

Case Study: Business Tax Discovery and Compliance

HdL Increases Municipal Revenue through Business Tax Compliance, Avoiding Tax Increases



While cities and counties can execute significant economic development to build a strong business environment, the business registration and taxation process is one of the most important touchpoints in the private-public agency relationship. An effective, professional and thorough business tax execution process will gather important information about businesses, generate municipal revenue, and maintain positive relations with businesses. Properly balancing these priorities is a difficult task under the best of circumstances. Challenges with technology, specialized expertise, or staff bandwidth can cause cities and counties to miss the significant economic and information benefits the business taxation process should yield.

The cities of West Covina and San Mateo once faced these exact challenges. Like many public agencies, both cities faced staffing and software constraints, which prevented them from effectively managing business tax revenue and compliance. City leadership recognized the need to restructure their processes and engaged HdL's Tax and Fee Administration team for assistance. In both cases, the cities saw dramatic improvements in revenues and compliance while decreasing overall operating costs.

WEST COVINA

The City of West Covina, a suburb of Los Angeles, increased business tax and fee revenue by 45% since entrusting the business tax discovery and compliance process to HdL in 2017. The City completely outsourced the taxation process to HdL's team, made up of former city managers, directors, municipal revenue employees, and certified revenue officers with decades of experience.

Businesses sign up for and pay for their business license through HdL's online portal or via phone through their support center. HdL offers guidance to the taxpayer through the process while educating them on the City's various laws and policies.

"HdL provided trained staff and the right tools, such as our data matching software that captures hundreds of sources and compiles data in order to efficiently identify and contact all non-compliant businesses," commented Connor Duckworth, Client Advisor for HdL Companies.

For some agencies, the idea of having local businesses call someone other than city staff sounds odd, but West Covina City Manager David Carmany explained that the HdL team is knowledgeable and professional in their interactions with local businesses. "When businesses have questions, HdL has answers," he said. "The HdL team helped provide collection law information to address business owners' concerns."

With HdL's support, West Covina continues to achieve a 95% collection rate (taxes collected/taxes owed), offering a reliable, secure and maximized revenue stream. Over the past four years, HdL has collected \$4,519,730 in business tax and fees for the City. In 2020, the City witnessed its highest collection year, generating \$1,533,094. "With the additional revenue, the City has been able to invest in beautification projects to foment increased economic development," added Carmany, an experienced city manager, noting the new revenue also allowed the City to reallocate staff efforts to other initiatives.

HdL's support was especially important in 2020, as the pandemic closed City Hall and pushed business tax compliance online. HdL was ready with a full service online tax portal and call center, which kept business tax operations and revenue uninterrupted while allowing city staff to fully focus on other pandemic-related priorities as City Hall shifted to virtual operations.

As the City looks ahead, Carmany expressed confidence in HdL's ability to provide excellent outreach and assistance so businesses clearly understand the process, requirements and deadlines concerning business taxes and fees.



SAN MATEO

In 2019, the City of San Mateo, located in the Bay Area, also saw the need for business tax discovery, and compliance resources and expertise. Like West Covina, city leaders looked to HdL, an industry leader that was already active in the City providing other consulting services. In this case, the City's needs were more specific: find non-compliant businesses and get them properly registered.

San Mateo recognized that not all businesses within the city were paying their appropriate business taxes. City staff also knew that the specialized knowledge of finding those businesses was more likely to reside with outside experts.

"City staff have enough to keep up with and deliver without having to also become business license discovery experts. This is where having a partner with deep expertise that scales across hundreds of cities and strong software tools can add significant value for local governments," said Duckworth. "Some businesses are unaware of their requirements while others are knowingly evading the City's Municipal Code. In both instances, HdL's job is to professionally educate them and get them registered to ensure that all businesses are on a level playing field and contributing to the costs of running the City."

As of 2021, HdL used its expertise and tools to identify over 300 businesses – contributing to a nearly 1,300 license increase over three years – that needed to be brought into compliance with the City's business tax code.

"In establishing our business tax database, HdL used their understanding of our Municipal Code to create a process that accurately issues business tax certificates and annual renewal forms for each unique business," said San Mateo Finance Director Rich Lee.

According to Lee, HdL is sensitive and responsive to his City's organizational values and processes. "HdL provided the City freedom to work with the business and property owners directly in resolving their questions or concerns," he said, noting the City's primary goal of creating equity amongst taxpayers. "These discovery services from HdL ensure that businesses pay their required tax and comply with the City's business tax ordinance."

The COVID-19 pandemic prompted the City to leverage HdL's software platform by taking its previous paper-based manual process online through an HdL-powered payment portal. "This shift reduced the foot traffic to City Hall, and by extension, reduced staff exposure to COVID," Lee added, noting the City has worked with several people at HdL on projects including lodging tax collection. "All HdL staff have been very supportive and have worked collaboratively to achieve a smooth process for both the City and our business community," he said.

The pandemic also prompted the City to alleviate economic impacts on businesses by waiving penalties, interest and prior years' taxes. Though the waiver impacted revenue in 2020, HdL has collected \$409,000 in business tax and fees from discovery and compliance services as of 2021. The additional revenue funds core City services, such as public safety, parks and recreation, and library services.

HdL SOLUTIONS

Businesses operate best when the rules are consistent and applied universally without one business benefiting over another. Increasingly, cities and counties are finding HdL's domain expertise and software to reliably create an equitable business environment, ensuring that all businesses are registered and paying the appropriate taxes or fees. Equally important, HdL provides additional revenue to municipalities through maximizing already existing revenue streams before cities consider expanding taxes.

ABOUT HdL

HdL was founded by local government finance professionals with the singular mission of helping local government leaders maximize their revenue sources. The HdL Team includes experienced business tax department supervisors, certified revenue officers and local government leaders who have served at all levels of local and state municipal organizations. Having walked in your shoes, the HdL team is uniquely prepared to help achieve your strategic goals.

Cities and counties across the nation have benefited from HdL's extensive resources and expertise for almost 40 years. HdL is proud to be a corporate sponsor of the following organizations:

- League of California Cities
- California State Association of Counties
- California Society of Municipal Finance Officers
- California Municipal Revenue and Tax Association
- Municipal Management Association of Northern California
- Municipal Management Association of Southern California
- Alabama League of Municipalities
- Colorado Municipal League
- Colorado City and County Management Association
- Colorado Government Finance Officers Association
- Georgia Association of Business Tax Officials
- Georgia City-County Management Association
- Texas Municipal League
- Government Finance Officers Association of Texas
- Texas City Management Association

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