





Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Finance Subcommittee

THROUGH: Bruce A. Moe, Finance Director 

FROM: Steve S. Charelian, Revenue Services Manager 

DATE: December 1, 2014

SUBJECT: 2015/2016 Business License Tax Adjustment

RECOMMENDATION:

Staff Recommends that the Finance Subcommittee Receive and File the FY 2015-2016 Proposed Business License Tax Adjustment.

BUDGET IMPLICATION:

Assuming that gross receipts relatively stay the same, staff estimates that business tax revenue will increase by approximately \$53,000.

DISCUSSION:

Section 6.01.320 of the Municipal Code provides for the annual increase or decrease adjustment of business license rates by the Consumer Price Index (CPI). The adjustment is based on the Bureau of Labor Statistics – Consumer Price Index for the preceding September. The September 2014 CPI reflected a 1.7% increase; the 2013 CPI increase was 0.6%. Based on the established business license tax schedule this does not translate into an exact 1.7% tax increase in all cases (please see the business license tax analysis – attachment 1). New business license taxes are prorated quarterly and must be divisible by four. The City processes approximately 4,500 business licenses per year. The business license tax year is from March to February.

In accordance with Senate Bill 1186 (Steinberg & Dutton 2012) this year's business license tax will continue to include a fee in the amount of \$1.00 collected from all businesses upon issuance or renewal of license to pay for development of more educational and training resources at State and local levels to promote ADA compliance; the effective period for SB 1186 is January 1, 2013 through December 31, 2018. Monies collected are split 70% to City, 30% to Division of State Architect. Of the City's portion, 5% of monies may be used for administration costs and the rest shall be used for training of more certified access specialist (CAS) for the City building department. As of September 2014, the City Business Licensing division has collected \$5,360 through the State required SB1186 fee, to be used for training by the Community Development Department.

Agenda Item #: _____

We are requesting that the Finance Subcommittee approve the proposed 2015-2016 Business Tax Adjustment. The City Council will consider the adjustment at the December 16, 2014 meeting.

ATTACHMENTS:

1. 2015-2016 Business License CPI Tax Analysis
2. Proposed 2015-2016 Business License Tax

Current 2014-2015 **Proposed 2015-2016** **% Change** **\$ Change**

Gross Receipts		\$100,000.00	\$100,000.00
Basis for Calculation	\$217.76 for the first \$63,538.00 + \$1.99 per \$1,000 in excess thereof (Not to exceed \$8,430.00)	\$221.44 for the first \$64,618.00 + \$2.02 per \$1,000 in excess thereof (Not to exceed \$8,573.00)	
1 Base Tax	\$ 217.76	Base Tax \$ 221.44	1.7%
2 Gross Receipts	\$72.56	Gross Receipts \$71.47	(1.09%)
3 Total Tax	\$ 290.32	Total \$ 292.91	0.9%

Current 2014-2015 **Proposed 2015-2016** **% Change** **\$ Change**

Gross Receipts		\$350,000.00	\$350,000.00
Basis for Calculation	\$217.76 for the first \$63,538.00 + \$1.99 per \$1,000 in excess thereof (Not to exceed \$8,430.00)	\$221.44 for the first \$64,618.00 + \$2.02 per \$1,000 in excess thereof (Not to exceed \$8,573.00)	
1 Base Tax	\$ 217.76	Base Tax \$ 221.44	1.7%
2 Gross Receipts	\$570.06	Gross Receipts \$576.47	1.1%
3 Total Tax	\$ 787.82	Total \$ 797.91	1.3%

Current 2014-2015 **Proposed 2015-2016** **% Change** **\$ Change**

Gross Receipts		\$4,200,000.00	\$4,200,000.00
Basis for Calculation	\$217.76 for the first \$63,538.00 + \$1.99 per \$1,000 in excess thereof (Not to exceed \$8,430.00)	\$221.44 for the first \$64,618.00 + \$2.02 per \$1,000 in excess thereof (Not to exceed \$8,573.00)	
1 Base Tax	\$ 217.76	Base Tax \$ 221.44	1.7%
2 Gross Receipts	\$8,231.56	Gross Receipts \$8,353.47	1.5%
3 Total Tax	\$ 8,430.00	Total \$ 8,573.00	1.7%



**2015-2016
PROPOSED
Business Tax Schedule**

TABLE OF CONTENTS

Administrative and Sales Office 3
Commercial Property 3
Contractors 3
Home Occupation 3
Hotels/Motels..... 4
Manufacturers 4
Out-of-Town..... 4
Professionals..... 4
Public Utilities..... 5
Recreation and Entertainment 5
Retail..... 6
Rental of Residential Property 6
Research and Development..... 7
Services 7
Subcontractors 8
Wholesale 8

SPECIAL BUSINESS CATEGORIES

Holiday Activities..... 9
Itinerant Vendors/Peddlers 9
Special Events 10
Transportation of Persons/Goods 10
Penalties and Interest 11
Parking and Business Improvement Area 11
Admissions Tax 11
SB 1186 Fee 12
Consumer Price Index Adjustments 12
Providing Documentation to Support Gross Receipts..... 12
Exemptions..... 12
Late Penalties 12

**City of Manhattan Beach
Proposed – BUSINESS LICENSE TAX RESOLUTION 2015-2016
(Provided for in MBMC Section 6.01.290)**

MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Administrative and Sales Office	1) Administrative and Sales Office 2) Branch Establishments	1) For administrative and sales offices or similar businesses	\$217.76 per annum plus \$30.25 per employee in excess of 2 not to exceed \$8,430.00	\$221.44 per annum plus \$30.76 per employee in excess of 2 not to exceed \$8,573.00
Commercial Property	Commercial Property	Every person who owns commercial real property within the city and who rents or leases such property or any portion thereof shall pay a business license tax	Pay the greater of \$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00 or \$.329 per square foot for building area in excess of 5,000 square feet less 1/3 sales tax credited to the City of Manhattan Beach not to exceed \$174,100.00.	Pay the greater of \$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00 or \$.334 per square foot for building area in excess of 5,000 square feet less 1/3 sales tax credited to the City of Manhattan Beach not to exceed \$177,059.00.
Contractors	1) Contractors 2) Owner Builders	General building trades (including general, electrical, plumbing, etc. A or B, C10, C36, C44, C45, C53 as licensed by the State). Every person engaged in the business or acting as a contractor shall pay the tax	\$352.92 per annum	\$358.88 per annum
Home Occupation	Home Occupation	No license shall be issued under this subsection until the applicant has applied for and received a home occupation permit as required by Section 10.42.070	\$108.76 per annum for the first \$38,657.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00.	\$110.60 per annum for the first \$39,314.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.

City of Manhattan Beach
Proposed – BUSINESS LICENSE TAX RESOLUTION 2015-2016
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MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Hotels/Motels	Hotels/Motels	In addition to business license tax fees, a transient occupancy tax shall be paid	\$20.21 per annum per unit	\$20.55 per annum per unit
Manufacturing	Manufacturing	Every person engaged in the business of manufacturing or conducting any business considered to be of manufacturing in nature	\$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00.	\$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.
Out-of-Town	Out-of-Town	Any business in the city without a fixed location	\$108.76 per annum for the first \$38,657.00 of gross receipts (Manhattan Beach only) and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00.	\$110.60 per annum for the first \$39,314.00 of gross receipts (Manhattan Beach only) and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.
Professionals	Professional services	All persons engaged in any business, profession or occupation considered to be of a professional nature unless expressly provided for elsewhere in this section. Professional services shall include but are not limited to accountant, architect, attorney, chiropractor, consultant, dentist, doctor, engineer, escrow services, financial institutions (to determine parking fee), hospital, insurance agent (exempt-waiver needed), insurance broker, mortuary, psychologist, public relation, real estate, veterinarian.	\$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00.	\$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.

City of Manhattan Beach
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MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Public Utilities	<ol style="list-style-type: none"> 1) Public Utilities 2) Refuse Collection 	<ol style="list-style-type: none"> 1) Not subject to franchise fee. Subject to franchise fee. 2) Purpose of refuse collection. 	<ol style="list-style-type: none"> 1) Not subject to franchise fee shall pay \$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00. Subject to franchise fee – shall pay \$217.76 per annum. 2) \$292.32 per annum per vehicle 	<ol style="list-style-type: none"> 1) Not subject to franchise fee shall pay \$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00. Subject to franchise fee – shall pay \$221.44 per annum. 2) \$297.28 per annum per vehicle
Recreation and Entertainment	<ol style="list-style-type: none"> 1) Arcades 2) Billiard/Pool Room 3) Fortune Telling 4) Game Machines 5) Juke Boxes 	<ol style="list-style-type: none"> 1,2) Arcades indoors where photographs, gramophones, talking machines, biographs, projectoscopes, weighing machines, muscle testers, lung testers, fortune telling machines, palm reading machines, game machines or machines or devices of like character 3) Subject to special permit of City Council. Initial application fee \$102.00 4) For locations where game machines are an accessory to the operation of the business. Annual tax \$161.00 (2 machines or less). 	<ol style="list-style-type: none"> 1) \$758.08 per year plus \$203.95 per machine. Initial tax of \$758.08 is an application fee. 2) \$.212 per square foot per year plus \$163.36 per table and \$37.57 per table for each table in excess of four. 3,4,5) \$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00. 	<ol style="list-style-type: none"> 1) \$770.96 per year plus \$207.41 per machine. Initial tax of \$770.96 is an application fee. 2) \$.215 per square foot per year plus \$166.13 per table and \$38.20 per table for each table in excess of four. 3,4,5) \$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.

**City of Manhattan Beach
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MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Retail	<ul style="list-style-type: none"> 1) Beer bars and cocktail lounges 2) Lunch wagon and ice cream trucks 3) Mail or phone order 4) Restaurants 5) Retail sales and service 6) Vending machines 	<ul style="list-style-type: none"> 2) County health permit required. Not to be parked longer than 10 minutes per location as per Section 14.36.130. Subject to approval of Police Department. 6) Applicant shall furnish location of all machines owned, operated or serviced within the city. Applicant shall place his name and address on each machine. An official city sticker shall be affixed in a conspicuous place to each machine. 	<ul style="list-style-type: none"> 1) \$.360 per square foot per year 2) \$291.84 per annum per vehicle 3) \$114.20 per year 4) \$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00. \$.360 per square foot for cocktail/lounge area only 5,6) \$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00. 	<ul style="list-style-type: none"> 1) \$.366 per square foot per year 2) \$296.80 per annum per vehicle 3) \$116.12 per year 4) \$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00. \$.366 per square foot for cocktail/lounge area only 5,6) \$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.
Rental of Residential Property	<ul style="list-style-type: none"> 1) Condominiums 2) Dwelling units 	<ul style="list-style-type: none"> 1) Business license required per city conditional use permit – no tax payment is required for license. 2) Three or more units per lot. 	<ul style="list-style-type: none"> 2) \$20.21 per annum per unit. A credit of \$20.21 allowed for an owner-occupied unit. 	<ul style="list-style-type: none"> 2) \$20.55 per annum per unit. A credit of \$20.55 allowed for an owner-occupied unit.

**City of Manhattan Beach
 Proposed – BUSINESS LICENSE TAX RESOLUTION 2015-2016
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MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Research and Development	Research and Development	Every person, firm or corporation with five or more employees engaged in the business of research and development for scientific purposes	Pay the greater of \$217.76 per annum plus \$30.25 per employee not to exceed \$8,430.00 or \$.514 per square foot per year for building area in excess of 5,000 square feet less 1/3 sales tax credited to the City of Manhattan Beach (whichever is greater) not to exceed \$174,100.00.	Pay the greater of \$221.44 per annum plus \$30.76 per employee not to exceed \$8,573.00 or \$.522 per square foot per year for building area in excess of 5,000 square feet less 1/3 sales tax credited to the City of Manhattan Beach (whichever is greater) not to exceed \$177,059.00.
Services	1) Bath and massage 2) Gardeners 3) Handbills 4) Private patrol 5) Various installations and services (out of town) 6) Window cleaning	1) Non-refundable application fee – \$64.00. Change of location fee –\$17.00. A separate application must be submitted by a business for individual employees. Health clubs providing bath and massage service are subject to Section 4.36.160, however, gross receipts generated by bath or massage may be included with other receipts. 5) When not in connection with a fixed place of business within the city	1,4,6) \$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00. 2) \$137.16 per annum per vehicle 3) \$162.52 per person per annum or \$39.75 per day per person. 5) \$108.76 per annum for the first \$38,657.00 of gross receipts (Manhattan Beach only) and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00.	1,4,6) \$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00. 2) \$139.48 per annum per vehicle 3) \$165.28 per person per annum or \$40.42 per day per person. 5) \$110.60 per annum for the first \$39,314.00 of gross receipts (Manhattan Beach only) and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.

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MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Subcontractors	1) Subcontractors 2) Minor construction	Every person engaged in the business or acting as a subcontractor (C2, C4, C6, C8, C9, C11, C12, C15, C16, C17, C20, C21, C23, C26, C27, C29, C32, C33, C34, C35, C38, C39, C42, C43, C50, C51, C54, C55, C57, C60, C61, and other classifications established by the State Contractors Board)	\$176.44 per annum	\$179.40 per annum
Wholesale	Wholesale	Every person engaged in the business of selling goods, wares or merchandise for the purpose of resale	\$217.76 per annum for the first \$63,538.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00.	\$221.44 per annum for the first \$64,618.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.

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SPECIAL BUSINESS CATEGORIES

MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Holiday Activities	1) Xmas Tree Lots 2) Pumpkin Patches	Per season per location. \$113.00 refundable cleanup fee payable at time of application.	\$133.10	\$135.36
Itinerant Vendors/Peddlers	1) Solicitors, Peddlers 2) Itinerant Vendors, Dealers or Merchants	1) Agents or solicitors selling or soliciting or taking orders for the sale or furnishing of any goods, wares, merchandise or service when not in connection with a fixed place of business licensed within the city 2) Vendors, dealers or merchants shall include all persons who commence or conduct business by haranguing persons within the city or who use the various customary devices for attracting crowds and therewith recommending their goods, wares or merchandise and offering for sale or exchange.	1) \$585.32 per annum for a 5-man crew and \$94.75 per person in excess or \$94.75 per day per person. ** Subject to special permit from the Police Dept. to be first obtained.** 2) \$35.10 per day or \$375.28 per year. **Subject to special permit from the Police Dept. to be first obtained.**	1) \$595.24 per annum for a 5-man crew and \$96.36 per person in excess or \$96.36 per day per person. ** Subject to special permit from the Police Dept. to be first obtained.** 2) \$35.69 per day or \$381.64 per year. **Subject to special permit from the Police Dept. to be first obtained.**

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MAJOR BUSINESS CLASSIFICATION	CATEGORY	GENERAL INFORMATION	CURRENT TAX RATES	PROPOSED TAX RATES
Special Events	1) Carnivals and amusements 2) One/two day shows	1) For amusements, where an admission, fare, fee or charge is charged or made, or a collection or contribution received, such as exhibitions, shows, games, rides, tent performances, merry-go-rounds, carousels, chute-the-chutes, shooting galleries, ferris wheels, pig slides, ballgames, dart games, roller coasters, grunt derbies, whip rides, scooter rides, sideshows, illusions and other amusements or concessions similar in character to those named in this section; provided, however, that the license fee for pony rides for small children shall be \$196.00 per year where not to exceed 12 ponies are used and \$5.00 for each additional pony; and provided further that no permit for any amusement referred to in this section shall be issued without a special permit from the Council to be first obtained. 2) Every person or promoter engaged in the business of conducting one/two day shows and every participant or booth.	1) \$732.56 per day plus \$55.20 per day for each food booth 2) \$49.33 per day plus \$1.99 per day per booth	1) \$745.00 per day plus \$56.13 per day for each food booth 2) \$50.16 per day plus \$2.02 per day per booth
Transportation of Persons/Goods	1) Retail deliveries 2) Taxicabs 3) Wholesale deliveries	1) For retail deliveries when not connected with a fixed place of business within the city. 2) Taxicabs or other passenger vehicles for hire. 3) For wholesale deliveries when not connected with a fixed place of business within the city.	1) \$108.76 per annum for the first \$38,657.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00. 2) Subject to Franchise Fee. 3) \$108.76 per annum for the first \$38,657.00 of gross receipts and \$1.99 per \$1,000.00 in excess thereof not to exceed \$8,430.00.	1) \$110.60 per annum for the first \$39,314.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00. 2) Subject to Franchise Fee. 3) \$110.60 per annum for the first \$39,314.00 of gross receipts and \$2.02 per \$1,000.00 in excess thereof not to exceed \$8,573.00.

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SPECIAL BUSINESS CATEGORIES

Additional Information:

1. **Penalties and Interest.** Assessed on understated fees per Section No. 6.01.290. The penalty for any deficiency determined by audit shall be 10% of the amount due plus interest of 1.5% for each month or part thereof beyond the due date of May 1st.
- 2a. **Parking and Business Improvement Area.** Pursuant to Ordinance No. 1375 – Area “A” the following additional levy of business tax is established on all businesses except commercial rental or lease property conducting their activities in the Areas.
Area A – Downtown Area – 80% of the ordinary business license tax not to exceed \$600.00
- 2b. **Parking and Business Improvement Area.** Pursuant to Ordinance No. 2071 – Area “B”.
Area B – North End Area – 80% of the ordinary business license tax not to exceed \$500.00
3. **Admissions Tax.** This shall be imposed upon each person attending a live sporting, theatrical or any amusement type of exhibition taking place within a non-public enclosure, stadium or building. The operator of such event shall be responsible for the collection and payment to the city of such tax along with an accountant as may be prescribed by the Director of Finance. The payment to the city is due within 10 days after the event takes place.

Amount of Tax – shall be the greater of:

- a) 8% of the admission price
- b) \$.35 per person

Exemptions – no tax shall be imposed upon:

- a) Bona fide employees of the management
- b) City officials on official business
- c) Members of the press in the performance of their duties
- d) Contractors in performance of their job
- e) Concessionaires
- f) Complimentary tickets

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SPECIAL BUSINESS CATEGORIES

4. **SB 1186 (Steinberg & Dutton, 2012).** A fee in the amount of \$1.00 shall be collected from all businesses upon issuance or renewal of license to pay for development of more educational and training resources at state and local level to promote ADA compliance. Monies collected split 70% to City, 30% to Division of State Architect. The City may use 5% of monies collected for administration costs and the rest shall go to pay for hiring and training of more certified access specialist (CASp) for City building department. Effective January 1, 2013 through December 31, 2018.
5. **Consumer Price Index Adjustments.** Per Section No. 6.01.320, business license taxes provided for in above MBMC Section shall be adjusted annually commencing March 1, 1979, in accordance with the increase or decrease in the cost of living. All adjustments shall be based on the Bureau of Labor Statistics - Consumer Price Index for All Urban Consumers - All Items (1967 - 100) for the preceding September. When the Bureau of Labor Statistics changes the base year for reporting changes in the CPI, the annual change in CPI shall be based on the new base year.
6. **Providing Documentation to Support Gross Receipts.** All businesses paying a business license tax based on gross receipts are required to include and return documentation to support gross receipts with the renewal application. Documentation must be for the year on which the license tax is based. The documentation can be, but is not limited to, the following: Schedule C, income statement, profit and loss statement, financial statement, ledger sheet, declaration from taxpayer, notarized letter or State Board of Equalization return. If, in the opinion of the licensing authority, an alternate form of documentation is sufficient, then the alternate form can be supplied. If the tax return is incomplete or cannot be furnished with the business license tax renewal, an estimate shall be submitted and an adjustment will be made, if necessary, when the actual return has been completed and submitted to the licensing authority.
7. **Exemptions.** Per Section No. 6.01.190G, the City Manager shall have the authority to exempt businesses from paying business license tax and/or late penalties.
8. **Late Penalties.** Per Section No. 6.01.270, late penalties of 10% per month will apply to any businesses that pay the business license tax after April 30, 2015.