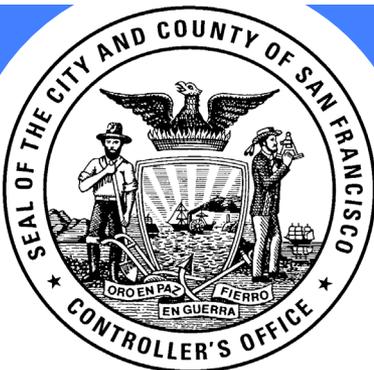


Business Tax Project Overview: Gross Receipts Roundtable Meeting #3



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

Office of Treasurer & Tax Collector

November 30th, 2023

Where We Are in the Process

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- July – release of our report highlighting risks to the tax base.
- Early September – first business roundtable meeting.
- September / October – meetings with industry groups.
- October – presentation of **initial concepts** for reform.
- October/November – receive feedback on initial concepts, continue modeling.
- **November roundtable meeting** – present *refined concepts*.
- Further feedback and refinement leading to *final concepts delivered* to Mayor and Board in December.

Goals for Business Tax Reform

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- Reduce risk of tax loss from remote work / relocation
- Reduce reliance on commercial property
- Reduce volatility stemming from over-concentration
- Greater simplicity and predictability for taxpayers
- Greater equity for small business

Reduce Volatility, Reliance on Commercial Property

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- Reduce/eliminate taxes, and incorporate into primary Gross Receipts Tax structure:
 - Eliminate Homelessness Gross Receipts Tax.
 - Reduce the Overpaid Executives Tax by 90%.
 - Reduce the Commercial Rents Tax by 25%.
- Gross Receipts Tax rates adjusted to make up the revenue.
- Dedicate equal portion of new tax base for current dedicated uses (Big & Baby C).
- Maintain Administrative Office Tax, implement a 3 year look back to reduce volatility.

Why?

- The City levies the Homelessness Gross Receipts Tax, Commercial Rents Tax, and Overpaid Executives Tax on small sets of the business tax base.
- The Commercial Rents Tax deepens the City's reliance on the value of commercial property, which is likely to decline.
- The Homelessness Gross Receipts Tax and Overpaid Executives Tax are narrowly-based, highly volatile tax streams.

Simplify categories and rates

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- Increase the small business exemption to \$2.5 million, adjusting with CPI.
- Simplify business registration schedule.
- Eliminate \$10 million of regulatory license fees and recoup the funds in the Gross Receipts Tax.
- Simplify Gross Receipts Tax from 14 to 5 rate schedules.
- Added additional gross receipts tiers above \$50 million.

Why?

- Simplification was a priority of this reform.
- These changes will improve compliance, make it easier for taxpayers, and reduce areas in existing tax where there are significant tax differences between similar business activities and schedules.

More uniform apportionment / allocation treatment

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- Create uniformity in apportionment / allocation rules across categories. All categories, except Real Property, will use 75% sales / 25% payroll.
- Reduce reliance on the payroll factor to remove the penalty of having employees in San Francisco.
- Adjust rates to achieve revenue-neutrality, given the change in apportionment methods.

Why?

- Heavy reliance on payroll-based apportionment drives our tax loss from remote work, and the City's tax competitiveness problem against other Bay Area cities.
- Simplification limits significant tax differences between similar business activities and schedules.

Proposed business activity categories / apportionment

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Reduce to 5 rate schedules; reduce reliance on payroll apportionment

Category	Description	Apportionment / Allocation
Advanced Services	Information, Professional Services, Insurance, Administrative and Support Services, Private Education & Health Services, FinTech	75% sales, 25% payroll
Real Property	Real Estate/Rental & Leasing, and Accommodations	100% sales
Financial Services	Financial Services	75% sales, 25% payroll
Wholesale and Retail Trade	Retail Trade, Wholesale Trade	75% sales, 25% payroll
All other	Transportation and Warehousing, Manufacturing, Construction, Utilities, Food Services, Arts, Entertainment & Recreation, Certain Services	75% sales, 25% payroll

Proposed Rates

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Gross Receipts		Business Activity Category				
From	To	Advanced Services	Real Property	Financial Services	Wholesale & Retail	All Other
\$0	\$2,500,000	1.000%	0.250%	1.500%	0.150%	0.250%
\$2,500,001	\$25,000,000	1.000%	0.300%	2.500%	0.200%	0.300%
\$25,000,001	\$50,000,000	1.500%	0.750%	3.500%	0.500%	0.750%
\$50,000,001	\$100,000,000	2.000%	1.250%	4.500%	1.250%	1.250%
\$100,000,001	\$250,000,000	2.250%	1.750%	5.000%	1.500%	1.750%
\$250,000,001	\$1,000,000,000	2.250%	1.500%	5.500%	2.000%	2.000%
\$1,000,000,001		2.500%	2.000%	5.500%	2.500%	2.250%

Impacts by Business Size: Baseline vs. Proposed

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From	To	\$ Difference	% Difference
\$0	\$2,500,000	-\$8.9	-37%
\$2,500,001	\$25,000,000	-\$1.4	-1%
\$25,000,001	\$50,000,000	\$11.3	9%
\$50,000,001	\$100,000,000	\$2.8	2%
\$100,000,001	\$250,000,000	\$23.3	13%
\$250,000,001	\$1,000,000,000	\$31.6	11%
\$1,000,000,001		-\$52.9	-13%

Impacts: Small Business

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Artist

San Francisco only gross receipts: \$150,000

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$93	\$93	\$86	-8%
Gross Receipts Tax	\$0	\$0	\$0	--
TOTAL	\$93	\$93	\$86	-8%

Nail Salon

San Francisco only gross receipts: \$750,000

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$314	\$314	\$282	-10%
Gross Receipts Tax	\$0	\$0	\$0	--
TOTAL	\$314	\$314	\$282	-10%

Impacts by Activity – Advanced Services

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Business Activity	Total - Baseline	Total - Proposed	\$ Difference	% Difference
Information	\$438.7	\$406.5	-\$32.2	-7%
Professional, Scientific, and Technical Services	\$157.9	\$132.7	-\$25.1	-16%
Private Education and Health Services	\$28.1	\$18.8	-\$9.3	-33%
Administrative and Support Services	\$26.8	\$30.2	\$3.4	13%
Fintech	\$24.7	\$4.6	-\$20.2	-81%
Activity not listed	\$18.1	\$13.8	-\$4.4	-24%
Biotechnology	\$7.6	\$12.8	\$5.2	68%
Insurance	\$7.2	\$8.1	\$0.9	12%
Clean Technology	\$0.4	\$0.5	\$0.1	36%
Advanced Services Sub-total	\$709.5	\$627.9	-\$81.5	-11%

Impacts: Industry examples

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Packaged Software

Total gross receipts: \$25 million

30% SF payroll factor and \$100,000 in gross receipts attributable to SF

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$628	\$628	\$802	28%
Gross Receipts Tax	\$25,468	\$26,369	\$19,500	-26%
Homelessness Gross Receipts Tax	\$0	\$0	\$0	--
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$0	\$0	\$0	--
TOTAL	\$26,096	\$26,997	\$20,302	-25%

Impacts: Industry examples

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Online Data Management

Total gross receipts: \$25 billion

7% SF payroll factor and \$1 billion in gross receipts attributable to SF

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$44,006	\$44,006	\$40,863	-7%
Gross Receipts Tax	\$11,416,680	\$12,059,925	\$21,875,000	81%
Homelessness Gross Receipts Tax	\$6,625,000	\$6,625,000	\$0	-100%
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$2,750,000	\$2,750,000	\$237,500	-91%
TOTAL	\$20,835,686	\$21,478,931	\$22,153,363	3%

Impacts by Activity – Financial Services

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Business Activity	Total - Baseline	Total - Proposed	\$ Difference	% Difference
Financial Services (without Fintech)	\$148.7	\$174.4	\$25.7	17%

Impacts: Industry examples

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Financial Services

Total gross receipts: \$100 million

10% SF payroll factor and \$5 million in gross receipts attributable to SF

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$1,885	\$1,885	\$565	-70%
Gross Receipts Tax	\$73,725	\$78,640	\$131,250	67%
Homelessness Gross Receipts Tax	\$0	\$0	\$0	--
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$0	\$0	\$0	--
TOTAL	\$75,610	\$80,525	\$131,815	64%

Impacts by Activity – Real Property

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Business Activity	Total - Baseline	Total - Proposed	\$ Difference	% Difference
Real Estate and Rental and Leasing Services	\$243.1	\$203.2	-\$40.0	-16%
Accommodations	\$12.4	\$16.5	\$4.1	33%
Real Property Sub-Total	\$255.6	\$219.7	-\$35.9	-14%

Impacts: Industry examples

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Commercial Real Estate

San Francisco gross receipts: \$25 million

Apportionment is 100% sales

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$6,285	\$6,285	\$5,500	-12%
Gross Receipts Tax	\$108,200	\$115,675	\$73,750	-36%
Homelessness Gross Receipts Tax	\$0	\$0	\$0	--
Commercial Rents Tax	\$875,000	\$875,000	\$656,250	-25%
Overpaid Executive Tax	\$0	\$0	\$0	--
TOTAL	\$989,485	\$996,960	\$735,500	-26%

Impacts by Activity – Retail / Wholesale Trade

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Business Activity	Total - Baseline	Total - Proposed	\$ Difference	% Difference
Retail Trade	\$79.1	\$156.0	\$76.9	97%
Wholesale Trade	\$26.0	\$55.0	\$29.0	112%
Wholesale & Retail Trade Sub- Total	\$105.1	\$210.9	\$105.9	101%

Impacts: Industry examples

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Clothing store

San Francisco only gross receipts: \$3 million

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$502	\$502	\$565	13%
Gross Receipts Tax	\$2,055	\$4,095	\$4,750	16%
Homelessness Gross Receipts Tax	\$0	\$0	\$0	--
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$0	\$0	\$0	--
License Fees	\$103	\$103	\$0	-100%
TOTAL	\$2,660	\$4,700	\$5,315	13%

Impacts: Industry examples

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Wholesale Market

Total gross receipts: \$50 million

65% SF payroll factor and \$5 million in gross receipts attributable to SF

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$4,714	\$4,714	\$1,650	-65%
Gross Receipts Tax	\$33,863	\$33,863	\$22,500	-34%
Homelessness Gross Receipts Tax	\$0	\$0	\$0	--
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$0	\$0	\$0	--
TOTAL	\$38,577	\$38,577	\$24,150	-37%

Impacts: Industry examples

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Large Retailer 1 (Lower SF Payroll)

Total gross receipts: \$10 billion

0% SF payroll factor and \$25 million in gross receipts attributable to SF

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$1,414	\$1,414	\$5,500	289%
Gross Receipts Tax	\$11,080	\$22,050	\$36,250	64%
Homelessness Gross Receipts Tax	\$0	\$0	\$0	--
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$0	\$0	\$0	--
TOTAL	\$12,494	\$23,464	\$41,750	78%

Impacts: Industry examples

22

Large Retailer 2 (Higher SF Payroll)

Total gross receipts: \$80 billion

0.5% SF payroll factor and \$200 million in gross receipts attributable to SF

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$37,720	\$37,720	\$40,863	8%
Gross Receipts Tax	\$638,955	\$661,675	\$798,750	21%
Homelessness Gross Receipts Tax	\$437,500	\$437,500	\$0	-100%
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$1,200,000	\$1,200,000	\$100,000	-92%
TOTAL	\$2,314,175	\$2,336,895	\$939,613	-60%

Impacts: Industry examples

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Large Grocery Retailer

Total gross receipts: \$40 billion

2% SF payroll factor and \$500 million in gross receipts attributable to SF

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$37,720	\$37,720	\$40,863	8%
Gross Receipts Tax	\$1,422,955	\$1,445,675	\$6,548,750	353%
Homelessness Gross Receipts Tax	\$1,050,000	\$1,050,000	\$0	-100%
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$0	\$0	\$0	--
TOTAL	\$2,510,675	\$2,533,395	\$6,589,613	160%

Impacts by Activity – All Other

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Business Activity	Total - Baseline	Total - Proposed	\$ Difference	% Difference
Transportation and Warehousing	\$57.5	\$54.5	-\$3.1	-5%
Manufacturing	\$54.6	\$39.2	-\$15.4	-28%
Construction	\$34.1	\$40.5	\$6.4	19%
Utilities	\$12.0	\$19.1	\$7.0	59%
Food Services	\$10.9	\$12.3	\$1.3	12%
Arts, Entertainment, and Recreation	\$8.5	\$3.0	-\$5.5	-65%
Certain Services	\$0.4	\$0.9	\$0.5	130%
"All Other" Sub-Total	\$178.1	\$169.4	-\$8.7	-5%

Impacts: Industry examples

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Restaurant

San Francisco only gross receipts: \$6 million

	2022 Baseline	2026 Baseline	2026 Proposed	Variance
Business Registration Fee	\$628	\$628	\$565	-10%
Gross Receipts Tax	\$12,105	\$24,185	\$16,750	-31%
Homelessness Gross Receipts Tax	\$0	\$0	\$0	--
Commercial Rents Tax	\$0	\$0	\$0	--
Overpaid Executive Tax	\$0	\$0	\$0	--
License Fees	\$2,121	\$2,121	\$0	-100%
TOTAL	\$14,854	\$26,934	\$17,315	-36%

Impacts on Concentration (excluding CRT, RG)

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Combined Tax Revenue (Gross Receipts, Homelessness Gross Receipts, Overpaid Executive)	Baseline \$	Baseline %	Proposed \$	Proposed %
From Top 5	\$336	28%	\$286	23%
From Top 10	\$436	37%	\$402	32%
From Top 100	\$768	65%	\$802	63%

- **Move tax extension deadline** from April to October/November to align with the IRS / Franchise Tax Board. Include a safe harbor for any taxpayer who pays 110% of prior year obligation
- **Formalize Voluntary Disclosure Agreement (VDA)** procedures for taxpayers who have not previously filed tax returns in San Francisco to come into compliance. Reduce the look-back period from 10 years to 6 years.
- **Explore process for taxpayers to request and receive guidance** regarding material issues affecting the proper calculation of the tax; dedicate resources to publish more guidance for all taxpayers.
- **Convene an interested parties meeting(s)** with stakeholders to solicit feedback about the online filing process.

Why?

- These are reforms requested by taxpayers that we believe will improve administration, reduce disputes, and create more revenue certainty.

- Increase the voter threshold to place tax measures on the ballot and remove the ability for either a minority of the Board of Supervisors or the Mayor to directly place a tax measure on the ballot outside of the standard legislative process.

Why?

- Compared with jurisdictions in California with business taxes (Los Angeles, Oakland, Mountain View, Santa Monica, Berkeley, Richmond), it is easiest to get a tax placed on the ballot in San Francisco.
- We are the only local government in this group to allow minority of legislative body / mayor to place on the ballot
- SF has the lowest threshold for signatures to place an item on the ballot through citizen's initiative.

Summary: Intended Benefits of Proposed Changes

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Tax Reform Goal	Proposals
Reduce risk of tax loss from remote work / relocation	<ul style="list-style-type: none">• Shift away from payroll-only apportionment; reduced payroll factor
Reduce reliance on commercial property	<ul style="list-style-type: none">• Merge portion of Commercial Rents Tax into the Gross Receipts Tax.
Reduce volatility stemming from over-concentration	<ul style="list-style-type: none">• Merge Homelessness Gross Receipts Tax, and most of Overpaid Executives Tax, into the Gross Receipts Tax.
Greater simplicity and predictability	<ul style="list-style-type: none">• Ballot reform.• Reduced number of schedules.• Elimination of multiple business activities.• Change extension deadline from April to October/November to better align with IRS / FTB.• Codify Voluntary Disclosure Agreement (VDA) procedures.• Explore process for taxpayers to request and receive guidance regarding material issues affecting the proper calculation of the tax; dedicate resources to publish more guidance for all taxpayers.• Convene an interested parties meeting(s) with stakeholders to solicit feedback about the online filing process.
Greater equity for small businesses	<ul style="list-style-type: none">• Reduce/eliminate license fees;• Reduced business registration fees;• Progressive tax rates in all categories

Share your feedback with us by December 13th. We will submit final recommendations to the Mayor and Board of Supervisors by the end of the year.

- José Cisneros, Treasurer, jose.cisneros@sfgov.org
- Ben Rosenfield, Controller, ben.rosenfield@sfgov.org
- Sarah Dennis-Phillips, Executive Director of OEWD, sarah.dennis-phillips@sfgov.org
- Amanda Fried, Chief of Policy and Communications, Treasurer's Office, amanda.fried@sfgov.org
- Ted Egan, Chief Economist, Controller's Office, ted.egan@sfgov.org
- Laurel Arvanitidis, Director of Business Development, OEWD, laurel.arvanitidis@sfgov.org

Reference slides

Round 6 Business Registration Fees

		Baseline		Policy
From	To	Schedule A	Schedule B	
\$0.00	\$100,000	\$56	\$46	\$51
\$100,000.01	\$250,000	\$93	\$78	\$86
\$250,000.01	\$500,000	\$157	\$124	\$141
\$500,000.01	\$750,000	\$314	\$250	\$282
\$750,000.01	\$1,000,000	\$439	\$376	\$408
\$1,000,000.01	\$1,500,000	\$628	\$518	\$573
\$1,500,000.01	\$2,000,000	\$879	\$725	\$802
\$2,000,000.01	\$2,500,000	\$376	\$250	\$1,035
\$2,500,000.01	\$7,500,000	\$628	\$502	\$565
\$7,500,000.01	\$15,000,000	\$1,885	\$1,414	\$1,650
\$15,000,000.01	\$25,000,000	\$6,285	\$4,714	\$5,500
\$25,000,000.01	\$50,000,000	\$15,716	\$9,429	\$12,573
\$50,000,000.01	\$100,000,000	\$28,290	\$18,859	\$23,575
\$100,000,000.01	\$200,000,000	\$37,720	\$25,146	\$31,433
\$200,000,000.01	\$9,999,999,999	\$44,006	\$37,720	\$40,863