

CITY BUSINESS LICENSE TAX STRATEGIES FOR THE CREATIVE INDUSTRY

Business licenses are required for businesses operating in most cities. Depending on your location, and where you have staff, you are likely required to file a business license tax return. This is a [local tax](#), and it can be quite burdensome.

Note that unlike income tax returns, which are based on profit (taxable income), many business license fees and taxes are based *on revenue*. That means this tax is due even if you're not making money!

Business licenses "season" has kicked off for 2020 in many locations (including the largest cities in California), so you may have a license and tax due **before the end of February**. The tax is based on a rate per thousand dollars of revenue, and rates are further differentiated by the type of business.

To minimize the pain, consider a local tax strategy:

1. In most city tax codes, there is a section that clearly exempts pass-through costs for agents and brokers from being counted as gross receipts. (We have a large advertising/marketing/communications/production agency client base, and this is an integral part of their strategy.) There are some rules:

- Contracts must specifically refer to the "Broker", "Agent" and "Agency."
- Language surrounding insurance and intellectual property should be clear as to the ultimate owner/buyer and responsible party.
- You must clearly state that work is performed on behalf of clients and benefits the clients, not the agency.
- Pass-through costs must be clearly tagged to show they are being paid on behalf of a client in order to produce their work. Costs are simply passed through, and the ultimate responsibility for them rests with the client. (Example: When an ad agency produces advertising, they pay the costs, but the advertisement entirely benefits the client in terms of boosting their sales.)



*Need some help or clarification?
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2. Some jurisdictions have **exemptions for first-year businesses** or for **industries** – often based on politics or protected local industries. In Los Angeles, for example, “creative artists” are largely exempt from tax. But note that exemptions only apply if you file on time
3. You may be able to **apportion some of your gross receipts** to other, friendlier jurisdictions if that is where your team sells and/or delivers your products and services.
4. It can be very advantageous to code all or some of your revenue to a **business activity with a lower rate**. Just be sure you have it right and can defend it.
5. Depending on where you are, it may make sense to move operations, or move some operations, to a **friendlier jurisdiction**. If you’re about to relocate your offices or sign a new lease, this should be a major consideration. There can be wide variances in rates across cities in the same county.

When it comes to your local tax situation, a little strategic planning can go a long way.

Need a hand? Contact our [experts](#). They’ve fought and won city audits and can help you optimize your tax strategy.



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Jenn has more than 25 years of outsourced HR, accounting and finance experience, with a particular expertise in startups and the advertising and creative production industries. She is passionate about seeing companies utilize the latest accounting and HR technology to maximize their efficiency, productivity, and ultimately, success.

Before joining Armanino, Jenn founded and led Team Jenn Corp., a firm dedicated to the strategic financial management of startups and small businesses, offering a comprehensive back office solution with accounting, finance and HR solutions. Previous roles include stints at advertising giant Ogilvy and Mather, and in the cash management industry.

