


# MEMORANDUM

**TO:** Members, Board of Supervisors  
Clerk of the Board

**FROM:** Ben Rosenfield 

**DATE:** May 9, 2014

**SUBJECT:** **Notification of Payroll Expense Tax and Gross Receipts Tax Designation Ceiling to the Neighborhood Beautification Fund**

Article 12B-1 of the Business & Tax Regulations Code establishes the Neighborhood Beautification and Graffiti Clean-Up Fund Option (now known as the Community Challenge Grant Program), under which taxpayers subject to the payroll expense tax and/or the gross receipts tax may elect to designate a portion of their tax liability to the Fund. Section 1032 requires the Controller to calculate the maximum percentage of their tax liability that taxpayers can elect to contribute to the fund such that total contributions will be approximately \$1,000,000, adjusted for inflation:

On the basis of the prior year's experience of taxpayer contributions and total revenues generated by the payroll expense and business taxes, the Controller shall calculate a percentage ceiling of total tax liability which taxpayers may designate for deposit in the fund the following tax year. The Controller shall set the percentage ceiling so that the revenues produced thereby are most likely to generate a total of one million dollars (adjusted for inflation) in the fund for the forthcoming tax year. The Controller shall transmit his or her calculation to the Board of Supervisors, which shall adopt a new tax designation ceiling, if necessary, in advance of the tax year to enable the Tax Collector to perform his or her collection duties.

To permit the Office of the Treasurer and Tax Collector to create the online filing systems necessary for the payroll expense tax and gross receipts tax that went into effect on January 1, 2014, our office calculated the tax year 2014 target contribution amount and rate in January 2014 assuming an inflation adjustment for 2014 equal to that of 2013. The inflationary increase for tax year 2013 was calculated using data from the US Department of Labor Bureau of Labor Statistics website using the Consumer Price Index (CPI) – All Urban Consumers for the San Francisco–Oakland–San Jose CA Area, using December factors from the end of the prior year. The difference between the inflation index for December 2012 (239.533) and December 2013 (245.711) is 6.178, or 2.6%. The tax year 2014 inflationary increase is assumed to be the same rate, bringing the inflation-adjusted target amount to \$1,865,643. Given tax year 2012 contributions of \$503,688 (tax year 2013 contributions are not known at this time), we estimate that a 3% contribution ceiling would result in contributions of approximately \$1.5 million, within a reasonable range of the target amount given estimation volatility. Figures are provided in the table below.

<b>Tax Year</b>	<b>CPI</b>	<b>Fiscal Year</b>	<b>Target Contributions</b>	<b>Actual Contributions</b>	<b>Contribution Rate</b>
2012	2.2%	FY 2012-13	1,773,005	503,688	1%
2013	2.6%	FY 2013-14	1,818,734	n/a	1%
2014*	2.6%	FY 2014-15	1,865,643	1,511,064	3.0%

\*Estimated.

**Notes:**  
Tax year 2014 CPI estimated to be equal to tax year 2013 CPI of 2.6%.  
Tax year 2013 contributions are not available at this time, therefore the contribution rate is assumed to be equal to the tax year 2012 rate of 1%.

Please contact me or Michelle Allersma, Director of the Controller's Office Budget and Analysis Division, at (415) 554-4792 if you have any questions regarding this information.