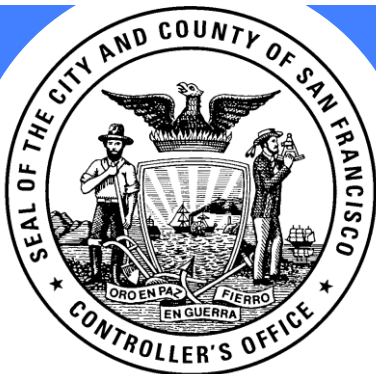


Business Tax Reform: Final Proposal



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

Office of Treasurer & Tax Collector

May 8, 2024
Revised

In response to a request from Mayor London N. Breed and Board of Supervisors President Aaron Peskin, we present this revised final proposal for potential consideration of the Mayor and Board, and ultimately the voters, should a measure proceed to the November 2024 election.

The project team believes this package, revising our preliminary February 5th proposal, is responsive to much of the feedback we have received from a variety of stakeholders throughout this process. This document summarizes rates and charges in our final recommendation package, and an ordinance reflecting the detail of this final proposal is available on the project website for full review.

We believe our final recommended business tax system will better reflect a post COVID economy in which the City supports its businesses while maintaining the unique attributes and vital services that make San Francisco a place people want to live and work. It does this by:

1. Reducing risk of tax loss from remote work and business relocation;
2. Reducing volatility and other risks stemming from over-concentration of business taxes on a small number of payers;
3. Simplifying the overall tax structure to achieve greater predictability for both businesses and the City; and
4. Promoting greater equity for small businesses.

Final Business Tax Proposal: Background

In July 2023, the Offices of the Controller (CON) and the Treasurer & Tax Collector (TTX) released [a report](#) that pointed to three sources of risk to the City's tax base stemming from remote work, and recent City policy changes:

- An increasing concentration of the tax base in office industries that are most impacted by remote work.
- An increasing reliance on large commercial office activities, which have been curtailed in the short term, and are likely to generate lower value in the long term.
- An increase in revenue volatility stemming from increased reliance on the largest businesses. This is due to both changes to tax policy, and changes in how the City's economy has evolved.

CON, TTX and the Office of Economic and Workforce Development (OEWD), held more than 30 group meetings with affected businesses, community stakeholders, and three large public roundtable meetings to inform [a report](#) issued on February 5, 2024.

Final Business Tax Proposal: Overview

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- Since February, we have revised the proposal given subsequent feedback received from businesses, business and labor organizations, and at the direction of the project's sponsors, Mayor Breed and Board President Peskin.
- This revised proposal is intended to retain critical improvements outlined in that initial report, including consolidating and simplifying the tax structure, reducing the concentration of the tax on relatively few businesses, providing relief to small businesses, and changing apportionment calculations to improve the City's economic competitiveness for office industries.
- The revised proposal goes further to also:
 - Provide additional benefits for a number of sectors – including hotels, restaurants, arts and entertainment organizations, and small businesses.
 - Soften impacts for many other industries versus the initial February proposal.
- The package remains revenue neutral, over time. The proposal reduces tax collections as the City's economy recovers over the next three years, delaying and restructuring previously voter-approved upcoming increases (Prop F 2020) until 2027 and 2028. These later increases, at increased rates of 4% and 3% respectively, then offset those losses. Legally-dedicated revenues available for homeless services remain unchanged versus the current voter-adopted system.

Reduce risk of tax loss from remote work and business relocation

- Shift away from calculation of taxes based on relative payroll in San Francisco toward gross receipts in the City

Reduce volatility and other risks stemming from over-concentration of business taxes on a small number of payers

- Reduce the Overpaid Executive Tax by 80%, rebalancing these revenues in the revised Gross Receipts structure. Simplify the requirements for the tax to improve ease of compliance.
- Replacing future rate increases scheduled to occur in coming years adopted in Proposition F (2020) with an across the board 4% increase in 2027 and 3% increase in 2028.
- Retain the Homelessness Gross Receipts Tax but establish new tax schedules, rates, and tiers for both the Gross Receipts and Homelessness Gross Receipts taxes to reduce volatility at the top end of the schedules.

Simplify the overall tax structure to achieve greater predictability for both businesses and the City

- Reduce the number of tax schedules from 14 to 7 to simplify administration of the tax and reduce potential conflicts between the City and taxpayers;
- Simplify tax calculations and reduce the need for overpayments and refunds by better aligning local tax filing deadlines with those for state tax filings;
- Tax Collector will lead a public process and promulgate regulations about gross receipts sourcing;
- Tax Collector will create a process for taxpayers to request and receive advanced determinations by June 30, 2025.
- Elimination of the 80/20 rule and waterfall so that businesses file using the applicable rates in each category, with a \$10,000 de minimis rule.
- Add a three-year lookback for the Administrative Office Tax.

Greater equity for small businesses

- Increase the Small Business Exemption to \$5 million
 - Estimated 88% of all restaurants will be exempt
 - Estimated 50% of retailers who currently pay Gross Receipts Taxes will be exempt

- Revenue model assumes elimination of \$10 million in license fees, to be adopted legislatively and triggered upon passage of the measure

- Progressive tax rates in all categories
 - In excess of 90% of restaurants will see a reduction in taxes

Tourism, Arts, Entertainment, and Recreation

- 13% reduction in taxes for by Accommodations
- 78% reduction for Arts, Entertainment, and Recreation

Construction

- Moved to its own category based on 100% gross receipts in the City, with a specified subcontractor deduction

Real Estate

- No rate changes for Real Estate
- Retains the exclusion from Homelessness Gross Receipts Taxes for receipts that are subject to the Commercial Rents Tax

Information, Professional Services, and Others

- Reductions in the middle tiers versus the February report levels

Credits

- Tax credits for grocery retailers, stadium admissions taxes, and for specified leases in certain buildings

Estimated Impacts by Industry vs 2022

Business Activity	Total – Policy	Total - Baseline	Difference	Pct Diff
Accommodation	\$10.9	\$12.5	-\$1.6	-13%
Administrative and Support Services	\$19.0	\$26.9	-\$7.9	-29%
Arts, Entertainment, and Recreation	\$1.7	\$8.5	-\$6.8	-80%
Biotechnology	\$9.0	\$7.6	\$1.4	18%
Certain Services	\$0.6	\$0.4	\$0.2	37%
Clean Technology	\$0.2	\$0.4	-\$0.2	-59%
Construction	\$36.7	\$34.3	\$2.4	7%
Financial Services for Select NAICS Activities	\$175.1	\$148.7	\$26.4	18%
Food Services and Drinking Places	\$6.2	\$11.2	-\$5.0	-45%
Information	\$441.4	\$438.8	\$2.5	1%
Insurance Carriers	\$4.1	\$7.2	-\$3.1	-43%
Manufacturing	\$39.9	\$54.7	-\$14.8	-27%
Educational Services and Healthcare Services	\$19.8	\$28.2	-\$8.3	-30%
Professional, Scientific, and Technical Services	\$149.3	\$158.4	-\$9.0	-6%
Real Estate	\$236.3	\$240.6	-\$4.3	-2%
Retail Trade	\$92.3	\$79.3	\$13.0	16%
Transportation and Warehousing	\$54.5	\$57.6	-\$3.1	-5%
Utilities	\$19.2	\$12.0	\$7.1	59%
Wholesale Trade	\$33.1	\$26.1	\$7.1	27%
Activity not listed above	\$15.1	\$18.2	-\$3.1	-17%
Financial Services for Select NAICS Activities	\$9.3	\$24.9	-\$15.6	-63%
Other Credits & Reductions	-\$20.0		-\$20.0	
TOTAL	\$1,373.5	\$1,396.4	-\$42.9	-3.1%

Appendix: Schedule, Rate, and Fee Schedules Summary

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- Business activity assignment to proposed schedules
- Combined Gross Receipts Tax / Homelessness Gross Receipts Tax rates by category
- Registration Fees
- Detailed GRT / HGRT rates by category
- OET Rates
- AOT Rates

Business Activity to Schedule by NAICS Code

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Category 1: 42 (Wholesale Trade); 44-45 (Retail Trade); 532 (Rental and Leasing Services); 71 (Arts, Entertainment, and Recreation); 722 (Food Services and Drinking Places); 811 (Repair and Maintenance); 812 except 812930 (Personal and Laundry Services except Parking Lots and Garages); 813 (Religious, grantmaking, civic, professional, and similar organizations)

Category 2: 721 (Accommodation)

Category 3: 531 (Real Estate); 5612 (Facilities Support Services); 5617 (Services to Buildings and Dwellings); 812930 (Parking Lots and Garages)

Category 4: 524 (Insurance Carriers and Related Activities); 11 (Agriculture, Forestry, Fishing and Hunting); 21 (Mining, Quarrying, and Oil and Gas Extraction); 22 (Utilities); 31-33 (Manufacturing); 48-49 (Transportation and Warehousing); 541714 (Research and Development in Biotechnology, except Nanobiotechnology); 5616 (Investigation and Security Services); 5611 (Office Administrative Services); 5613 (Employment Services); 5614 (Business Support Services); 5615 (Travel Arrangement and Reservation Services); 5619 (Other Support Services); 92 (Public Administration)

Business Activity to Schedule by NAICS Code

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Category 5: 51 (Information); 5222 (Nondepository Credit Intermediation); 5223 (Activities Related to Credit Intermediation); 533 (Lessors of Nonfinancial Intangible Assets except Copyrighted Works); 54 except 541714 (Professional, Scientific, and Technical Services in Biotechnology, excluding Nano Biotechnology, except Research and Development); 55 (Management of Companies and Enterprises); 562 (Waste Management and Remediation Services); 61 (Educational Services); 62 (Health Care and Social Assistance)

Category 6: 521 (Monetary Authorities – Central Bank); 5221 (Depository Credit Intermediation); 523 (Securities, Commodity Contracts, and Other Financial Investments and Related Activities); 525 (Funds, Trusts, and Other Financial Vehicles)

Category 7: 23 (Construction)

Combined GRT / HGRT Rates – Effective January 1, 2025

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Rate Category Combined Rates for Illustration: (Detailed Individual Rates for GR and HGR on Later Slides)

		<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Category 4</u>	<u>Category 5</u>	<u>Category 6</u>	<u>Category 7</u>
Example Business Activities:		Wholesale Trade; Retail Trade; Food Services; Arts, Entertainment, & Recreation	Accommodation	Real Estate	Manufacturing; Other Support Services; Office Admin Services; Utilities	Information; Professional, Scientific, & Technical Services; Health Care and Social Assistance	Depository Credit Intermediation; Securities, Commodity Contracts, and Other Financial Instruments	Construction
From:	To:							
\$0	\$1,000,000	0.10%	0.19%	0.41%	0.25%	1.00%	1.50%	0.50%
\$1,000,001	\$2,500,000	0.13%	0.20%	0.41%	0.25%	1.00%	1.50%	0.50%
\$2,500,001	\$25,000,000	0.18%	0.25%	0.44%	0.30%	1.50%	3.00%	0.75%
\$25,000,001	\$50,000,000	0.50%	0.49%	0.44%	0.75%	1.75%	3.50%	1.00%
\$50,000,001	\$75,000,000	0.50%	0.87%	0.76%	1.25%	2.00%	4.50%	1.50%
\$75,000,001	\$100,000,000	0.50%	0.87%	0.76%	1.25%	2.00%	4.50%	1.50%
\$100,000,001	\$150,000,000	0.50%	0.87%	0.76%	1.75%	2.00%	5.00%	2.00%
\$150,000,001	\$250,000,000	0.75%	0.87%	0.76%	1.75%	2.25%	5.00%	2.00%
\$250,000,001	\$500,000,000	1.00%	0.87%	0.76%	2.00%	2.50%	5.00%	2.25%
\$500,000,001	\$1 Billion	1.25%	0.87%	0.76%	2.00%	2.50%	5.00%	2.25%
\$1 Billion +		1.50%	0.87%	0.76%	2.25%	2.50%	5.00%	2.50%

* Example business activities summary for illustration: Refer to appendix and ordinance for detailed categorization

Registration Fees

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San Francisco Gross Receipts	2022-23 Rates		Proposed 2026 - 2027 Rates
	Schedule A	Schedule B	
\$0 to \$100,000	\$56	\$46	\$55
\$100,000.01 to \$250,000	\$93	\$78	\$95
\$250,000.01 to \$500,000	\$157	\$124	\$160
\$500,000.01 to \$750,000	\$314	\$250	\$320
\$750,000.01 to \$1,000,000	\$439	\$376	\$440
\$1,000,000.01 to \$1,500,000	\$628	\$518	\$625
\$1,500,000.01 to \$2,000,000	\$879	\$725	\$875
\$2,000,000.01 to \$2,500,000	\$376	\$250	\$1,130
\$2,500,000.01 to \$5,000,000	\$628	\$502	\$1,885
\$5,000,000.01 to \$7,500,000	\$628	\$502	\$800
\$7,500,000.01 to \$15,000,000	\$1,885	\$1,414	\$2,000
\$15,000,000.01 to \$25,000,000	\$6,285	\$4,714	\$6,500
\$25,000,000.01 to \$50,000,000	\$15,716	\$9,429	\$20,000
\$50,000,000.01 to \$100,000,000	\$28,290	\$18,859	\$40,000
\$100,000,000.01 to \$200,000,000	\$37,720	\$25,146	\$50,000
\$200,000,000.01 and over	\$44,006	\$37,720	\$60,000

Category 1

42 (Wholesale Trade); 44-45 (Retail Trade); 532 (Rental and Leasing Services); 71 (Arts, Entertainment, and Recreation); 722 (Food Services); 811 (Repair and Maintenance); 812 except 812930 (Personal Care Services except Parking Lots and Garages); 813 (Religious, grant-making, civic, and professional and similar organizations)

From	To	2025		
		GRT Rate	HGRT Rate	Combined
\$0	\$1,000,000	0.100%	0.000%	0.100%
\$1,000,001	\$2,500,000	0.130%	0.000%	0.130%
\$2,500,001	\$25,000,000	0.180%	0.000%	0.180%
\$25,000,001	\$50,000,000	0.336%	0.164%	0.500%
\$50,000,001	\$75,000,000	0.336%	0.164%	0.500%
\$75,000,001	\$100,000,000	0.336%	0.164%	0.500%
\$100,000,001	\$150,000,000	0.336%	0.164%	0.500%
\$150,000,001	\$250,000,000	0.504%	0.246%	0.750%
\$250,000,001	\$500,000,000	0.672%	0.328%	1.000%
\$500,000,001	\$1 Billion	0.840%	0.410%	1.250%
\$1 Billion	\$2 Billion	1.008%	0.492%	1.500%
\$2 Billion +		1.008%	0.492%	1.500%

Category 2

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721 (Accommodations)

From	To	2025		
		GRT Rate	HGRT Rate	Combined
\$0	\$1,000,000	0.185%	0.000%	0.185%
\$1,000,001	\$2,500,000	0.201%	0.000%	0.201%
\$2,500,001	\$25,000,000	0.253%	0.000%	0.253%
\$25,000,001	\$50,000,000	0.331%	0.162%	0.493%
\$50,000,001	\$75,000,000	0.582%	0.284%	0.866%
\$75,000,001	\$100,000,000	0.582%	0.284%	0.866%
\$100,000,001	\$150,000,000	0.582%	0.284%	0.866%
\$150,000,001	\$250,000,000	0.582%	0.284%	0.866%
\$250,000,001	\$500,000,000	0.582%	0.284%	0.866%
\$500,000,001	\$1 Billion	0.582%	0.284%	0.866%
\$1 Billion	\$2 Billion	0.582%	0.284%	0.866%
\$2 Billion +		0.582%	0.284%	0.866%

Category 3

531 (Real Estate); 5612 (Facilities Support Services); 5617 (Services to Buildings and Dwellings); 812930 (Parking Lots and Garages)

From	To	2025		
		GRT Rate	HGRT Rate	Combined
\$0	\$1,000,000	0.413%	0.000%	0.413%
\$1,000,001	\$2,500,000	0.413%	0.000%	0.413%
\$2,500,001	\$25,000,000	0.435%	0.000%	0.435%
\$25,000,001	\$50,000,000	0.435%	0.000%	0.435%
\$50,000,001	\$75,000,000	0.435%	0.325%	0.760%
\$75,000,001	\$100,000,000	0.435%	0.325%	0.760%
\$100,000,001	\$150,000,000	0.435%	0.325%	0.760%
\$150,000,001	\$250,000,000	0.435%	0.325%	0.760%
\$250,000,001	\$500,000,000	0.435%	0.325%	0.760%
\$500,000,001	\$1 Billion	0.435%	0.325%	0.760%
\$1 Billion	\$2 Billion	0.435%	0.325%	0.760%
\$2 Billion +		0.435%	0.325%	0.760%

Category 4

19

524 (Insurance Carriers and Related Activities); 11 (Agriculture, Forestry, Fishing and Hunting); 21 (Mining, Quarrying, and Oil and Gas Extraction); 22 (Utilities); 31-33 (Manufacturing); 48-49 (Transportation and Warehousing); 541714 (Research and Development in Biotechnology, except Nanobiotechnology); 5616 (Investigation and Security Services); 5611 (Office Administrative Services); 5613 (Employment Services); 5614 (Business Support Services); 5615 (Travel Arrangement and Reservation Services); 5619 (Other Support Services); 92 (Public Administration)

From	To	2025		
		GRT Rate	HGRT Rate	Combined
\$0	\$1,000,000	0.250%	0.000%	0.250%
\$1,000,001	\$2,500,000	0.250%	0.000%	0.250%
\$2,500,001	\$25,000,000	0.300%	0.000%	0.300%
\$25,000,001	\$50,000,000	0.504%	0.246%	0.750%
\$50,000,001	\$75,000,000	0.840%	0.410%	1.250%
\$75,000,001	\$100,000,000	0.840%	0.410%	1.250%
\$100,000,001	\$150,000,000	1.176%	0.574%	1.750%
\$150,000,001	\$250,000,000	1.176%	0.574%	1.750%
\$250,000,001	\$500,000,000	1.344%	0.656%	2.000%
\$500,000,001	\$1 Billion	1.344%	0.656%	2.000%
\$1 Billion	\$2 Billion	1.512%	0.738%	2.250%
\$2 Billion +		1.512%	0.738%	2.250%

Category 5

51 (Information); 5222 (Nondepository Credit Intermediation); 5223 (Activities Related to Credit Intermediation); 533 (Lessors of Nonfinancial Intangible Assets); 54 except 541714 (Professional, Scientific, and Technical Services, except Research and Development); 55 (Management of Companies and Enterprises); 562 (Waste Management); 61 (Educational Services); 62 (Health Care and Social Assistance); No Applicable NAICS Code

From	To	2025		
		GRT Rate	HGRT Rate	Combined
\$0	\$1,000,000	1.000%	0.000%	1.000%
\$1,000,001	\$2,500,000	1.000%	0.000%	1.000%
\$2,500,001	\$25,000,000	1.500%	0.000%	1.500%
\$25,000,001	\$50,000,000	1.176%	0.574%	1.750%
\$50,000,001	\$75,000,000	1.344%	0.656%	2.000%
\$75,000,001	\$100,000,000	1.344%	0.656%	2.000%
\$100,000,001	\$150,000,000	1.344%	0.656%	2.000%
\$150,000,001	\$250,000,000	1.512%	0.738%	2.250%
\$250,000,001	\$500,000,000	1.680%	0.820%	2.500%
\$500,000,001	\$1 Billion	1.680%	0.820%	2.500%
\$1 Billion	\$2 Billion	1.680%	0.820%	2.500%
\$2 Billion +		1.680%	0.820%	2.500%

Category 6

21

521(Monetary Authorities – Central Bank); 5221 (Depository Credit Intermediation); 523 (Securities, Commodity Contracts, and Other Financial Investments and Related Activities); 525 (Funds, Trusts, and Other Financial Vehicles)

From	To	2025		
		GRT Rate	HGRT Rate	Combined
\$0	\$1,000,000	1.500%	0.000%	1.500%
\$1,000,001	\$2,500,000	1.500%	0.000%	1.500%
\$2,500,001	\$25,000,000	3.000%	0.000%	3.000%
\$25,000,001	\$50,000,000	2.352%	1.148%	3.500%
\$50,000,001	\$75,000,000	3.024%	1.476%	4.500%
\$75,000,001	\$100,000,000	3.024%	1.476%	4.500%
\$100,000,001	\$150,000,000	3.360%	1.640%	5.000%
\$150,000,001	\$250,000,000	3.360%	1.640%	5.000%
\$250,000,001	\$500,000,000	3.360%	1.640%	5.000%
\$500,000,001	\$1 Billion	3.360%	1.640%	5.000%
\$1 Billion	\$2 Billion	3.360%	1.640%	5.000%
\$2 Billion +		3.360%	1.640%	5.000%

Category 7

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23 (Construction)

From	To	2025		
		GRT Rate	HGRT Rate	Combined
\$0	\$1,000,000	0.500%	0.000%	0.500%
\$1,000,001	\$2,500,000	0.500%	0.000%	0.500%
\$2,500,001	\$25,000,000	0.750%	0.000%	0.750%
\$25,000,001	\$50,000,000	0.672%	0.328%	1.000%
\$50,000,001	\$75,000,000	1.008%	0.492%	1.500%
\$75,000,001	\$100,000,000	1.008%	0.492%	1.500%
\$100,000,001	\$150,000,000	1.344%	0.656%	2.000%
\$150,000,001	\$250,000,000	1.344%	0.656%	2.000%
\$250,000,001	\$500,000,000	1.512%	0.738%	2.250%
\$500,000,001	\$1 Billion	1.512%	0.738%	2.250%
\$1 Billion	\$2 Billion	1.680%	0.820%	2.500%
\$2 Billion +		1.680%	0.820%	2.500%

Administrative Office Taxes (AOT/HAOT)

Effective rates January 1, 2025:

AOT: 1.47%

HAOT: 1.5%

AOT registration fees:

From	To	
\$0.00	\$500,000	\$500
\$500,000.01	\$1,500,000	\$1,000
\$1,500,000.01	\$2,500,000	\$15,000
\$2,500,000.01	\$25,000,000	\$25,000
\$25,000,000.01		\$35,000

Overpaid Executive Tax (OET)

Effective rates January 1, 2025:

Rates:

From	100:1	200:1	300:1	400:1	500:1	600:1+
To	200:1	300:1	400:1	500:1	600:1	
Rate	0.02%	0.04%	0.06%	0.08%	0.10%	0.12%

Overpaid Executive Tax (AOET)

Effective rates January 1, 2025:

Rates:

From	100:1	200:1	300:1	400:1	500:1	600:1+
To	200:1	300:1	400:1	500:1	600:1	
Rate	0.08%	0.16%	0.24%	0.32%	0.40%	0.48%

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