

August 2, 2018

Dear Ballot Simplification Committee members,

I am writing on behalf of the LPSF to ask you to consider changes to the draft ballot summary language for the “Additional Tax on Cannabis Businesses; Expanding the Businesses Subject to Business Taxes” ballot measure. This measure does two very distinct and different things:

- 1) For the first time, taxes online and other sales by businesses that do not have a physical presence in the City
- 2) Imposes additional taxes on cannabis businesses, and on the sale of cannabis, that are not imposed on non-cannabis businesses or on the sale of other products

I don't think the current wording makes this clear enough to voters, or puts enough emphasis on point #1, which could well be a larger tax increase than #2 in terms of the amount of money confiscated, especially in the future as online sales presumably increase. In particular, neither the word “online” nor the word “Internet” appears anywhere in the current draft, which I believe is a serious omission.

To correct this problem, I propose the following revisions to the draft language of the summary description:

Additional Tax on Cannabis Businesses; Expanding the Businesses Subject to Business Taxes*

Digest by the Ballot Simplification Committee

Status: Approved digest

On: Wednesday, August 1, 2018

Members: Packard, Anderson, Patterson, Raveche

Deadline to Request Reconsideration: 3 p.m. on Thursday, August 2

The Way It Is Now: Sales of cannabis and other cannabis business activities are taxed by the City at the same rates as sales of most other products and

business activities. The City collects a tax on gross receipts from many businesses operating in San Francisco. **The City does not tax sales by Internet businesses and others that do not have a physical presence in San Francisco, such as online purchases by San Francisco residents from companies based outside the City, which are generally taxed in the jurisdictions where they are physically located.**

The current tax rates on gross receipts range from 0.075 percent to 0.65 percent. Cannabis businesses are subject to the tax on gross receipts. Businesses with \$1 million or less in total gross revenue within San Francisco are generally exempt from the gross receipts tax. Some other businesses, including certain nonprofit organizations, banks and insurance companies, are also exempt.

The City collects gross receipts and other taxes on businesses that meet specified conditions relating to activities within San Francisco. San Francisco voters must approve increases to tax revenue spending limits.

The Proposal: Proposition ___ would impose two separate types of new taxes:

1) Beginning January 1, 2019, Proposition ___ would apply many of the City's business taxes to some businesses that receive more than \$500,000 in gross revenue in San Francisco and do not have a physical presence in The City.

2) Beginning January 1, 2021, Proposition ___ would impose an additional gross receipts tax ~~of~~ **on the sale of cannabis products and cannabis business activities. These cannabis taxes would apply as follows:**

- 2.5 percent on the first \$1 million of gross revenues from the retail sale of cannabis products;
- 5 percent on gross revenues over \$1 million from the retail sale of cannabis products;
- 1 percent on the first \$1 million of gross revenues from cannabis business activities other than the retail sale of cannabis products; and
- 1.5 percent on gross revenues over \$1 million from cannabis business activities other than the retail sale of cannabis products.

These additional **cannabis-related** taxes would not apply to:

- The first \$500,000 of gross revenues from cannabis business activities;
 - Revenues from the retail sale of medicinal cannabis;
 - Revenues from certain activities indirectly related to cannabis businesses;
- ~~or~~

The Board of Supervisors ~~could~~ **would be able to** annually decrease or increase each tax rate, subject to limits.

Some businesses exempt from the City's gross receipts tax, such as banks, insurance companies, and certain nonprofit organizations, would not pay higher gross receipts taxes under either type of tax authorized by Proposition ____.

Revenues from ~~this~~ **the additional taxes on cannabis** would go into the General Fund, which the City may use for any public purpose.

Revenues from expanding many of the City's business taxes to apply to online sales and other sales by businesses without a physical presence in San Francisco would go into the General Fund, with some exceptions as established by set-asides existing under current laws.

~~In addition, beginning January 1, 2019, Proposition ____ would apply many of the City's business taxes to some businesses that receive more than \$500,000 in gross revenue in San Francisco and do not have a physical presence in The City.~~

Proposition ____ would increase the City's annual tax revenue spending limit for four years.

A "YES" Vote Means: If you vote "yes," you want to:

- Impose new cannabis business taxes; and
- Apply many of the City's business taxes to some businesses that do not have a physical presence in The City.

A "NO" Vote Means: If you vote "no," you do not approve these taxes.

Thank you for considering these proposed changes and for whichever of the changes you may decide to make.

Love & Liberty,

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