

## **Business Tax Overhaul\***

**Digest** by the Ballot Simplification Committee

**Status:** Draft for Consideration  
**On:** Monday, August 3, 2020  
**Members:** Packard, Anderson, Girardin, Patterson

**Deadline to Request Reconsideration:** TBD

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**The Way It Is Now:** The City collects certain taxes from San Francisco businesses.

- The business registration fee is an annual tax between \$75 and \$35,000 (adjusted for inflation) that generally varies based on a business's activities and its San Francisco gross receipts.
- The payroll expense tax is a percentage of a business's San Francisco payroll expense. The tax does not apply to some small businesses or to businesses that pay the administrative office tax.
- The gross receipts tax is a percentage of a business's San Francisco gross receipts. The gross receipts tax does not apply to some small businesses or to businesses that pay the administrative office tax. Certain taxpayers who pay a similar tax to another jurisdiction may receive a credit against their gross receipts tax to the City.
- The administrative office tax is a tax on payroll expense that applies to certain large businesses with administrative offices in the City, instead of the payroll expense or gross receipts taxes.

The City also collects an Early Care and Education Commercial Rents Tax (Childcare Tax) and a Homelessness Gross Receipts Tax (Homelessness Tax).

- The Childcare Tax applies to businesses that receive gross receipts from the lease of commercial space.
- The Homelessness Tax applies to businesses with more than \$50 million in San Francisco gross receipts. Under this tax, businesses subject to the administrative office tax pay an additional tax on their San Francisco payroll expense.

The Childcare and Homelessness Taxes have been challenged in court and the City has not spent the money collected through these taxes.

The Charter requires the City to provide a minimum amount of funding for specified City services, such as: transportation, parks and recreation, youth programs, public education, maintenance of street trees, and supportive services for older adults (Baseline Funds). The minimum amount required for Baseline Funds is based on the amount of revenue the City receives that can be used for any purpose.

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 to last for four years.

**The Proposal:** Proposition \_\_ would eliminate the payroll expense tax beginning in calendar year 2021.

For business registration fees, Proposition \_\_ would:

- Beginning in fiscal year 2021-22 decrease the fee by about 50% for most businesses with \$1 million or less in San Francisco gross receipts; and
- Increase the registration fee for most businesses with between \$1-2 million in San Francisco gross receipts.

For the gross receipts tax, Proposition \_\_ would:

- Between calendar years 2021-24, phase in increased gross receipts tax rates;

*\*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.*

- Expand the existing small business exemption to cover more small businesses; and
- Eliminate the credit for businesses that pay a similar tax to another jurisdiction.

For the administrative office tax, Proposition \_\_\_ would phase in increased tax rates between calendar years 2022-24.

The City would delay for one year some of the changes to the gross receipts and administrative office tax rates for calendar years 2023 and 2024 if City businesses do not generate a specific level of total San Francisco gross receipts.

If the City loses the lawsuit regarding the Childcare Tax, Proposition \_\_\_ would require the City to collect a new tax on the gross receipts from the lease of certain commercial space. If the City loses the lawsuit regarding the Homelessness Tax, Proposition \_\_\_ would further increase gross receipts and administrative office tax rates on certain businesses.

Proposition \_\_\_ would exclude the revenues from the tax rate increases and taxes that apply only if the City loses the lawsuits regarding the Homelessness Tax or the Childcare Tax from the revenue used to determine the amount of funding for the Baseline Funds.

Proposition \_\_\_ would also increase the limit on the City's annual tax revenue spending by total revenues collected under the gross receipts tax and the total revenues collected under the proposed new tax that would become effective if the City loses the lawsuit relating to the Childcare Tax. The increased limit would last for four years.

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

- Eliminate the City's payroll expense tax;
- Increase gross receipts and administrative office taxes;
- Reduce business taxes for some small businesses; and
- Further increase the City's business taxes if the City loses either of the lawsuits regarding the Early Care and Education Commercial Rents Tax or the Homelessness Gross Receipts Tax, but exclude revenues from these increases for purposes of determining guaranteed spending on City services.

**A "NO" Vote Means:** If you vote "no," you do not want to make these changes.