

LEGISLATIVE DIGEST

[Business and Tax Regulations Code - Tax Exclusion for Low-Income Housing Partnerships; Commercial Vacancy Tax Exemption]

Ordinance amending the Business and Tax Regulations Code to exclude from gross receipts tax the gross receipts of low-income housing partnerships received from the lease of residential real estate beginning with the 2026 tax year; suspend the business registration certificate and fee requirements for those partnerships beginning with the registration year commencing April 1, 2026; exempt the City from the commercial vacancy tax retroactive to January 1, 2025; and exempt persons holding property to be used for City-sponsored affordable housing projects from the commercial vacancy tax retroactive to January 1, 2022, and refund commercial vacancy taxes paid by exempt persons.

Existing Law

Businesses engaging in business within the City generally must register with the Tax Collector and are subject to registration fees and gross receipts and other taxes. Certain organizations that are exempt from income taxation under the California Revenue and Taxation Code or the Internal Revenue Code are exempt from the City's registration fees and gross receipts taxes. The City also imposes a commercial vacancy tax, which is an annual excise tax on persons keeping ground floor commercial space in certain neighborhood commercial districts and certain neighborhood commercial transit districts vacant, to fund assistance to small businesses. The City is not exempt from the commercial vacancy tax.

Amendments to Current Law

For tax years beginning on or after January 1, 2026, and registration years beginning on or after April 1, 2026, this ordinance would exclude from gross receipts tax the gross receipts of low-income housing partnerships received from leasing of residential real estate, and suspend the business registration certificate and fee requirements for those partnerships. Qualifying partnerships would be limited partnerships that lease residential real estate and whose managing general partner is a nonprofit corporation or limited liability company that meets the requirements of the welfare exemption for low-income rental housing in Section 214(g) of the California Revenue and Taxation Code. The gross receipts exclusion would only apply to the qualifying partnership's receipts from the lease of residential real estate.

Retroactive to January 1, 2025, this ordinance would exempt the City from the commercial vacancy tax. Retroactive to January 1, 2022, this ordinance would exempt persons holding property to be used for City-sponsored affordable housing projects from the commercial vacancy tax. This ordinance also would authorize refunds, without interest, of commercial vacancy taxes, penalties, and interest paid to the City that were overpaid as a result of the retroactive application of this ordinance.

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