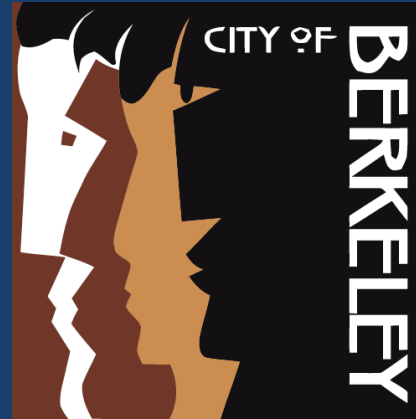


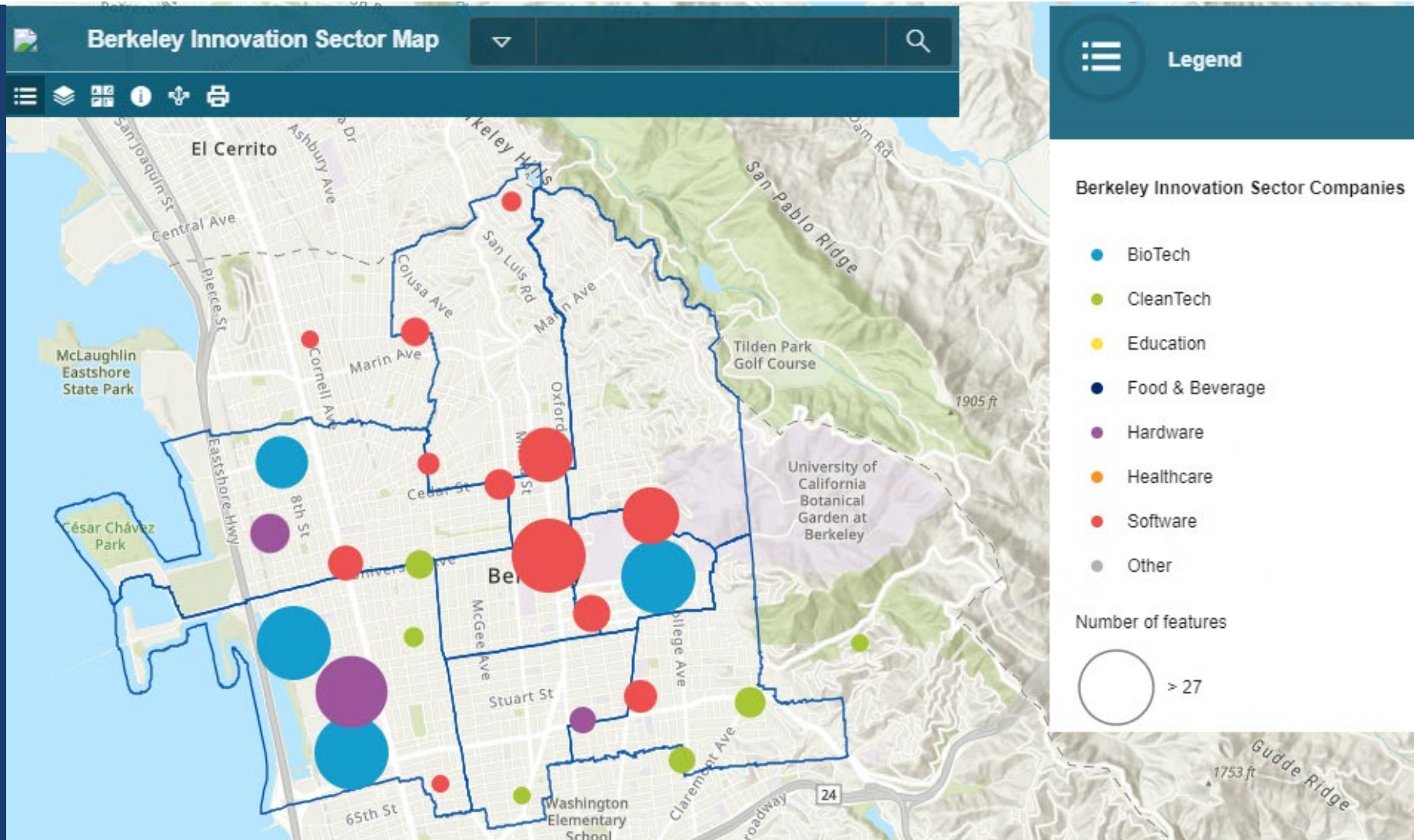


OFFICE OF
ECONOMIC
DEVELOPMENT



R&D Grant Waivers in the
City of Berkeley – Nov. 12, 2024

Background: Berkeley's Innovation Sector

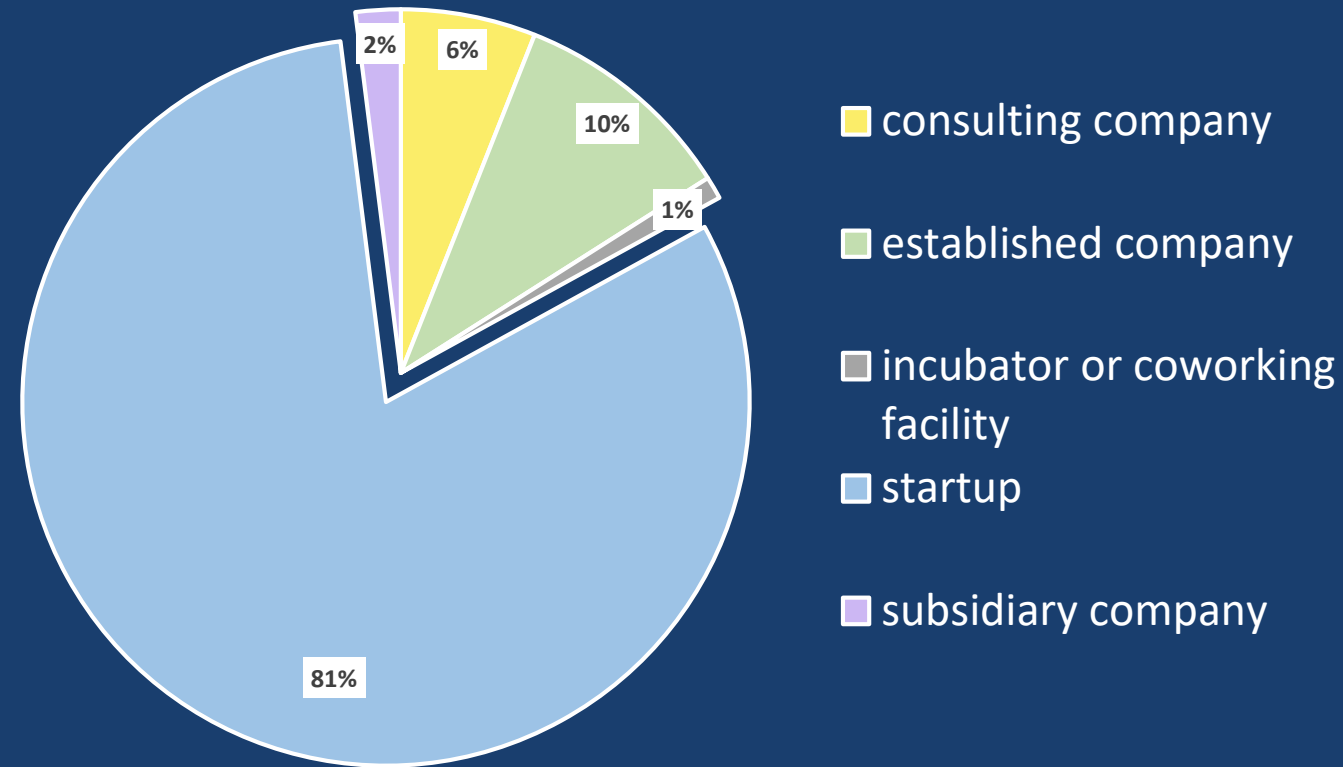


See details on the Berkeley Startup Cluster website: www.berkeleystartupcluster.com/startups

Berkeley: the birthplace of innovative startups



Berkeley innovation companies by growth stage (Q4 2023)



Pitchbook ranks UC Berkeley **#1** in producing venture backed startups.

The mission of the Office of Economic Development is to assist businesses, entrepreneurs, artists and community organizations to access services, feel welcome in Berkeley, and thrive.

Making Berkeley a more
*vibrant, accessible and
equitable* place for startups
to launch and grow.

spaces



resources



startups



Berkeley Startup Cluster



@BerkStartups



Newsletter: www.berkeleystartupcluster.com

R&D grant tax waiver: outcomes & impacts



In 2019, Berkeley City Council approved a government R&D grant tax waiver (up to \$1 million cumulative) for companies with less than \$100,000 in other gross receipts. (BMC Section 9.04.165)

21

Number of
companies for which
OED has approved a
grant waiver

8

Average number of
companies that
applied for the R&D
grant waiver annually

~\$9k

Amount of business
license tax revenue
forgone annually

**Data from 5
year period,
from 2019-2023*



Mayor's Proposal (2024)



Update Berkeley Municipal Code Section 9.04.165 to exempt the taxation of business gross receipts relating to government and philanthropic research and development grants in the public interest.

What would be different from the current waiver?



1. Eliminates the lifetime cap of \$1M
2. Eliminates the eligibility requirement that a startup have less than \$100,000 in other gross receipts
3. Adds philanthropic grants, in addition to government R&D grants

“As a founder, I can personally attest that science heavy startups are extremely fragile entities. It can take a decade and millions in R&D before a product is commercialized. During this time, these startup companies live hand to mouth on whatever funding they can scrape together. Grant dollars from government, philanthropic and non-profit sources are key to these startups survival.”

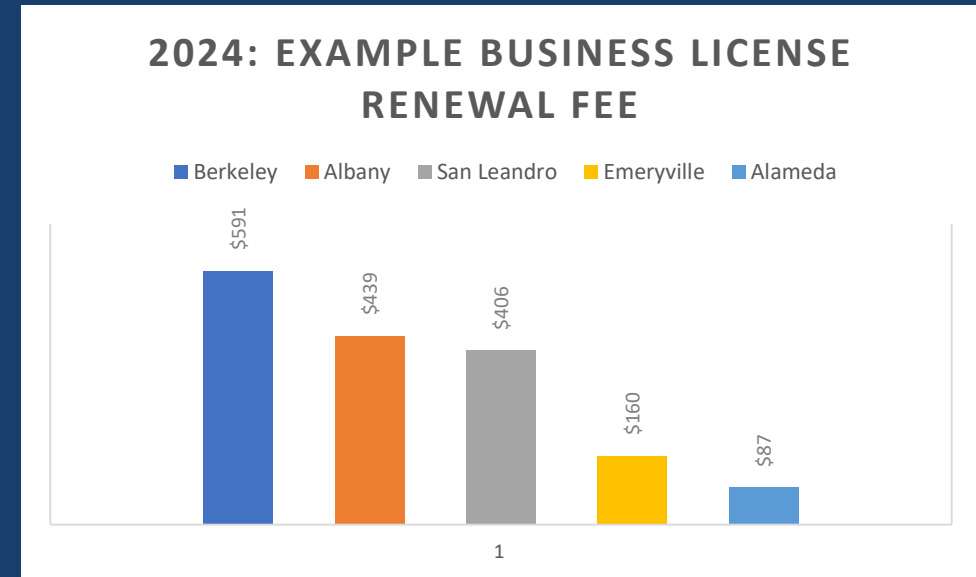
-- Chris Eiben, Perlumi (a Berkeley climate biotech company)



Comparison to Other Cities



- *Berkeley's current tax burden is the third highest amongst the Bay Area's 20 largest job centers**
- Without the tax exemption, a startup founder with one employee earning a \$150,000 R&D grant in Berkeley would pay more in business license renewal fees to Berkeley than in nearby competing cities (Alameda, Albany, Emeryville, San Leandro)
- Many university towns nationally do not have business license taxes based on gross receipts (Cambridge, MA; Chapel Hill, NC; Boulder, CO; Madison, WI)
- R&D grants are not always included as gross receipts and OED could not find written instructions or ordinances deeming government R&D grants subject to gross receipts taxation. However, City of Oakland officials confirmed they would only tax R&D grants if they are reported as part of their Federal Income taxes, and the City of Menlo Park confirmed they exclude R&D grants from local taxation as an unofficial practice. Others say they don't give tax advice.



Projected fiscal impacts



Even with expanded opportunities for R&D grant exemption, OED expects annual City business license tax revenue to decrease by **no more than a few tenths of a percent**

.1%

Maximum potential of BL tax revenue that could have been forgone, 2022

.3%

Maximum potential of BL tax revenue that could have been forgone, 2023

OED also expects **the gains from businesses choosing to grow in Berkeley versus other nearby cities (and registering for a business license) to offset the losses.**

(In addition to giving Berkeley an advantage during site selection process, the tax exemption helps increase awareness that the City requires startups to get a business license and renew it annually.)

How could the R&D grant tax waiver benefit Berkeley?



“It’s clear that the City is taking the long view, and wants to make the entrepreneurial ecosystem as welcoming as possible, recognizing that some of today’s smaller companies become tomorrow’s engines of the economy. Encouraging as many of them as possible to take root in Berkeley is a smart way to invest in Berkeley’s future economic vitality.”

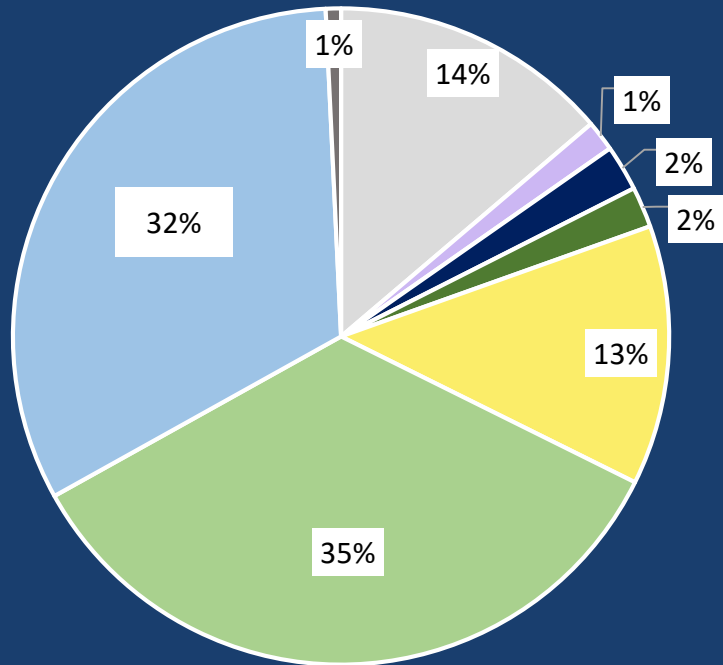
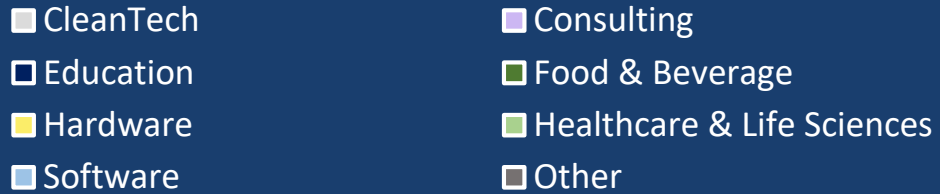
-- Gino Segre, Managing Director, Bakar Labs

- ✓ Raises awareness about business license registration and renewal requirements & streamlines process
- ✓ Captures early stage R&D companies into the City’s business license revenue stream
- ✓ R&D grants provide Berkeley workers with livable salaries
- ✓ Berkeley business owners and employees spend earnings on local goods & services
- ✓ Berkeley startups use R&D grants to pay rent for offices & labs, purchase equipment
- ✓ Increases Berkeley’s reputation as a startup hub/ incubator

How could the R&D grant tax waiver benefit the world?



Innovation Companies by Industry

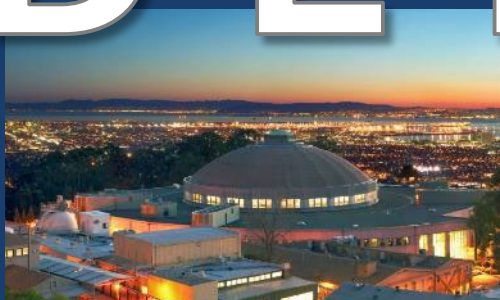
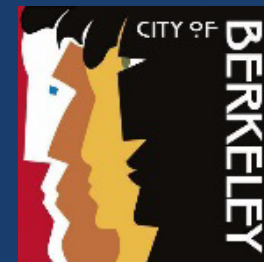


Source: OED, UC Berkeley Pitchbook data 2023

Berkeley R&D grants enable startups to develop solutions to our world's greatest societal & environmental challenges



twelve



City of

BERKELEY

Office of Economic Development (OED)

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