

City of Paducah

Potential License Tax
Changes



Assumptions

- Responsibility for the mathematical accuracy of the information used lies with the finance department of the City of Paducah
- The City recognizes the potential flaw in using data from only two (2) license tax years (2008 and 2009) to make a projection
- Entities listed more than once in the City's database that had different classification codes were consolidated to determine the actual number of entities reporting

Assumptions - Continued

- Net income for the projection is defined as the net income reported on the entity's federal tax return
- Net income will be consistent in future years with the average net income provided by the City for license tax years 2008 and 2009
- All entities with net income of \$5,000 or less or a net loss will pay a minimum business license fee of \$100 per year

Assumptions - Continued

- Entities that did not report net income or loss for license tax years 2008 and 2009 (average of 18% of all entities) will be projected into the same ratio as reporting entities (net income above and below \$5,000)
- Non-reporting entities (portion of the 18% referenced above) projected to have a net income above \$5,000 will have the same average net income as reporting entities
- The same apportionment ratio used by taxpayers with an income from sources outside the City will be used in the projection

2008 Data

Number of Entities

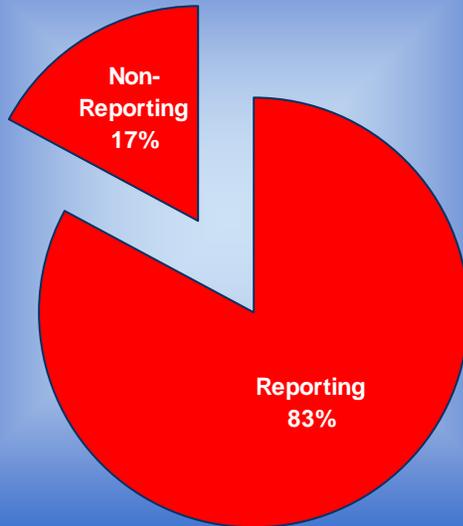


Net Income of Reporting Entities

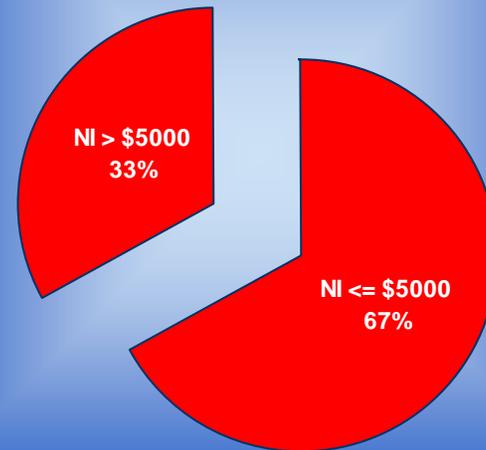


2009 Data

Number of Entities



Net Income of Reporting Entities



2008 & 2009 Average Data

Number of Entities



Net Income of Reporting Entities



2008 Projected License Tax

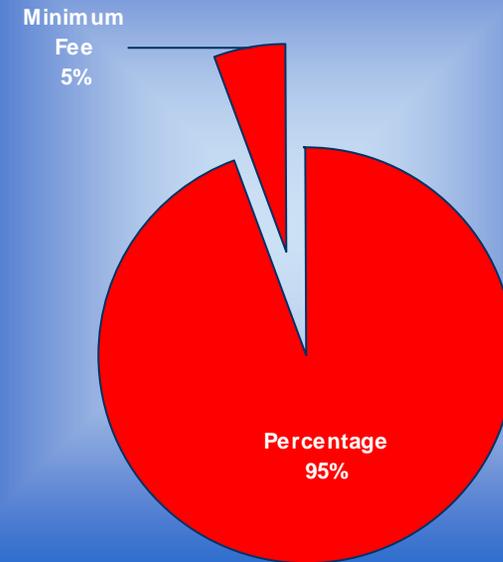
2% of NI > \$5,000	\$ 2,907,520
\$100 Minimum Fee	<u>230,800</u>
Total License Tax	\$ 3,138,320

Total Actual Collected	<u>4,212,200</u>
Deficit	<u>\$(1,073,880)</u>

2.75% of NI > \$5,000	\$ 3,997,840
\$100 Minimum Fee	<u>230,800</u>
Total License Tax	\$ 4,228,640

Total Actual Collected	<u>4,212,200</u>
Difference	<u>\$ 16,440</u>

**Breakdown of License Tax
Using 2.75% Rate**



2009 Projected License Tax

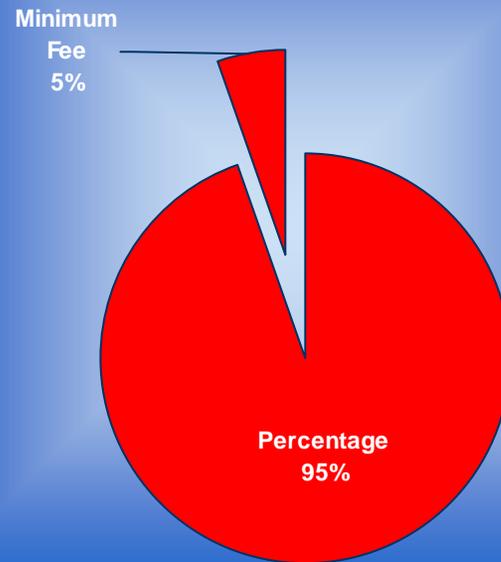
2% of NI > \$5,000	\$ 2,537,460
\$100 Minimum Fee	<u>232,200</u>
Total License Tax	\$ 2,769,660

Total Actual Collected	<u>4,320,850</u>
Deficit	<u>\$(1,551,190)</u>

3.24% of NI > \$5,000	\$ 4,110,685
\$100 Minimum Fee	<u>232,200</u>
Total License Tax	\$ 4,342,885

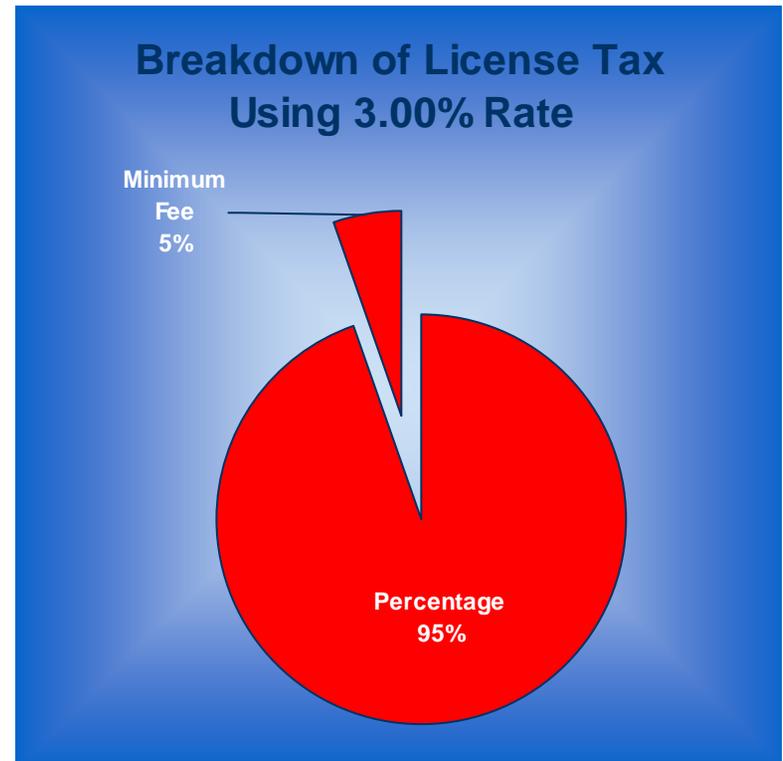
Total Actual Collected	<u>4,320,850</u>
Difference	<u>\$ 22,035</u>

**Breakdown of License Tax
Using 3.24% Rate**



2008 & 2009 Average Projected License Tax

2% of NI > \$5,000	\$ 2,708,400
\$100 Minimum Fee	<u>231,600</u>
Total License Tax	\$ 2,940,000
Total Actual Collected	<u>4,266,525</u>
Deficit	<u>\$(1,326,525)</u>
3.00% of NI > \$5,000	\$ 4,062,600
\$100 Minimum Fee	<u>231,600</u>
Total License Tax	\$ 4,294,200
Total Actual Collected	<u>4,266,525</u>
Difference	<u>\$ 27,675</u>



Observations and Considerations

1. Any change in the method of calculating the business license tax will involve financial and manpower cost, the cost of which has not been determined:
 - A. Changing the form for reporting and calculating the fee
 - B. Rewriting the finance department's software to accept the change
 - C. Educating the City's staff to operate the new system
 - D. Educating the business public regarding the change and underlying reason(s)

Observations and Considerations - continued

2. If the change is implemented, the City's staff will be operating a more complex system
3. The City will need to define net income to avoid manipulation of deductions that result in lower net income and reduced license fee
 - A. Guaranteed payments and officer salaries
 - B. Rent paid to shareholders
 - C. Section 179 depreciation
 - D. Net operating loss (NOL)
 - E. Corporate special deduction

License Tax Rates

- Calculated Breakeven Tax Rate:
2.75% - 3.25%
- Confident Breakeven Rate: ???

If The Change Is Implemented:

- 61% will pay higher license tax
- 39% will pay lower license tax

- Of those entities paying higher tax, 60% of them will have an increase of \$100 or less
- Of those entities paying lower tax, 50% of them will have a decrease of \$100 or less

Examples

	2008	2009	Average
Company A - Increase	40,680	63,313	51,997
Company B - Decrease	15,696	15,708	15,702