

August 1, 2018

Dear Committee Members Packard, Anderson, Patterson, and Raveche,

Thank you for all your work on simplifying these complicated measures. Like you, I want to increase voter participation, and having a clear but nuanced understanding of the ballot is necessary. After sitting through the committee hearings, I have a newfound appreciation for the end result. I respectfully defer to your expertise on wording and what the average voter needs to understand. Please take the following as suggestions for improvement.

Suggested deletions in ~~strikethrough~~ and additions in *red italics*. Rationale for changes at the bottom of the page.

Thank you for your hard work and consideration,

Jimmy Chion

Founder, By The Bay, ballot.fyi

Additional Tax on Cannabis Businesses; Expanding the Businesses Subject to Business Taxes* Digest by the Ballot Simplification Committee

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 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: Beginning January 1, 2021, Proposition ____ would impose an additional

gross receipts tax of:

- 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 taxes would not apply to:

- The first \$500,000 of gross revenues from cannabis business activities, *applied only once*;
- 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 nonprofit organizations.

The Board of Supervisors could annually decrease or increase each tax rate, subject to limits.

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

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

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

Re: “• The first \$500,000 of gross revenues from cannabis business activities, *applied only once*,”

The \$500,000 exemption is applied only once, first to the 1% on \$1 million of gross revenues from cannabis business activities, and any remaining leftover, to the 2.5 percent on \$1 million of gross revenues from retail sales. This is specified in Sec 3003(b)(5)(B), or Page 8, Line 3, and also called out in the Legislative Digest:

“Businesses with gross receipts both from the retail sale of cannabis or cannabis products and from cannabis business activities other than the retail sale of cannabis and cannabis would be entitled to only one \$500,000 exemption.”

(Note: I find that wording very confusing, making it sound like a one-time coupon.)

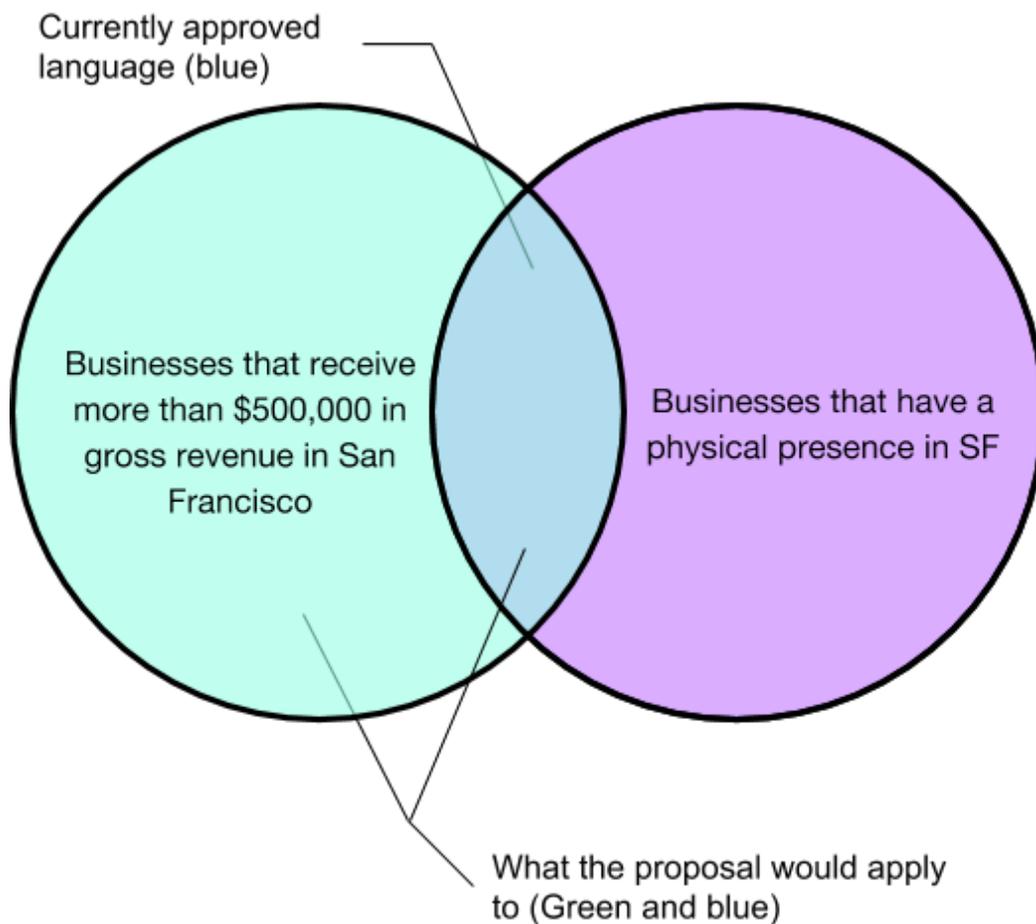
A voter may interpret the current approved draft (“These additional taxes would not apply to: • The first \$500,000 of gross revenues from cannabis business activities”) as to apply to both the tax on retail sales *and* to the tax on cannabis business activities, because “cannabis business activities” includes retail sales. As currently worded, it can be interpreted to exempt \$1M (\$500K x 2), a significant difference.

Re: “In addition, beginning January 1, 2019, Proposition ___ would apply many of the City’s business taxes to some businesses, *regardless of industry*, that receive more than \$500,000 in gross revenue in San Francisco, *and even if they* do not have a physical presence in The City.”

Thank you for the changes made after public comments. As currently worded, it accurately explains the proposal, but in my opinion, does so in language too vague for the voter to understand that this is 1) unrelated to cannabis and 2) applicable to even those who do not have a physical presence in The City.

This paragraph discusses a part of the initiative that is wholly different from the cannabis tax, and I believe should highlight the differences to make it clear to the voter.

The last clause, as currently approved (“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.”) sounds like applies to companies that meet both and only both of the criteria of (1) more than \$500K gross revenue in SF and (2) do not have a physical presence in SF. As I understand the proposal, it applies to those with criteria (1), regardless of (2).



This is stated clearly in the Legislative Digest:

“Effective January 1, 2019, this ordinance would expand the conditions under which persons are subject to certain business taxes in the City, by also including persons with annual gross receipts in the City exceed \$500,000, irrespective of physical presence”

This is significant because it changes the current threshold of \$1M for many gross receipts taxes. This arguably has more impact than the cannabis tax itself, and thus important for the voters to understand clearly.

