
City of Los Angeles
Office of Finance

# Industry-Based Tax Compliance Guide

# ACCOUNTING FIRMS

los angeles office of finance

INDUSTRY-BASED TAX COMPLIANCE GUIDE FOR ACCOUNTING FIRMS

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# Who Should Register?

Any business (including independent contractors or individuals paid in cash*) that has a location within and/or conducts business activities in the City of Los Angeles must register for a Business Tax Registration Certificate. Any business (including independent contractors or individuals paid in cash*) that has a location outside the City of Los Angeles but travels within the City of Los Angeles to provide services must also register for a Business Tax Registration Certificate.

A Business must register by the second month of operation in the City of Los Angeles.

# What is an Accounting Firm?

An accounting firm is a professional service organization that provides a wide spectrum of financial services to individuals, businesses, governments, and nonprofit entities. These firms help clients maintain accurate financial records, comply with tax laws and financial regulations, and make informed economic decisions. In addition to traditional services, many accounting firms offer strategic advisory and technological support to navigate today's complex financial landscape. Modern accounting firms are evolving to meet the demands of a rapidly shifting economic and regulatory environment. Many now integrate software development, automation, and AI-based analytics into their services. Some even function as full-scale business advisory firms, offering legal, HR, and digital transformation support alongside traditional financial services.

- Please refer to the Los Angeles Municipal Code Article 1, Chapter II Section 21.00 (d), (h), (i) and (j) for definitions and additional details, https://codelibrary.amlegal.com/codes/los_angeles/latest/lamc/0-0-0-124180#JD_21.00.

# Types of Accounting Firms by Size

1

## Small Accounting Firms

- Typically consist of 1–10 employees
- Focus on essential services such as bookkeeping, payroll processing, income tax preparation, and basic financial consulting
- Often build close, long-term relationships with clients, offering highly personalized service
- Serve local clients, including individuals, freelancers, and small to mid-sized businesses

2

## Mid-Sized Accounting Firms

- Employ between 10 and several hundred professionals
- Provide a broader range of services such as internal audits, financial reporting, estate planning, and business valuation
- Often have specialized departments or industry-specific expertise (e.g., healthcare, real estate, manufacturing)
- Serve regional and national clients, including growing enterprises and nonprofits

3

## Large Accounting Firms

- Operate with thousands of professionals across multiple office globally
- Offer comprehensive, end-to-end solutions including international tax strategy, forensic accounting, IT audits, sustainability consulting, and merger and acquisition support
- Often serve multinational corporations, government agencies, and Fortune 500 companies
- Invest heavily in technology, data analytics, and proprietary tools to enhance service delivery and risk management

# How Do I Register?

A business tax registration certificate and subsequent annual business tax renewal can be filed online by using our website, **https://finance.lacity.gov/online-taxpayer-services** , by mail or in person by appointment at any of our public office locations below:

### Hours for City Hall Room 101 – Open by Appointment Only

Address:
200 N. Spring St. Room 101

Hours:

- Monday: 8:00 AM – 4:00 PM
- Tuesday: 8:00 AM – 4:00 PM
- Wednesday: 9:00 AM – 11:30 AM
- Thursday: 8:00 AM – 11:30 AM
- Friday: Closed

Note: Closed daily from 11:30 AM – 12:30 PM
(Use Main Street Entrance)

### Van Nuys Civic Center Hours – Open by Appointment Only

Address:
6262 Van Nuys Blvd., Suite 110

Hours:

- Monday: 8:00 AM – 4:00 PM
- Tuesday: 8:00 AM – 4:00 PM
- Wednesday: 9:00 AM – 11:30 AM
- Thursday: 8:00 AM – 11:30 AM
- Friday: Closed

Note: Closed daily from 11:30 AM – 12:30 PM

Office locations and hours are subject to changes. For the most updated information, please visit our site at **https://finance.lacity.gov/contact** .

Customer Service Center can also be reached by calling (844) 663-4411 or emailing to Finance.CustomerService@lacity.org

# How Do I Report and Pay?

Taxes can be filed on-line at **https://finance.lacity.org/online-taxpayer-services** with payment made using credit card, debit card, eCheck or ACH.

A renewal form can also be completed and either mailed or submitted in person at any of our public office locations

# Tax Due and Tax Classification

The business tax due is determined by the total gross receipts earned in the prior year.

### Tax Details

- Tax Period: Annual
- Rate: $4.25 per $1,000 of gross receipts or fractional part thereof per Section 21.49(c)/L049 Professions & Occupations
- Due Date: January 1
- Delinquent Date: March 1

### Interest & Penalties

- Interest: Imposed monthly without proration (The interest rate is adjusted annually to reflect the average federal short-term rate plus 3% points)
- Penalty for Delinquency: 5% of principal tax amount for the first month of delinquency. Additional 5% per month for 2nd, 3rd, and 4th month of continued delinquency. Additional 20% for 5th month and beyond. A total of 40% penalty if delinquent for 5 or more months. Penalties are calculated on the first of each month

# Exemptions

## Who is exempted?

### Small Business Exemption

A small business – who has global gross receipts not exceeding $100,000 (including taxable and nontaxable gross receipts from within and out of the City of Los Angeles) and files the business tax renewal timely by the end of each February qualifies for the small business exemption, and owes no tax.

### Non-Profit Organization Exemption

A non-profit, charitable, and religious organization – which is recognized under IRS Section 501 or State Tax Section 23701(d) is exempt from paying Los Angeles business tax. However, the receipts from regular business activity not related to non-profit, charitable, and religious purposes are still taxable.

# What is Considered Taxable Receipts?

All gross receipts generated from business activities or services performed within the City of Los Angeles are subject to the business tax. Part of the gross receipts generated from services performed outside the City of Los Angeles may also be subject to the business tax. This includes all service fees charged to the customers or clients. The classification and tax rate are determined by the individual activity. The business tax is self-reported and it is the responsibility of the taxpayer to register for all business tax classifications and report all gross receipts earned.

# Tax Exclusions

## What may be excluded from the calculation of gross receipts?

Refunds and/or Bad Debts should be excluded from the calculation of gross receipts.

# Apportionment

- **What is Tax Apportionment?**

  Business Tax Apportionment is the process of using a formula to allocate a business's gross receipts to the appropriate taxing jurisdictions.

- **Who may apportion gross receipts?**

  A taxpayer who conducts business activities outside the City of Los Angeles through their employees or equipment. If the out-of-city activities are performed by independent contractors, no apportionment is allowed based on the activities of those independent contractors. Refer to Court Case "Programming Enterprises vs. City of Los Angeles".

**1**

### Taxpayers located in the City of Los Angeles - City Clerk's Ruling No. 15

- Allocated in-city gross receipts – 100% taxable (80% for direct services & 20% for supporting activities)
- Allocated out-of-city gross receipts – 20% taxable (for supporting activities performed by in-city employees)

**2**

### Taxpayers located outside of Los Angeles - City Clerk's Ruling No. 15

- Allocated in-city gross receipts – 80% taxable (for direct services performed by employees inside the City of LA)
- Allocated out-of-city gross receipts – 0% taxable (both direct services & supporting activities are performed by out-of-city employees)

City Clerk's Ruling No. 15 is based on the location and business activities of the taxpayer and/or its employees. Independent Contractors is not considered employees; Therefore, City Clerk's Ruling No. 15 will not be applicable. Please refer to **https://finance.lacity.org/city-clerks-ruling** and the Compliance Guide for the City Clerk's Rulings for additional information.

# How Do I Calculate Taxes Owed

## For an In-City Taxpayer:

### Example No. 1: Business Activities Performed by Employees in City of Los Angeles

An accounting firm headquartered in the City of Los Angeles provided all audit, tax, and consulting services within the City of Los Angeles.

- Gross Receipts: $500,000
- All services occurred in the City. → 100% taxable

Taxable Gross Receipts = $500,000 × 100% = $500,000

### Example No. 2: Split Services – 60% Performed in City of Los Angeles, 40% Outside City of Los Angeles

A Los Angeles-based accounting firm physically performed:

- $300,000 worth of services in the City (60%)
- $200,000 worth of services in Orange County (40%)

Per City Clerk's Ruling No. 15:

- City of Los Angeles portion: fully taxable
- Orange County portion: support functions performed in the City → 20% of that portion is taxable

Taxable Gross Receipts = ($300,000 × 100%) + ($200,000 × 20%) = $300,000 + $40,000 = $340,000

### Example No. 3: Remote Services Performed with Partial In-City and Out of City Presence

A Los Angeles-based firm provides remote financial consulting and executive-level financial management services to clients nationwide. The breakdown of service delivery is as follows:

- 15% of services are physically performed at client locations within the City of Los Angeles
- 75% of services are performed virtually from the firm's office in the City of Los Angeles for clients located in other states
- 10% of services are physically performed at client locations outside the City of Los Angeles

Gross Receipts: $500,000

Taxable Gross Receipts Calculation:

- In-City Services:
  - 15% performed at client sites within Los Angeles → $500,000 × 15% = $75,000
  - 75% performed virtually from the Los Angeles office → $500,000 × 75% = $375,000
  - Subtotal (100% taxable): $75,000 + $375,000 = $450,000
- Out-of-City Virtual Services:
  - 10% performed at client locations outside the City → $500,000 × 10% = $50,000
  - Supporting functions occur in Los Angeles; therefore, 20% of these receipts are taxable → $50,000 × 20% = $10,000

Total Taxable Gross Receipts: $450,000 (In-City Services) + $10,000 (Portion of Out-of-City Services) = $460,000

Note: Taxability is based on documentation showing where services are performed.

## Example No. 4: All Services Performed by Independent Contractors Outside the City of Los Angeles

An accounting firm headquartered in Los Angeles hired independent contractors to perform all services outside the City.

- Gross Receipts: $500,000
- Per City Clerk's Ruling No. 15, apportionment is not permitted for services performed by independent contractors. Since the firm had no employees providing services outside the City, the total gross receipts are fully taxable.

Taxable Gross Receipts: $500,000 × 100% = $500,000

# For an Out of City Taxpayer:

## Example No. 1: Business Activities Performed by Employees in City of Los Angeles

An accounting firm headquartered outside the City. Its employees physically performed direct services within the City of Los Angeles that accounted for 80% of the work.

- Gross Receipts: $500,000
- 80% of work was done in Los Angeles

Taxable Gross Receipts = $500,000 × 80% = $400,000

## Example No. 2: Business Activities Performed by an Independent Contractor in City of Los Angeles

An accounting firm headquartered outside the City. It hired an independent contractor who physically performed direct services within the City of Los Angeles that accounted for 80% of the work.

- Gross Receipts: $500,000
- 80% of work was done in Los Angeles

Taxable Gross Receipts = $0

Services were performed by the independent contractor, not the taxpayer's employees. Since the out of City taxpayer had no physical presence of its employees performing services within the City, there is no nexus with the City. Gross receipts generated from services performed by the independent contractor were not subject to tax.

## Record Keeping

Financial records including, but not limited to, general ledgers and financial statements, income tax returns, bank statements, contracts or agreements, invoices, schedule of in-city and out-of-city revenue, travel records, and the Office of Finance business tax renewal worksheet should be kept.

## Frequently Asked Questions

### 1 How do I know my business is subject to Los Angeles business tax?

If you have an office location within the City of Los Angeles or travel to the City of Los Angeles to conduct your business, you may be subject to Los Angeles business tax.

The Address Look-up Map **https://finance.lacity.gov/business-location** would determine whether your business location is within the City of Los Angeles or not.

You may use the link to see the listing of Los Angeles zip codes. **https://finance.lacity.gov/sites/g/files/wph1721/files/2021-04/Zip%20Code%20Listing.pdf**

### 2 Can I deduct refunds and bad debts from gross receipts when calculating business tax?

Yes, any uncollectible amount such as refunds and bad debts can be excluded from the calculation of taxable gross receipts. However, if any portion of such bad debt is subsequently recovered in later years, then it will be taxable in the year that it is recovered.

### 3 What if I earn gross receipts from multiple activities?

The receipts should be allocated accordingly and taxed under the respective classification. For example, if a business provides services and also sell tangible products. The services should be classified and taxed under LAMC Section 21.49 (c) Professions and Occupations. The retail sales should be classified and taxed under LAMC Section 21.43 (e)/LGR2 (e) Retail Sales.

### 4 An out-of-city accounting firm utilizing independent contractors to performance services in the City of Los Angeles. Are the gross receipts generated by the work performed by independent contractors taxable?

No, the gross receipts are not taxable if an out-of-city accounting firm provides services to clients within the City of Los Angeles exclusively through independent contractors, and the firm maintains no physical location or employee presence within city limits. Since the firm does not have a nexus with the City of LA, it is not subject to the City's business tax.

### 5 Can I report the gross receipts earned from all activities under one classification?

The Single Category Filing option exists for any taxpayer that has two or more fund classes (business activities) measured by gross receipts. If one of the fund classes represents 80% or more of the total of all gross receipts, then the taxpayer may choose to use the Single Category Filing option to simplify their reporting requirements by paying all the gross receipts under that single category.

Any business activities not taxed on annual gross receipts must continue to be reported separately.

### 6 I operate multiple locations both within and outside the City of Los Angeles, with services provided in various jurisdictions. Since I am unable to separate my gross receipts by each office, what is the best method for apportioning gross receipts?

Answer: The City Clerk's Ruling No. 15 is reliant on being able to separate gross receipts by office location and employees' direct performance. Since this information are not available, the best alternate method would be using Total Expense Method and the Payroll Expense method. Please refer to the Compliance Guide on City Clerk's Rulings for more information.

### 7 Where can I find tax rates to other classifications?

A tax rate table can be found at **https://finance.lacity.org/know-your-rates**

### 8 Are refunds and credits taxable?

No, refunds and credits may be excluded from the calculation of taxable gross receipts.

### 9 What if I am unable to pay my tax bill in full?

You may qualify for an installment payment agreement for up to 12 months with an outstanding amount of at least $1,000.00. Please see **https://finance.lacity.org/installment-agreement**

### 10 How do I calculate how much I'll have to pay?

After determining total taxable gross receipts, an online business tax calculator is available to help you estimate the amount owed. The calculator can be found at:

**https://finance.lacity.gov/business-support-tools/business-tax-calculator-beta**

# Questions regarding Audit:

### What periods are covered in an Audit?

A business tax audit covers the most current three tax years and may extend to six years due to substantial understatement of tax payments.

### What should I do if I receive a Notice of Field Audit?

When you receive a Notice of Field Audit requesting an appointment, carefully review the notice and contact the listed tax auditor within ten days from its date to schedule the audit. Failure to respond or provide the requested records in a timely manner may result in Finance completing the audit based on an estimated assessment. This estimate may be derived from industry averages or data obtained from the California Franchise Tax Board through an affidavit submission.

Audits are authorized under the Los Angeles Municipal Code aimed to verify the accuracy of self-reported business taxes, typically covering a three-year period. Audit period may be extended up to six years if there is a substantial understatement, which occurs when a taxpayer fails to report some of the tax due, and the omitted amount is 25% or more of the amount of tax reported in the business tax registration certificate application or business tax renewal form. The audit process includes an in-person field audit appointment, completion of a questionnaire or an interview with the tax auditor about business operations, records review, and an exit conference. Generally, audits take one to three months to complete, provided records are submitted on time and no complex issues arise. Businesses operating both within and outside the city may qualify for gross receipts apportionment or exclusions if they provide adequate documentation. If apportionment or additional tax periods are involved, the audit may take longer to complete.

If the statute of limitations for any audited tax period is nearing expiration, the tax auditor may request a signed Waiver of Statute of Limitations from the taxpayer. Upon completion of the audit, taxpayers are requested to submit the Audit Closing Statement by the specified deadline.

Taxpayers have 45 days from the Audit Assessment Notice date to request a hearing in writing. They are entitled to fair treatment, confidentiality, clear communication, and a structured appeals process through the Assessment Review and Board of Review.

Settlement options are available through the City Attorney's Settlement Bureau, reflecting the City's commitment to professionalism and equitable tax enforcement while offering taxpayers multiple avenues for resolution and support.

# Common Errors and Mistakes

- **Not maintaining adequate documentation for claimed out-of-city performance**

  **What should be done:** In order to claim apportionment, the taxpayer should keep documentations to show travel expenses, such as mileage reimbursements, flight confirmations, parking receipts, invoices, credit card statements, etc.

- **Not registering for City of Los Angeles business tax license when business location is outside of the City of Los Angeles but employees have performed services at in-City client locations**

  **What should be done:** If the taxpayer has business activities within the City of Los Angeles, regardless of where the office location is at, they should register for the City of Los Angeles business tax license.

- **Omitting revenue from services performed at out-of-city locations when business location is within the City of Los Angeles**

  **What should be done:** The taxpayer should start their calculation at total gross receipts then deduct any non-taxable items and apply the apportionment to out of City receipts generated.

- **Taxpayer allocated gross receipts by client location**

  **What should be done:** The premise of apportionment per City Clerk's Ruling No. 15 is based on the performance of the taxpayer. Records should be maintained based on the location of service performance.

- **Service performance locations were incorrectly identified as in-city or out-of-city**

  **What should be done:** The taxpayer should check the job locations on hhttps://finance.lacity.gov/business-location or https://zimas.lacity.org/ to verify if the address is within the City of Los Angeles.

# For more information

Multiple resources are available to help you understand and comply with Los Angeles business tax requirements.


### Municipal Code Reference

LOS ANGELES MUNICIPAL CODE can be found at [https://finance.lacity.gov/city-los-angeles-tax-ordinance-0](https://finance.lacity.gov/city-los-angeles-tax-ordinance-0)

Chapter II Article 1 Section 21.49 (c) Professions and Occupations

### Downtown Office Location

City Hall

200 N. Spring St, Room 101

(Note: Use Main Street Entrance)

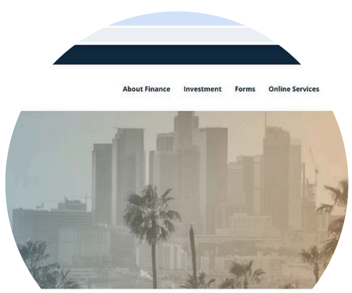

### Contact Us

Phone: 844-663-4411

Fax: 213-978-1548

Email: Finance.CustomerService@lacity.org

Mail: 200 N. Spring Street, Room 101, Los Angeles, CA 90012




### Online Resources

Office of Finance Website

[https://finance.lacity.gov/](https://finance.lacity.gov/)

### Valley Office Location

Van Nuys Civic Center

6262 Van Nuys Blvd., Suite 110

los angeles office of finance

**Note:** This publication summarizes the Los Angeles Municipal Code (LAMC) and the policies of the Office of Finance in effect as of the date of printing. However, changes in LAMC and the policies of the Office of Finance may occur. If there is a conflict between the text in this publication and current LAMC and policies, the current LAMC and policies will always be controlling.