

Best Tax Practices – City Business License (including Los Angeles)

Bureaucracy and regulation on the local level

101 NOVICE:

Some municipalities have regulations that require *BUSINESSES* to be registered and or have a business license. Depending on the local ordinances, this can and usually includes businesses that are operated out of one's home – not just those that have a “business address,” somewhere.

If you provide goods and or services and you are NOT an employee, you are an INDEPENDENT CONTRACTOR and thus, you have a business. That business is reported on a Schedule C on your tax return. The name of the Schedule C tells the tale – *Sole-Proprietor Business!!*

See: Best Tax Practices INDEPENDENT CONTRACTOR

Many people are shocked to learn they have a business.

201 INTERMEDIATE:

The city of Los Angeles, Department of Finance, purchases information from the California Franchise Tax Board (FTB) using the parameters of 1) who filed a California tax return 2) with a Los Angeles city address on the return 3) and included in the return was a Schedule C. Armed with this information, the LA City Department of Finance compares that against their business license records. If their cross-referencing shows that the business (frequently, simply the name of the taxpayer) does not have a business license on file with the city of LA, the city sends a notice of deficiency that usually includes multiple years of calculation for the fees, penalty and interest as the city presumes the business has been operating for an extended period of time. The initial notification letter from the Department of Finance is usually calculated for significantly more than \$1,000 due the city in fees, penalties and interest.

The city of Los Angeles allows some businesses an *exemption* from paying the license fee if the business qualifies. **However**, in order to qualify for any exemption from fees, the business must first 1) be registered with the city and 2) the EXEMPTION must be REQUESTED and RENEWED every year (annually), in the beginning of the year.

301 ADVANCED:

If one gets the Los Angeles notice of non-compliance regarding the business license requirement and though the business might have otherwise been eligible to be *exempt* from paying any license fees, because the request for the exemption was not asked for in advance of the year, no exemption is granted for those prior years; the exemption is NOT retroactive. However, once current on the registration requirement (usually requiring that any past due fees, penalty and interest are paid), the exemption from license fees in future years can be requested (presuming the business qualifies for an exemption and the exemption is requested in advance of the year).

BEST PRACTICE: *Check with your municipality - both where you live and where you conduct your business to determine what, if any registration and or licensing are required.*

Postscript: The City of Los Angeles, Department of Finance, has frequently changed their regulations and rules, policies and enforcement practices that continue to be as dysfunctional at reading and understanding as are many parking signs in Los Angeles.