



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
Controller

ChiaYu Ma
Deputy Controller

Mr. John Arntz
Department of Elections
City Hall 1 Dr. Carlton B. Goodlett Place Room 48
San Francisco, CA 94102-4689

August 12, 2024

RE: Proposition M – Changes to Business Taxes

Dear Mr. Arntz,

Should the proposed ordinance be approved by the voters, in my opinion, it would have the following effects on business tax revenue. Over the first three fiscal years, between fiscal year 2024-25 and FY 2026-27, the measure is projected to reduce revenues by approximately \$40 million annually. While uncertain this projected loss may be smaller if the measure helps enable the City to reduce reserves for disputed taxes in the future. Beginning in 2027, scheduled rate increases would generate positive revenues of approximately \$50 million annually in FY 2028-29 and thereafter. By FY 2029-30, the total positive revenue resulting from the rate increases would offset the reduced revenue in the first three years, making the total amount of business tax revenue over that period comparable to current law. After FY 2029-30, the ordinance is projected to continue to generate additional revenue of approximately \$50 million annually. Projected revenue impacts above assume a reduction in business license fees of \$10 million annually, which will be proposed in forthcoming legislation.

The proposed ordinance would amend the City's existing Business and Tax Regulations Code in several key areas:

- Increases the small business exemption from the gross receipts tax from \$2.25 million to \$5.0 million,
- Consolidates the number of tax schedules from 14 business activity categories to 7 business activity categories for the gross receipts and homelessness gross receipts taxes,
- Adjusts tax rates for gross receipts, homelessness gross receipts, administrative office, and overpaid executive gross receipts taxes in 2025, and increases tax rates on gross receipts, administrative office, and overpaid executive gross receipts taxes in 2027 and 2028; currently scheduled tax rate increases after 2024 would not occur under this proposal,
- Shifts the City's calculation of San Francisco gross receipts for most business activities away from payroll expenses and towards sales; the only exceptions are business activities whose San Francisco gross receipts calculation is already entirely based on sales,

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- Requires the Office of the Treasurer and Tax Collector to establish an advance determination process to provide written guidance to taxpayers, and makes other implementation changes,
- Creates new tax credits for businesses paying stadium operator admission taxes, grocery retailers, and new lessees in certain newly constructed buildings,
- Makes changes to business registration fees.

Additionally, the ordinance requires that the Controller report on the impact of the various changes made by this initiative in September 2026 and September 2027.

Business taxes can vary significantly depending on economic conditions, and current estimates may not be predictive of future revenues.

Sincerely,



Greg Wagner
Controller

Note: This analysis reflects our understanding of the proposal as of the date shown. At times further information is provided to us which may result in revisions being made to this analysis before the final Controller's statement appears in the Voter Information Pamphlet.