DIANA MANGIOGLU
CITY TREASURER
DIRECTOR of FINANCE

CITY OF LOS ANGELES
CALIFORNIA

KAREN BASS
MAYOR

OFFICE OF FINANCE
200 N. SPRING ST.
ROOM 220 – CITY HALL
LOS ANGELES, CA 90012

(844) 663-4411

https://finance.lacity.gov

October 30, 2026

Honorable City Council of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

RE: REPORT BACK ON SMALL BUSINESS EXEMPTION THRESHOLDS COUNCIL FILE 25-1474

Dear Honorable Members:

This report is prepared by the Office of Finance in response to the additional information requests made during the September 30, 2026 Budget and Finance Committee meeting concerning Council File No. 25-1474, City's Business Tax Ordinance / Small/New Business Exemption Program / Los Angeles Municipal Code (LAMC) Section 21.19.

On April 13, 2026, the Office of Finance released an initial report to the Budget and Finance Committee providing background on the City's Small Business Tax Exemption (SBE), alternate models with higher valued SBE thresholds, the fiscal impacts of those options and a comparison to other California cities.

Subsequently, the Committee directed the Office of Finance to prepare a follow-up report expanding upon the initial analysis to include incremental exemption scenarios, inflationary adjustments, and a restaurant-only exemption scenario. In response to the latter request, Finance submitted the "Restaurant-Only SBE Report" on October 20, 2026 providing a focused view on that sector. Using 2025 tax year data, this report presents findings on the additional requests to help inform this discussion.

Top Ten Fund Classes of Registered Businesses with SBE Exemption

The following table summarizes the composition of the City's small businesses by registered business accounts across industry sectors. Small businesses are defined as businesses with global gross receipts of $100,000 or less, consistent with the City's current Small Business Tax Exemption threshold.

#	Sector	Accounts	Percent
1	Professional, Scientific, and Technical Services	5,430	16%
2	Arts, Entertainment, and Recreation	3,219	9%
3	Construction	3,175	9%
4	Administrative Support, Waste Management and Remediation Services	2,820	8%
5	Transportation and Warehousing	2,773	8%
6	Real Estate and Rental and Leasing	2,653	8%
7	Retail Trade	2,319	7%
8	Information	2,173	6%
9	Health Care and Social Assistance	1,882	5%
10	Wholesale Trade	985	3%
	Other	7,214	21%
	Total	**34,643**	**100%**

Collectively, the top 10 sectors accounted for roughly 27,000 businesses, representing nearly 80 percent of the 35,000 registered small businesses. These businesses reported approximately $952 million in gross receipts and paid $6.54 million in business tax payments, representing less than one percent of total business tax revenue.

Given the particular interest in the restaurant industry, Accommodation and Food Services ranked 12th among the sectors analyzed, with 616 businesses. For additional findings on restaurant-specific tax data and exemption scenarios, refer to the Restaurant-Only Small Business Exemption Thresholds Report.

Additional Options for an Increased Threshold

In the initial report, Finance provided estimates of the fiscal impact of increasing the limits to $200,000, $300,000, $500,000 and $1 million. In response to the Council's subsequent request for an analysis of incremental $25,000 increases up to $200,000, Finance used the same caveats and assumptions outlined in the previous report.

With this in mind, the estimated impact of increasing the small business threshold from its current level at $100,000 to each of these potential levels is as follows:

- $125,000: $4 million reduction - 11,000 additional businesses exempted
- $150,000: $7 million reduction - 20,000 additional businesses exempted
- $175,000: $11 million reduction - 28,000 additional businesses exempted
- $200,000: $14 million reduction - 35,000 additional businesses exempted

As outlined in the Restaurant-Only SBE Report, an adjusted exemption threshold of $175,000 represents cumulative CPI growth since 2006. This report applies the same CPI-based adjustment across all business classifications which would qualify approximately 28,000 additional businesses, resulting in an estimated $11 million reduction in General Fund revenues, assuming all eligible businesses apply for the exemption in a timely manner.

Average Tax Payment Based on Proposed SBE Thresholds

The previous report provided the average business tax paid per business at the $300,000 threshold. At that level, the City collected $32 million from 91,000 businesses, an average of less than $350 per business.

At a $500,000 exemption threshold, the City collected $55 million from approximately 127,000 businesses, averaging $440 per business. At a $1 million threshold, the City collected $92 million from an estimated 150,000 businesses averaging $610 per business.

As the exemption threshold increases, the number of businesses subject to Business Tax and the associated General Fund impact vary accordingly.

The Office of Finance looks forward to discussing this issue with the Council, and is available to answer any questions.

Sincerely,



Diana Mangioglu
City Treasurer / Director of Finance