside businesses may introduce greater year-to-year variability in the City's business license tax revenues.

Business Count by Rate Type

The registry indicates that Milpitas' current Business License Tax structure is concentrated in business categories subject to relatively low tax assessments. Retail Sales or Service and Contractor – Outside Only represent the two largest groups of businesses, but they are assessed using fundamentally different methods, including employee-based calculations and flat annual fees.

Home occupations also represent a significant share of the registry and are subject to low flat tax. As a result, the overall structure relies more on classification and employee counts, which are indirect proxies for business size, rather than on direct measures of economic activity such as gross receipts. The current tax structure limits the ability of the tax system to scale as businesses grow and results in the City's large and diverse business base producing relatively low Business License Tax revenue.

Exhibit 2.3: FY 2023-24 Business Count by Rate Type

Rate Type	Business Count	Percent of Total	Current Tax Basis
Retail Sales or Service	1,583	28.1%	Base + employee count
Contractor – Outside Only	1,530	27.1%	Annual flat rate ($50)
Home Occupation	762	13.5%	Annual flat rate ($25)
No Fixed Location	521	9.2%	Per vehicle in City at one time
Apartments, Hotels, Mobile Parks	284	5.0%	Per unit
Professional	213	3.8%	Base + per employee
Manufacturing/Wholesale/Processing	180	3.2%	Base + per employee
Barber or Beauty Salon Owner	86	1.5%	Base + per employee
Real Estate	55	1.0%	Base + per employee
All Other Rate Types (15)[1]	424	7.5%	Varies by type
Total	**5,638**	**100%**	–

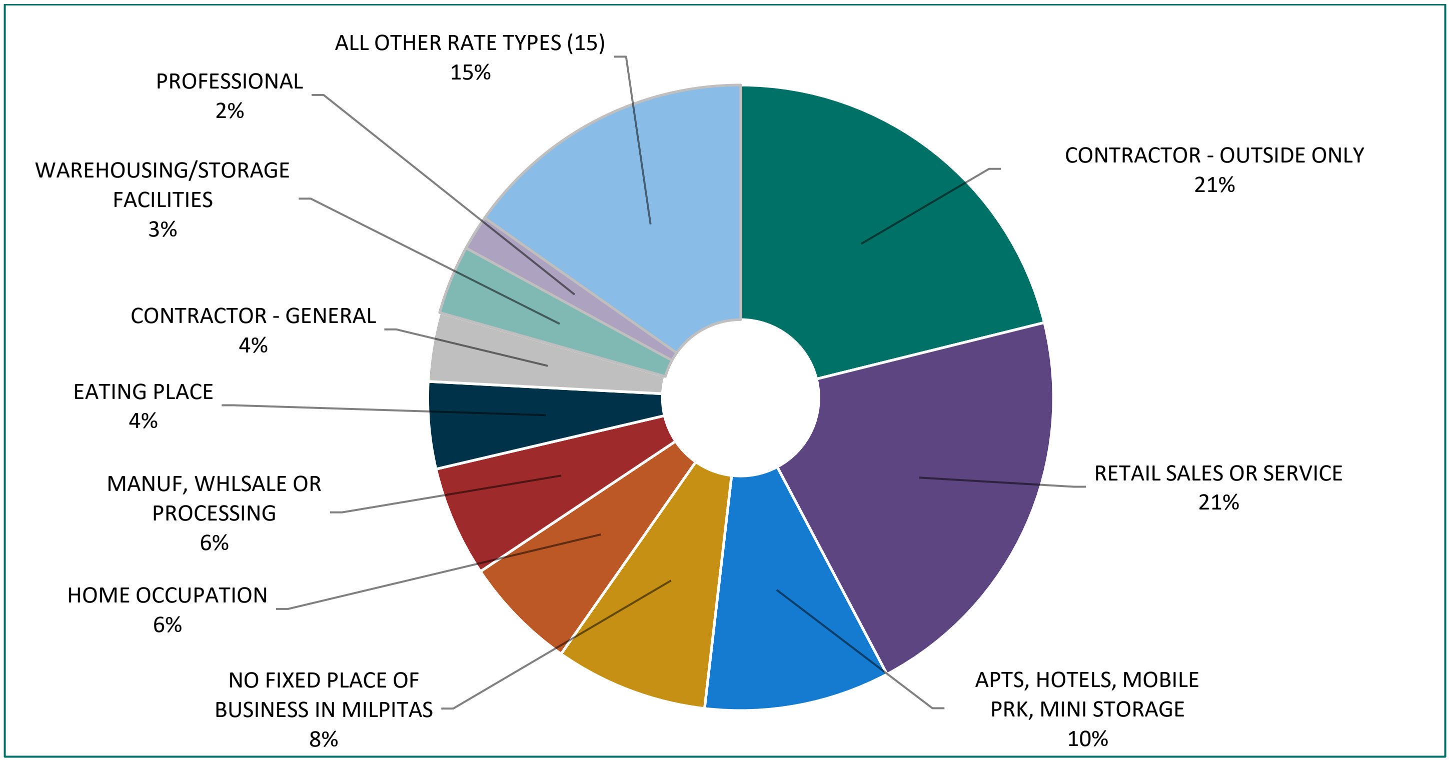
Source: City of Milpitas business license registry.

Share of Business License Tax Revenue by Business Type

As shown in Exhibit 2.4 below, Milpitas' business license tax revenue is generated across a diverse mix of business activities, but collections are concentrated in a few major classifications. Contractors – Outside Only and Retail Sales or Service are the two largest contributors, with each category generating approximately 21% of total business license tax revenue. The chart also shows that the remaining revenue is spread across several smaller classifications, including apartments/hotels/mobile parks, no fixed place of business, home occupations, manufacturing, and other business types.

[1] "All Other Rate Types" includes the 15 remaining rate classifications that are not presented separately because each account for a relatively small share of the registry. See Attachment C for the complete list.

Exhibit 2.4: Share of Business License Tax Revenue by Business Type (FY 2023-24)



Source: City of Milpitas business license registry; HdL analysis.

The concentration of revenue among a few classifications, particularly Contractors and Retail Sales or Service, which together generate approximately 42 percent of total revenue, reinforces the importance of evaluating whether the existing structure reflects the broader diversity and economic capacity of the City's business community.

Evaluation of the Current Tax Structure and Top 100 Businesses

The current ordinance relies primarily on employee counts to measure taxable activity. Employee count is an increasingly limited measure of taxable activity. Technology companies, remote operations, and highly automated businesses can generate substantial revenues while employing relatively few workers.

Exhibits 2.5 and 2.6: Top 100 Businesses: Comparison of Reported Employment and Business License Tax Contributions (FY 2023-24)

Exhibit 2.5

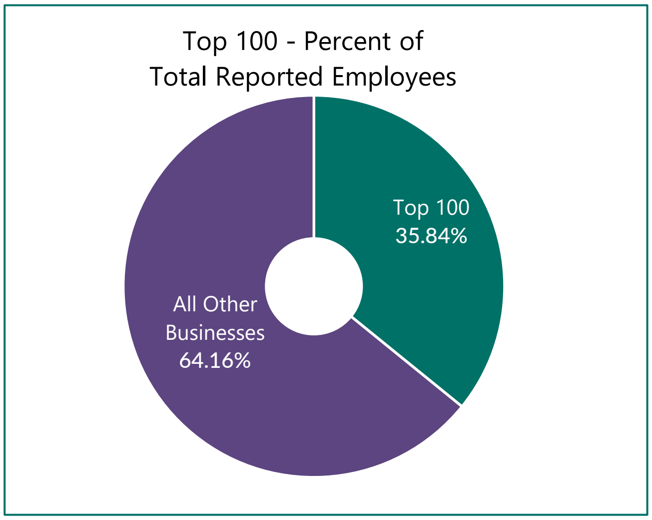
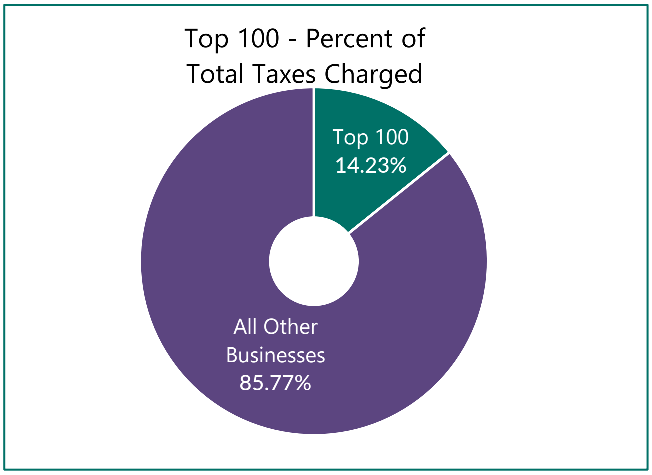


Exhibit 2.6



Equity finding

The chart shows a clear mismatch between the City's largest employers and their share of Business License Tax revenue. The top 100 businesses account for approximately 35.84 percent of total reported employees, indicating that they represent a significant share of business activity within Milpitas. However, these same businesses generate only 14.23 percent of total Business License Tax revenue, while all other businesses account for the remaining 85.77 percent of tax revenue. This disparity reflects the limitations of employee-based tax structure and supports the use of gross receipts as a more accurate measure of business activity.

Policy Implication.

This disparity suggests that the current employee-based tax structure does not align the relative size and taxable activity of businesses with the tax liability. Although the largest businesses with the highest reported employees account for more than one-third of reported employment, they contribute less than one-sixth of total tax revenue. From a policy perspective, this finding supports consideration of a modernized structure that more closely aligns tax responsibility with measurable indicators of business scale and economic capacity, such as gross receipts.

3. Peer Jurisdiction Comparison

To better understand the competitiveness of the City's Business License Tax structure, Milpitas was compared with eight peer jurisdictions selected based on geographic proximity, comparable industry and economic characteristics, and similar population size. The comparison focuses on the measures most useful for assessing the City's relative position within the regional market.

Exhibit 3.1: Peer Jurisdiction Comparison (FY 2022-23)

Location	Population	Business Count	Business License Tax Revenue	Revenue Per Capita	Revenue Per Business	Ordinance Last Modified	Tax Basis	Cap?	Cap Amount
Pleasanton	74,653	9,500	$5,853,515	$78.41	$616.16	2016	Gross Receipts	No	N/A
South San Francisco[2]	63,123	6,500	$3,831,306	$60.70	$589.43	2024	Per Employee	No	N/A
Fremont	226,208	18,500	$11,957,846	$52.86	$646.37	2010	Gross Receipts	No	N/A
Redwood City[2]	80,996	16,700	$3,205,868	$39.58	$191.97	2024	Per Employee	Yes	$250,000
Newark	46,929	3,300	$1,571,817	$33.49	$476.31	1990	Gross Receipts	No	N/A
San José	969,655	66,000	$26,000,000	$26.81	$393.93	2016	Per Employee	Yes	$185,532.59
Sunnyvale	151,967	11,000	$1,985,280	$13.06	$180.48	2006	Per Employee	Yes	$31,070.90
Santa Clara[2]	131,062	12,000	$949,230	$7.24	$79.10	2022	Per Employee	Yes	$350,000
Milpitas	77,321	5,638	$333,988	$4.32	$59.24	1976	Per Employee	No	N/A

Sources: State Controller's Office FY 2022-23 data, municipal ordinances and fee schedules, and HdL analysis. Caps for San José and Sunnyvale reflect fee schedule adjustment in FY 25.

The comparison indicates that Milpitas is an outlier among the peer jurisdictions in several key respects. Milpitas generates the lowest revenue per capita ($4.32) and revenue per business ($59.24) among the comparison jurisdictions. Its 1976 ordinance is also the oldest in the peer group. Most comparison cities have modernized their structures through gross receipts methodologies, updated employee-based schedules, or tax caps. The comparison indicates that Milpitas has room to modernize while remaining regionally competitive.

[2] FY 2022–23 snapshot. Tax changes approved in Santa Clara in 2022, South San Francisco in 2024, and Redwood City in 2024 are not reflected.

4. Business Scenario Analysis – Current Tax Rates

Representative scenarios were developed to compare how various business types would be taxed in Milpitas under the current business tax structure and selected peer jurisdictions. The scenarios cover professional services, retail, food service, commercial rental activity, contracting, and a small retail boutique.

Across all six illustrative scenarios, Milpitas produces the lowest tax revenue. The gap is especially pronounced for businesses with higher gross receipts. For example, a consulting firm pays $86 in Milpitas compared with a peer range of $242 to $2,370, while a supermarket pays $154 compared with a peer range of $1,292 to $3,698.

The results indicate that the City has the capacity to modernize its Business License Tax. The peer comparisons also reinforce the finding that the City's current employee-based structure places relatively low tax liability on businesses with greater economic activity.

(Detailed assumptions, tax calculations, and jurisdiction rate schedules are provided in Appendices A and B.)

Exhibit 4.1: Business Scenario Summary – Milpitas Compared with Peer Range

Representative Business	Milpitas Current Tax	Peer Jurisdiction Range	Relative Position
Consulting Firm	$86	$242 – $2,370	Lowest
Supermarket	$154	$1,292 – $3,698	Lowest
Sit-down Restaurant	$102	$485 – $1,294	Lowest
Commercial Landlord	$40	$81 – $2,527	Lowest
General Contractor	$50	$485 – $1,561	Lowest
Retail Boutique	$60	$130 – $368	Lowest

Source: HdL representative business scenario analysis. See Appendix A for detailed calculations.

5. Recommended Business Tax Structure

The recommended model is based on the City's objective to improve equity and affordability for small businesses. To accomplish this, HdL, in consultation with the City's staff, developed a graduated gross receipts[3] model that combines modest flat tax rates with higher flat tax rates for larger businesses along with a gross receipts tax for businesses generating more than $700,000 per year.

The recommended model uses gross receipts as the primary measure of business activity. Businesses generating less than $700,000 in annual gross receipts will generally pay a flat tax. Businesses above that threshold pay the applicable flat tax plus graduated gross receipts tax rate applied to receipts within each taxable tier.

The model also combines businesses by their Federal Employer Identification Number (FEIN) instead of taxing businesses based on their location in the City. This matters most for businesses with multiple locations, resulting in a reduced total number of businesses from 5,638 to 5,394.

Exhibit 5.1: Distribution of Businesses Under the Recommended Model

4,611	**678**	**105**
85.5%	**12.6%**	**1.9%**
Exempt or flat-tax-only businesses	Businesses in the $700,000–$9.99 million tier	Businesses in the two highest tiers $10 million-$24.99 million and above $25 million

Source: City of Milpitas business registry and HdL model assumptions.

The distribution confirms that the recommended model protects most of the registry through exemptions and flat tax. Gross receipts tax rates apply to approximately 783 businesses, with only 105—approximately 2 percent of the registry—falling into the highest tiers.

[3] For the purposes of this report, gross receipts are estimated based on reported data when available; otherwise, they are estimated using sales tax information or industry-level receipts per employee, with validation focused on the City's largest businesses. Estimated receipts are then adjusted using standardized discounts based on business location, contractor status, and application or renewal stage.

Exhibit 5.2: Recommended Business Tax Structure

Gross Receipts Tier	Tax Rate Structure	Businesses	Estimated Taxable Gross Receipts	Flat-tax Revenue	Estimated Annual Tax
Exempt Businesses	Exempt	173	$43,403,000	$0	$0
$0 – $24,999	$25 Flat-Tax	23	$236,000	$575	$575
$25,000 – $99,999	$115 Flat Tax	1,313	$75,350,000	$150,995	$150,995
$100,000 – $249,999	$250 Flat Tax	2,593	$334,244,000	$648,250	$648,250
$250,000 – $699,999	$400 Flat Tax	509	$220,216,000	$203,600	$203,600
$700,000 – $9,999,999	$400 + $0.25 per $1,000*	678	$1,749,301,000	$271,200	$589,875
$10,000,000 – $24,999,999	$400 + $0.30 per $1,000*	74	$1,154,584,000	$29,600	$326,025
$25,000,000+	$400 + $0.35 per $1,000*	31	$2,677,553,000	$12,400	$889,870
Total	—	**5,394**	**$6,254,887,000**	**$1,316,620**	**$2,809,190**

**Graduated Rates apply to gross receipts within each tier. Businesses in higher tiers also pay the applicable lower-tier rates. Source: HdL model based on the City registry and study assumptions.*

The model estimates approximately $2.81 million in annual revenue under current assumptions. Flat tax provides approximately $1.32 million, or 46.98 percent of projected revenue, while the graduated gross receipts component provides approximately $1.49 million, or 53.02 percent. (Please note that these are estimates from the model and not forecasts or guarantees of future revenues.)

Fiscal Impact and Regional Position

The recommended business tax model increases estimated annual revenue from approximately $333,988 to $2,809,190, an increase of approximately $2.48 million. The modernization of the business tax would move Milpitas from the bottom of the peer group to a middle position based on revenue per capita and revenue per business.

Exhibit 5.3: Current and Proposed Revenue Performance

Jurisdiction	Business License Tax Revenue (FY-2022-23)	Revenue Per Capita	Revenue Per Business
Pleasanton	$5,853,515	$78.41	$616.16
South San Francisco[4]	$3,831,306	$60.70	$589.43
Fremont	$11,957,846	$52.86	$646.37
Redwood City[4]	$3,205,868	$39.58	$191.97
Milpitas (Proposed)	$2,809,190	$36.33	$484.34
Newark	$1,571,817	$33.49	$476.31
San José	$26,000,000	$26.81	$393.93
Sunnyvale	$1,985,280	$13.06	$180.48
Santa Clara[4]	$949,230	$7.24	$79.10
Milpitas (Current)	$333,988	$4.32	$58.59

Under the proposed model, Milpitas would move from ninth to sixth in revenue per capita and from ninth to fifth in revenue per business among the nine jurisdictions compared.

Recommended Model Takeaway

The model materially improves revenue generation without moving Milpitas to the high end of the regional comparison. Most businesses remain in modest flat tax tiers, while additional revenue generated based on gross receipts is concentrated among businesses with greater economic activity.

[4]FY 2022–23 snapshot. Santa Clara adopted a new Business License Tax structure in 2022, which has since increased its revenue more than sixfold. This increase, along with tax changes approved in South San Francisco and Redwood City in 2024, is not reflected.

6. Policy Findings and Implications

The recommended model was evaluated against the City's central policy objectives. The findings indicate that the model provides a more balanced structure than the existing employee-based framework and improves the tax model when evaluated by the objectives, as noted below.

Equity Gross receipts provide a closer relationship between tax liability and taxable business activity, reducing the uneven outcomes created by employee counts.	**Small Business Protection** Businesses generating less than $700,000 in annual gross receipts generally pay only a flat tax, preserving modest obligations for the large majority of the registry.
Revenue Sustainability The graduated component allows revenue to respond to local economic growth rather than remaining largely static.	**Regional Competitiveness** Projected revenue per capita and per business remain within the middle of the peer range.
Administrative Clarity A tiered structure can reduce reliance on numerous industry-specific formulas and make the tax basis easier to explain.	**Future Adaptability** Gross receipts can better accommodate technology, automation, remote work, and other business models that are not well measured by employee count.

7. Implementation Considerations

Implementation will require coordinated legal, administrative, technology, and communication work. Most businesses remain within a flat tax tier, the primary transition effort will require focus on businesses required to pay the tax based on their gross receipts and ensuring that filing instructions are clear and consistent.

Given that the recommended model includes flat tax, the flat tax should be subject to CPI adjustments to ensure the business tax revenues remain consistent with inflation. Language to that effect should be added to the ordinance.

Exhibit 7.1: Implementation Work Plan

Implementation Area	Recommended Action
Ordinance and Legal Review	Prepare ordinance language defining taxable gross receipts, exemptions, filing obligations, graduated tiers, appeals, and enforcement authority.
Ballot Measure	Council approval of ballot measure and new ordinance for voter consideration in November 3, 2026 election.
Administrative Systems	Configure billing and filing systems to support tier assignment, gross receipts reporting, exemptions, and audit records.
Business Outreach	Provide advance notice, frequently asked questions, examples, and direct outreach to businesses expected to report gross receipts.
Staff Training	Update procedures for taxpayer assistance, review of returns, appeals, and compliance follow-up.
Ongoing Review	Establish a periodic review or inflation adjustment authorized by the ordinance to reduce future erosion of the tax structure.

A phased implementation calendar should provide sufficient time for ordinance adoption, system configuration, staff training, business education, and testing before the first filing period.

8. Conclusion and Recommendation

The study finds that Milpitas' existing Business License Tax structure no longer fully reflects the scale and diversity of the City's modern economy. Business License Tax revenue has remained largely unchanged despite continued growth in the business registry. The current ordinance is the oldest among the peer jurisdictions reviewed, and the current employee-based methodology generates relatively limited revenue compared with peer jurisdictions.

Under the City's direction, HdL proposes a graduated gross receipts model as a practical option for modernizing the Business Tax structure. The proposed model preserves modest flat tax for most businesses, creates a stronger relationship between tax obligations and economic activity, and is estimated to generate approximately $2.81 million in annual revenue while maintaining Milpitas' competitive position within the regional market.[5]

Based on the findings of this study, HdL concludes that the proposed structure provides the City with a balanced framework for improving equity, strengthening long-term revenue stability, and better aligning the Business Tax with the size and economic capacity of businesses operating in Milpitas. The final structure and policy direction remain, of course, in the hands of the City.

Recommendation

Proceed with the graduated gross receipts model as the basis for ordinance development and implementation planning, subject to final legal review and City Council direction for voter consideration.

[5] Market here is defined as a general reference to the group of nearby jurisdictions competing for business activity, investment, and retention. Since the report does not establish a specific geographic market boundary, the quotation marks were intended to avoid presenting the term as a technical designation

Appendix A – Detailed Business Scenario Comparison

The scenarios below are illustrative and are intended to compare relative tax amounts across jurisdictions. They do not represent individual taxpayers or final assessments.

Exhibit A.1: Representative Business Scenario Calculations

Business Scenario	Gross Receipts	Employees	Milpitas (Current tax)[6]	Milpitas (Proposed Tax Rate)	Fremont[7]	Newark[7777]	San José	Santa Clara	Sunnyvale	Pleasanton	Redwood City	South San Francisco
Large Tech Business	$160,000,000	800	$874	$54,475	$208,030	$208,000	$51,599	$36,976	$25,505	$48,000	$99,804	$43,886
Supermarket	$9,500,000	80	$154	$2,600	$2,405	$2,236	$3,666	$3,698	$2,554	$2,850	$3,080	$3,687
General Contractor	$5,000,000	30	$50	$1,475	$625	$1,561	$1,257	$1,387	$960	$1,500	$2,340	$9,180
Sit-down Restaurant	$2,200,000	28	$102	$775	$580	$1,141	$1,183	$1,294	$960	$660	$1,000	$1,301
Consulting Firm	$1,800,000	12	$86	$675	$2,370	$2,340	$590	$555	$482	$540	$1,304	$1,403
Commercial Landlord	$1,200,000	2	$40	$525	$1,590	$790	$2,527	$92	$163	$360	$2,903	$1,530
Retail Boutique	$400,000	6	$60	$400	$130	$267	$368	$277	$323	$120	$180	$337
Hair Salon	$40,000	1	$35	$115	$70	$39	$224	$46	$97	$50	$155	$184

Source: HdL calculations based on representative business assumptions and jurisdiction rate schedules in Appendix B. Sunnyvale values reflect the annualized portion of its two-year cycle.

[6] For the Milpitas calculations, the first employee was treated as the owner or manager and was therefore excluded from the employee fee calculation. Employee fees were applied only to employees in excess of one owner/manager, consistent with the fee schedule language.

[7] Large Tech businesses were classified under the Professionals category for Fremont and Newark, which drives the tax amounts shown. However, if they are instead classified under the general business/personal services category for Fremont and the general business category for Newark, the tax amounts would be $160,030 and $24,811, respectively.

Appendix B – Peer Jurisdiction Rate Schedules

The table summarizes the principal rate schedules used to calculate the representative business scenarios. Ordinances and fee schedules should be reviewed before applying the rates to an individual taxpayer.

Exhibit B.1: Selected Business 2026 Business Tax Rate Schedules

Business Class	Milpitas (Current)	Fremont	Newark	San José	Santa Clara	Sunnyvale*
Contractors	$50/year or $35/6 months	$95 + $0.10 per $1,000 GR	$96 + $0.80 per $1,000 over $100,000	$219.60 first 2 employees; graduated employee scale	$46.22 per employee	Tiered employee rate
General Business / Retail	$35 base + graduated employee rate	$30 + $0.25 per $1,000 GR	Tiered GR; $0.15 per $1,000 over $1.6M	$219.60 first 2 employees; graduated employee scale	$46.22 per employee	Tiered employee rate
Professionals	$35 base + graduated employee rate	$30 + $1.30 per $1,000 GR	$1.30 per $1,000 GR	$219.60 first 2 employees; graduated employee scale	$46.22 per employee	Tiered employee rate
Commercial Rental	$35 base + graduated employee rate	$30 + $1.30 per $1,000 GR	Tiered GR; $0.15 per $1,000 over $1.6M	$219.60 base + $0.0308/sq. ft.	$46.22 per employee	Tiered employee rate
Residential Rental	$30 first 4 units + $2 each additional	$30 + $1.30 per $1,000 GR	Tiered GR; $0.15 per $1,000 over $1.6M	$219.60 first 2 units; graduated unit scale	$15.40 per unit	Tiered unit rate
Services	$35 base + graduated employee rate	$30 + $1.00 per $1,000 GR	Tiered GR; $0.15 per $1,000 over $1.6M	$219.60 first 2 employees; graduated employee scale	$46.22 per employee	Tiered employee rate

**Sunnyvale collects the business license tax on a two-year cycle; values used in the scenario analysis represent the annualized portion. GR = gross receipts. Source: municipal ordinances and fee schedules reviewed by HdL.*

Appendix C – Other Business Tax Rate Types

This list provides the complete list of the 15 rate types grouped under “All Other Rate Types” in Exhibit 2.3.

Exhibit C.1: 15 Other Rate Types

1. Contractor – Inside City
2. Exempt – Outside Only
3. Exempt
4. Contractor – Inside City Home
5. Barber or Beauty Salon
6. Real Estate – Outside Only
7. Mini Storage
8. Exempt – Home
9. Real Estate
10. Professional
11. Financial Exempt
12. Financial Institutions
13. Child Care > 8 Large Home
14. New Applications
15. Circus/Carnival