

LEGISLATIVE DIGEST

[Business and Tax Regulations Code - Early Care and Education Commercial Rents Tax Sublessor Deduction]

Ordinance amending the Business and Tax Regulations Code to allow a sublessor to deduct rent for commercial space the sublessor pays up to the amount of rent the sublessor receives for that space when determining its Early Care and Education Commercial Rents Tax for the tax years 2023 through and including 2029.

Existing Law

Persons that receive gross receipts from the lease of commercial space in properties in the City pay the Early Care and Education Commercial Rents Tax (“Commercial Rents Tax”) at a rate of 1% or 3.5% of those receipts, depending on the type of property. The Commercial Rents Tax generally does not apply to persons exempt from the Gross Receipts Tax and provides for certain other exemptions and exclusions. This tax is dedicated 15% to the General Fund and 85% to fund early care and education for young children.

Amendments to Current Law

This ordinance would allow a sublessor to deduct from the amount it receives from the sublease of all or a portion of commercial space the amount of any rent the sublessor pays for the lease of the entire commercial space during the tax year. The deduction would be limited to the amount of otherwise taxable rent the sublessor receives for the subleased commercial space. A person that leases commercial space from a related entity and subleases that space to another person would not be considered a sublessor and would not be entitled to the deduction for any rent paid to the related entity for that space. The deduction would be an annual deduction for the tax years 2023 through and including 2029. The deduction would be retroactive to January 1, 2023 and would expire on December 31, 2029.

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