

# San Francisco Business Tax Project: Objectives and Process



**CITY & COUNTY OF SAN FRANCISCO**

Office of the Controller  
Office of Economic Analysis

02.06.2020 (revised 2/7)

- Review of the request to the Controller
- The 2012 Gross Receipts tax and impacts
- New taxes since 2012
- Guidelines for evaluating tax policies
- Areas of Focus
- Outline of Our Process

# The 2012 Gross Receipts Tax Process

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- The Controller was asked to lead a process to replace the City's Payroll Tax
- Goals:
  - Job Creation
  - Revenue Stability
  - Progressivity
- From February – May, 2012, our office led an open and collaborative process with businesses to draft a new tax ordinance.
- Nine focus groups covering different industry and interest groups.
- Businesses provided feedback and data about industry-specific issues and impacts.
- The resulting November 2012 ballot measure passed with over 70% of the vote.

# The 2012 Gross Receipts Tax Measure

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- New Gross Receipts Tax: Different tax rates for 20 business activities, across 7 rate schedules, and 4 tiers.
- Redistributed industry tax burden to promote job creation, greater fairness to small businesses.
- Intended to fully phase-out the Payroll tax in a revenue-neutral way
- Increase in the Business Registration Fee (approximately \$30M)
- New Administrative Office Tax for corporate headquarters

- After 2012, the tax base was broadened – but large payers still accounted for the bulk of the revenue.
  - Post-2012 Industry tax burden was largely as expected, with some surprises.
  - Phase-In of the Gross Receipts Tax was completed in 2018, but only 75% of the Payroll Tax was eliminated.
  - Too soon to tell if job creation, revenue stabilities goals were met.
- Major changes in the economy since our 2012 work.
- Additional taxes in 2018:
  - Commercial rent tax – 3.5% tax on most office, retail, and other commercial space, including sub-leases. (\$150M)
  - Homelessness Gross Receipts Tax – Roughly doubling the Gross Receipts /AOT tax burden for the 300-400 largest businesses. (\$250-300M)
- The new taxes increased business tax revenues by approximately 50%, and significantly changed the tax burden across industries and tiers

# Guidelines for Evaluating Tax Policies

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- The Controller's Office will continue to be guided by the EASE criteria for evaluating different tax proposals:
- **Efficiency** – how to design the tax to do the minimum economic damage for every dollar of tax revenue. Questions of what gets taxed, who gets taxed, and how the tax get implemented.
- **Administrability** – is the tax easy for taxpayers to pay? Easy for the City to administer? Is there unnecessary uncertainty in implementation?
- **Stability** – will the tax lead to a stable source of City revenues? to minimal disruption to business tax payers?
- **Equity** – does the tax treat similar taxpayers similarly? Does the tax burden correspond with a taxpayer's ability to pay?

- The City's post-2012 experience, and the new 2018 taxes, have left us with a complex, legally-uncertain, and fluid business tax environment.
- **Efficiency** – How should we optimize the business tax burden across industries and tiers to minimize the economic loss?
- **Administrability** – How can the tax system be simplified?
- **Stability** – How can we add greater stability to the City's revenues, and greater certainty to businesses about their future tax burden?
- **Equity** – How can we best ensure that similar businesses face similar tax burdens? How can we use business taxes to ensure a balanced and diverse economy?

As in our 2012 work, we will likely defer questions on how much additional revenue will be created until later in the process.

# Outline of Our Process

- First Meeting – overview of our objectives, receive initial feedback
- February – send us ideas and feedback – we will likely convene smaller working groups around specific tax features and industry issues.
- March meeting – present elements of reform for this group’s consideration.
- March – further group meetings and refinement of proposals.
- April meeting – present a draft proposal for this large group
- Mid-April – final report with recommendations to the Mayor and Board President
- April – July – legislative drafting and approval for potential November 2020 ballot measure.



San Francisco Chamber of Commerce  
& Committee on Jobs Member Survey  
*October – December 2019*

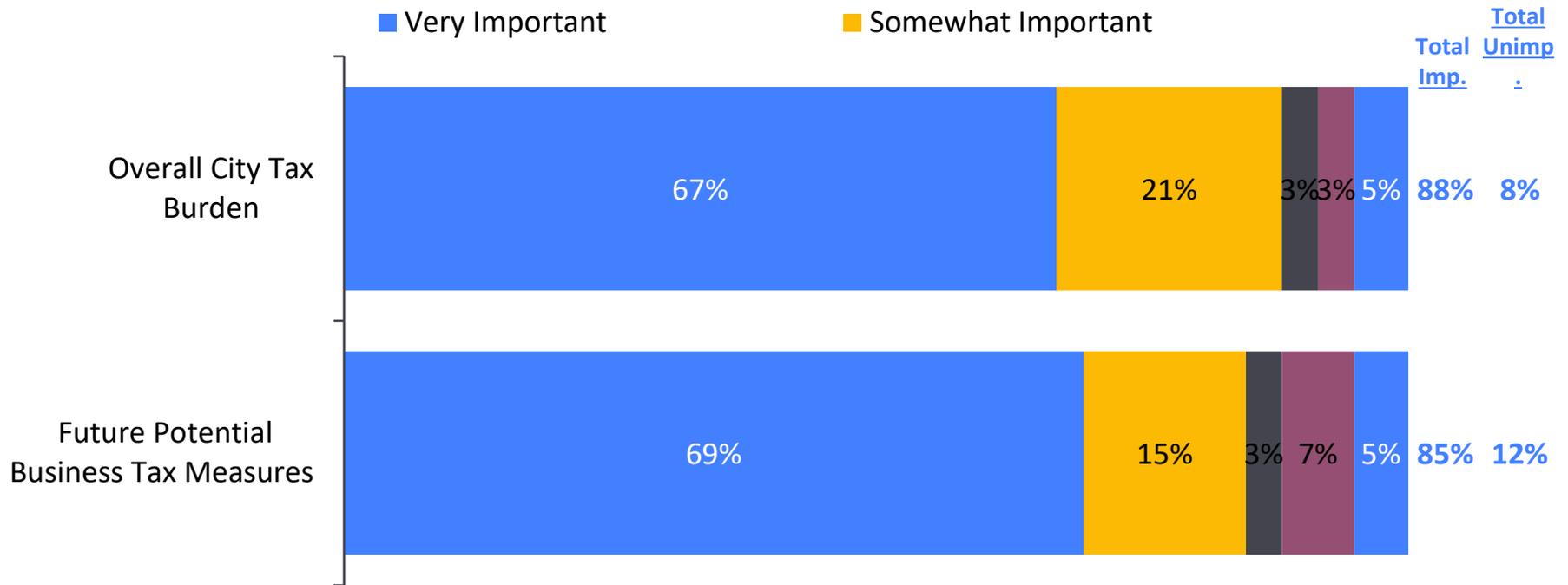
# Methodology

- ▶ Online survey of Chamber of Commerce & Committee on Jobs members, and other business tax professionals in the City of San Francisco
- ▶ Survey conducted online from October 31st - December 13th, 2019
- ▶ Sample size of n=118
- ▶ Respondents comprise members of the San Francisco Chamber of Commerce, as well as the San Francisco Committee on Jobs and the Building Owners and Managers Association of San Francisco (BOMA) who elected to share their qualitative and quantitative responses with the Chamber of Commerce

Please note that due to rounding, some percentages may not add up to exactly 100%.

# Impact on Future Business Planning in SF

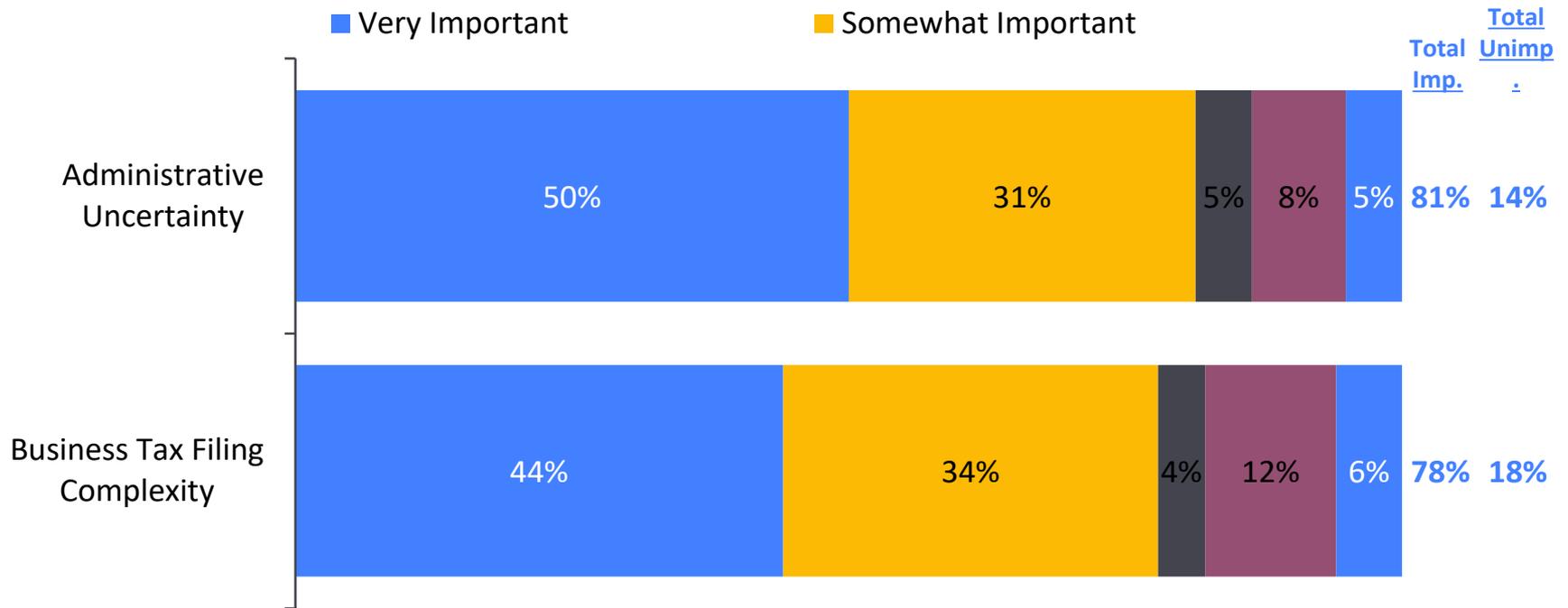
Two-thirds of business tax professionals surveyed indicate that the overall tax burden in the City is “very important” when it comes to their future plans. The potential for new tax measures is also a high consideration for them.



Q10, Q15. Using the scale below, please indicate how important each of the following aspects of the City's business taxes are, in your company's planning of its future in San Francisco.

# Impact on Future Business Planning in SF

*Administrative uncertainty surrounding City taxes is important to a majority of respondents. The complexity of filing is also seen by tax professionals in these organizations as an important consideration to future business planning in the City.*



Q17, Q19. Using the scale below, please indicate how important each of the following aspects of the City's business taxes are, in your company's planning of its future in San Francisco.

# Company Growth Plans in San Francisco

When it comes to potentially moving business functions or departments outside of the City, respondents indicate that generically, "Human Capital" is the function most likely to see relocation or a freeze on hiring. Among specific departments, Accounting, Human Resources and Finance departments are most likely to see relocation.

- Considering relocating to another city or region
- Considering a freeze of San Francisco Growth
- None of the above
- Not Applicable

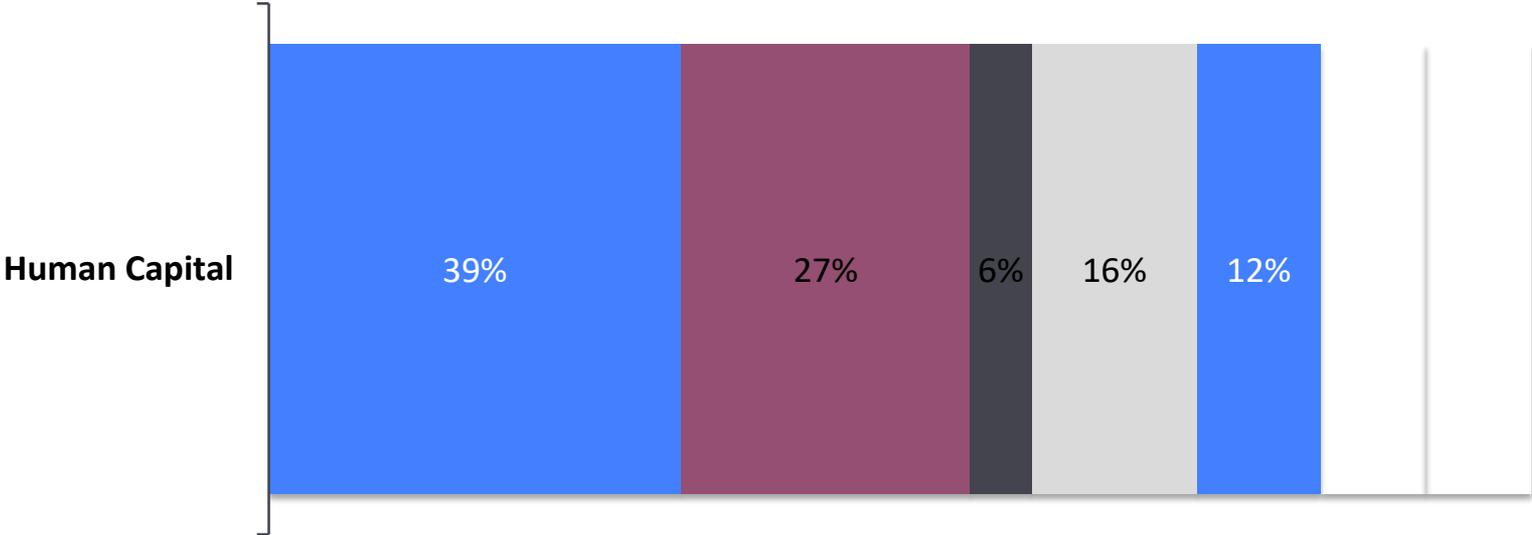


Q20-33. Thinking about the growth of your company within the City of San Francisco, for the following functions, components and departments your company operates in San Francisco, please indicate whether you believe your company will consider growing, freezing or relocating each element of your business in the next five years.

# Growth of Company in San Francisco

*When asked about general "human capital," more than a third of respondents indicated that their company would consider relocating staff to other cities or regions.*

■ Considering relocating to another city or region      ■ Considering a freeze of San Francisco Growth

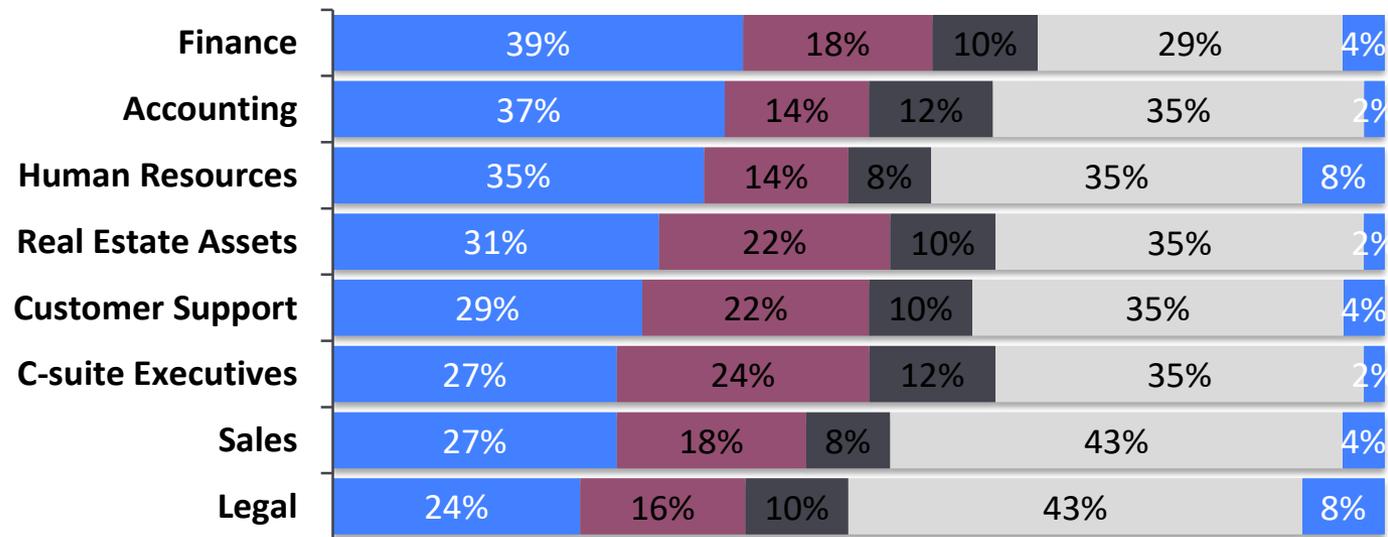


Q31. Thinking about the growth of your company within the City of San Francisco, for the following functions, components and departments your company operates in San Francisco, please indicate whether you believe your company will consider growing, freezing or relocating each element of your business in the next five years.

# Company Growth Plans in San Francisco

*When it comes to potentially moving business functions or departments outside of the City, respondents indicate that their Finance, Accounting and Human Resources departments are most likely to see relocation or hiring freezes.*

■ Considering relocating to another city or region      ■ Considering a freeze of San Francisco Growth

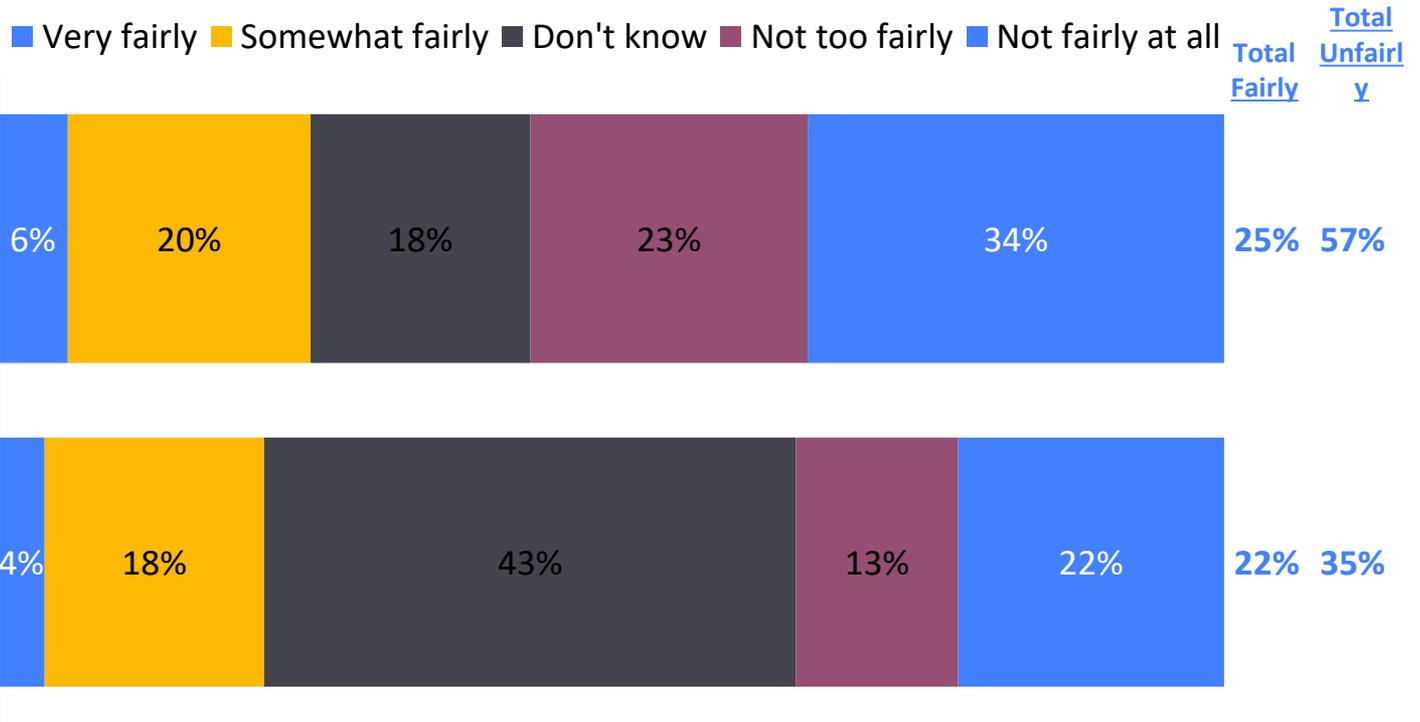


Q20-26, Q30. Thinking about the growth of your company within the City of San Francisco, for the following functions, components and departments your company operates in San Francisco, please indicate whether you believe your company will consider growing, freezing or relocating each element of your business in the next five years.

# Fairness of Business Tax Elements

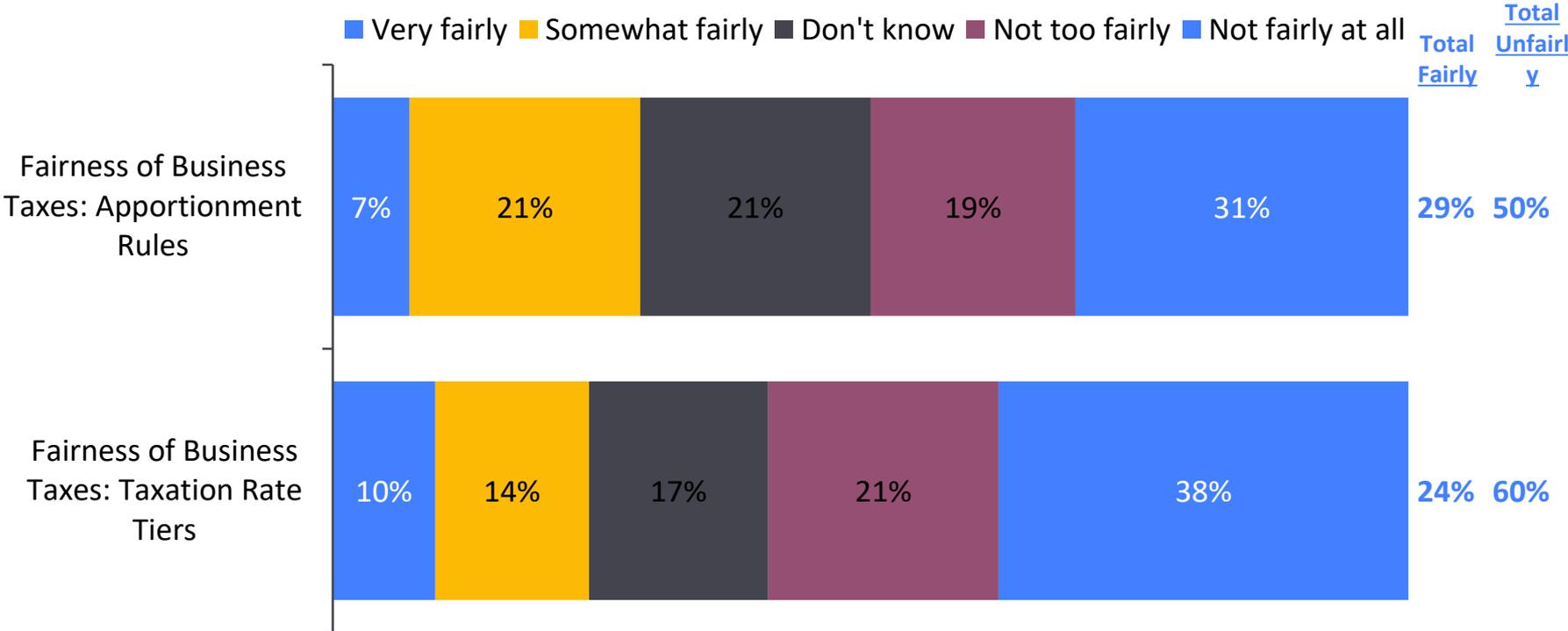
More than half of respondents surveyed indicate that the administration of business taxes is not fair. Those respondents who are able to rate the audit process lean toward believing it is not fairly administered by the City.

Asked only of respondents familiar with company tax liabilities (n=135)



Q48-49. Thinking about the fairness of business taxes in San Francisco, please rate how you believe San Francisco administers each of the following taxes.

# Fairness of Business Taxes



Q43-44. Thinking about the fairness of business taxes in San Francisco, please rate how you believe San Francisco administers each of the following taxes.

- Please ensure that we have your name, organization, email, and phone.
- If you wish to provide detailed suggestions or feedback, please email us directly:
  - [ben.rosenfield@sfgov.org](mailto:ben.rosenfield@sfgov.org)
  - [ted.egan@sfgov.org](mailto:ted.egan@sfgov.org)
- Feedback from individual businesses is helpful and always welcome – organized feedback from groups of similar businesses is especially valuable.