

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

Digest by the Ballot Simplification Committee

Status: Draft for Consideration
On: Wednesday, August 1, 2018
Members: Packard, Anderson, Patterson, Raveche

Deadline to Request Reconsideration: TBD

The Way It Is Now: The City collects a tax on gross receipts from many businesses operating in San Francisco. The current tax rates on gross receipts range from 0.075% to 0.65%, depending on the type of business activity and the amount of gross receipts.

Businesses with \$1 million or less in total gross revenue within San Francisco, adjusted for inflation, are generally exempt from the gross receipts tax. Some other businesses, including certain non-profit organizations, are also exempt.

Cannabis businesses are subject to the tax on gross receipts. Also, they must obtain both a state license and a local permit, whether they sell “medicinal” cannabis, which is only available with a physician recommendation, or non-medicinal “adult use” use cannabis, which is available without a physician recommendation to anyone 21 years of age or older.

The City collects the gross receipts tax and a number of other business taxes on businesses that meet at least one of ten specified conditions relating to activities within San Francisco.

State law limits the amount of revenue, including tax revenue, the City can spend each year. State law authorizes San Francisco voters to approve increases to this limit.

The Proposal: Beginning January 1, 2021, Proposition ____ would impose an additional gross receipts tax of:

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

Revenues from this additional tax would go into the General Fund, which the City may use for any public purpose.

The Board of Supervisors, by a majority vote, could decrease any of these tax rates. The Board of Supervisors, by a two-thirds vote, could increase these rates by up to 1% annually, up to a maximum rate of 7%.

These additional taxes would not apply to:

- The first \$500,000 of gross revenues from cannabis business activities, whether from the sale of cannabis products or other cannabis business activities;
- Revenues from the retail sale of medicinal cannabis;
- Revenues from certain activities indirectly related to cannabis businesses; or
- Some businesses exempt from the City's gross receipts tax, such as certain non-profit organizations.

**Working title, for identification only. The Director of Elections determines the title of each local ballot measure; measure titles are not considered during Ballot Simplification Committee meetings.*

The City could use the funds collected from this additional tax for any public purpose.

Beginning January 1, 2019, Proposition ___ would apply many of the City's business taxes to businesses that receive more than \$500,000 in gross revenue in San Francisco during the tax year, even if those businesses do not have a physical presence in San Francisco.

Proposition ___ would also increase the state's limit on the City's annual tax revenue spending by the increase in certain business taxes collected in a fiscal year compared with the prior fiscal year, and by the amount of additional taxes collected under this ordinance. The increased limit would last for four years.

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

- Impose a new cannabis business tax of 2.5% on the first \$1 million in gross revenues, and 5% on gross revenues over \$1 million, that a business receives from the retail sale of cannabis products; and
- Impose a new cannabis business tax of 1% on the first \$1 million in gross revenues, and 1.5% on gross revenues over \$1 million that a business receives from cannabis business activities other than the retail sale of cannabis products; and
- Subject businesses to various business taxes if they receive more than \$500,000 in gross revenue in the City during the tax year, even if those businesses have no physical presence in San Francisco.

A "NO" Vote Means: If you vote "no," you do not approve this tax or the expansion of businesses subject to various business taxes.