

LEGISLATIVE DIGEST

[Business and Tax Regulations Code – Excluding Stock-Based Compensation from Payroll Expense, Tax Years 2011 through 2017]

Ordinance amending the San Francisco Business and Tax Regulations Code by amending Section 906.4 of Article 12-A to clarify the amount of Payroll Expense Tax attributable to Stock-Based Compensation that a person may exclude from its Payroll Expense Tax liability.

Existing Law

Section 906.4 of the Payroll Expense Tax Ordinance provides an exclusion from the Payroll Expense Tax for Stock-Based Compensation of Eligible Persons for six years. Under the exclusion, an Eligible Person is a person who undertakes an initial public offering on a public stock exchange or experiences a change in control prior to any such public offering. The amount of Payroll Expense attributable to Stock-Based Compensation that an Eligible Person may exclude from its Payroll Expense is the excess of what that person paid in 2010 if that person paid more than \$750,000 in Payroll Expense Tax attributable to Stock-Based Compensation; however, if the Eligible Person did not pay more than \$750,000 in Payroll Expense Tax attributable to Stock-Based Compensation in 2010, that person may exclude Payroll Expense Tax attributable to Stock-Based Compensation that is in excess of \$750,000. The exclusion cannot be claimed retroactively.

Amendments to Current Law

The proposed legislation clarifies the amount of Payroll Expense Tax attributable to Stock-Based Compensation that a person may exclude from its Payroll Expense Tax liability.

Background Information

Under Business and Tax Regulations Code Section 901 et seq., businesses pay a Payroll Expense Tax based on the compensation paid to employees and others for work or services rendered in San Francisco. (Section 901.1) This proposed amendment would amend Section 906.4 to clarify the amount of Stock-Based Compensation that a person may exclude from its Payroll Expense Tax liability.