

File No. 110462

Committee Item No. 7
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance SUB-Committee Date: May 4, 2011

Board of Supervisors Meeting Date _____

Cmte Board

- | | | |
|-------------------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input type="checkbox"/> | <input type="checkbox"/> | Resolution |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Ethics Form 126 |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
| <input type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Subcontract Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
| <input type="checkbox"/> | <input type="checkbox"/> | Application |

OTHER (Use back side if additional space is needed)

<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____

Completed by: Victor Young
Completed by: Victor Young

Date: April 29, 2011
Date: _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Business and Tax Regulations Code – Payroll Expense Tax Exclusion for Stock-Based
2 Compensation]

3 **Ordinance amending the San Francisco Business and Tax Regulations Code, Article**
4 **12-A, by adding Section 906.5 to establish a payroll expense tax exclusion for stock-**
5 **based compensation and amending Section 902.1 to exclude stock options from the**
6 **definition of Payroll Expense.**

7 NOTE: Additions are single-underline italics Times New Roman;
8 deletions are ~~strike-through italics Times New Roman~~.
9 Board amendment additions are double-underlined;
Board amendment deletions are ~~strike-through normal~~.

10 Be it ordained by the People of the City and County of San Francisco:

11 Section 1. Findings. The Board of Supervisors hereby finds that:

- 12 (a) The technology industry is a vital element to San Francisco's long-term future.
- 13 (b) Issuing stock-based compensation has become an important vehicle in the
14 technology industry to attract and retain valuable employees.
- 15 (c) San Francisco is the only city in the United States of America that taxes
16 employers on stock-based compensation.
- 17 (d) Continuing to tax stock-based compensation threatens San Francisco's ability to
18 retain existing technology companies and attract new ones.
- 19 (e) Excluding stock-based compensation from San Francisco's payroll expense tax
20 is a critical step towards creating a competitive economic environment in San Francisco that
21 entices companies that utilize stock-based compensation to attract and retain employees to
22 stay in San Francisco or to move to San Francisco.

23
24 Section 2. The San Francisco Business and Tax Regulations Code is hereby amended
25 by adding Section 906.5, to read as follows:

1 **SEC. 906.5 STOCK-BASED COMPENSATION EXCLUSION.**

2 (a) Any person who does not qualify as a Small Business Enterprise under the provisions of
3 Section 905-A (Small Business Tax Exemption), shall be allowed an exclusion from its Payroll Expense,
4 as defined in Section 902.1, for that portion of its Payroll Expense that is attributable to Stock-Based
5 Compensation.

6 (b) No exclusion shall be allowed under this Section to the extent that such exclusion
7 reduces a person's payroll expense tax liability below \$1,500 for any individual employee. In such
8 case, the person's payroll expense tax liability shall be fixed for such individual employee at \$1,500.

9 (c) Stock-Based Compensation includes, but is not limited to, all incentive and non-statutory
10 stock options, including all underlying stock relating to such options, restricted stock, restricted stock
11 units, and stock acquired as a result of employee stock purchase plans.

12 (d) A person wishing to claim this exclusion must:

13 (1) File with the Tax Collector by the last day in January of each year, on a form
14 prescribed by the Tax Collector, an affidavit attesting to the facts establishing entitlement to the
15 exclusion. Any person who fails to timely file an affidavit under this subsection is prohibited from
16 claiming the Stock-Based Compensation Exclusion.

17 (2) Maintain records and documents in a manner acceptable to the Tax Collector.
18 Such records and documents must objectively substantiate any exclusion claimed under this Section
19 and be provided to the Tax Collector upon request.

20 (3) File an annual payroll expense tax return with the Tax Collector regardless of
21 the amount of tax liability shown on the return after claiming the exclusion provided for in this Section.

22 (e) The Office of the Treasurer and Tax Collector may adopt rules and regulations
23 regarding the exclusion provided under this Section.

24 (f) The Tax Collector shall verify that any exclusion claimed pursuant to this Section is
25 appropriate.

1 (g) The Stock-Based Compensation Exclusion under this Section may not be claimed
2 concurrently with any other payroll expense tax exclusion.

3 (h) The Stock-Based Compensation Exclusion under this Section may not be claimed
4 retroactively.

5 (i) A misrepresentation or misstatement by any person regarding eligibility for the
6 exclusion set forth under this Section that results in the underpayment or underreporting of the payroll
7 expense tax shall be subject to penalties.

8
9 Section 3. The San Francisco Business and Tax Regulations Code is hereby amended
10 by amending Section 902.1, to read as follows:

11 **SEC. 902.1 Payroll Expense.**

12 (a) The term "Payroll Expense" means the compensation paid to, on behalf of, or for
13 the benefit of an individual, including shareholders of a professional corporation or a Limited
14 Liability Company ("LLC"), including salaries, wages, bonuses, commissions, property issued
15 or transferred in exchange for the performance of services ~~(including but not limited to stock~~
16 ~~options)~~, compensation for services to owners of pass-through entities, and any other form of
17 compensation, who during any tax year, perform work or render services, in whole or in part in
18 the City; and if more than one individual or shareholders of a professional corporation or
19 members of an LLC, during any tax year performs work or renders services in whole or in part
20 in the City, the term "Payroll Expense" means the total compensation paid including salaries,
21 wages, bonuses, commissions, property issued or transferred in exchange for the
22 performance of services ~~(including but not limited to stock options)~~, in addition to any
23 compensation for services to owners of pass-through entities, and any other form of
24 compensation for services, to all such individuals and shareholders of a professional
25 corporation or members of an LLC.

1 ~~(b)~~ Any person that grants a service provider a right to acquire an ownership interest in
2 such person in exchange for the performance of services shall include in its payroll expense for the tax
3 year in which such right is exercised an amount equal to the excess of (i) the fair market value of such
4 ownership interest on the date such right is exercised over (ii) the price paid for such interest.

5 ~~(e)~~(b) Any individual compensated in his or her capacity as a real estate salesperson
6 or mortgage processor shall be deemed an employee of the real estate broker or mortgage
7 broker for or under whom such individual performs services, and any compensation received
8 by such individual, including compensation by way of commissions, shall be included in the
9 payroll expense of such broker. For purposes of this Section, "real estate broker" and
10 "mortgage broker" refer to any individual licensed as such under the laws of the State of
11 California who engages the services of salespersons or a salesperson, or of mortgage
12 processors or a mortgage processor, to perform services in the business which such broker
13 conducts under the authority of his or her license; a "salesperson" is an individual who is
14 engaged by a real estate broker to perform services, which may be continuous in nature, as a
15 real estate salesperson under an agreement with a real estate broker, regardless of whether
16 the individual is licensed as a real estate broker under the law of the State of California, a
17 "mortgage processor" is an individual who is engaged by a real estate broker or mortgage
18 broker to perform services which may be continuous in nature, as a mortgage processor
19 under an agreement with such real estate broker or mortgage broker, regardless of whether
20 the mortgage processor is also licensed as a mortgage broker under the laws of the State of
21 California.

22 ~~(d)~~(c) All compensation, including all pass-through compensation for services paid to,
23 on behalf of, or for the benefit of owners of a pass through entity, shall be included in the
24 calculation of such entity's payroll expense tax base for purposes of determining such entity's
25 tax liability under this Article. For purposes of this section, the "pass-through compensation for

1 services" of a pass-through entity shall be the aggregate compensation paid by such entity for
2 personal services rendered by all such owners, and shall not include any return on capital
3 investment. The taxpayer may calculate the amount of compensation to owners of the entity
4 subject to the Payroll Expense Tax, or the taxpayer may presume that, in addition to amounts
5 reported on a W-2 form, the amount subject to the payroll expense tax is, for each owner, an
6 amount that is two hundred percent (200%) of the average annual compensation paid to, on
7 behalf of, or for the benefit of the employees of the pass-through entity whose compensation
8 is in the top quartile (i.e., 25%) of the entity's employees who are based in the City; provided,
9 the total number of employees of the entity based in the City is not less than four.

10
11 APPROVED AS TO FORM:
12 DENNIS J. HERRERA, City Attorney

13 By:


14 STEPHANIE PROFITT
15 Deputy City Attorney
16
17
18
19
20
21
22
23
24
25

FILE NO.

LEGISLATIVE DIGEST

[Business and Tax Regulations Code – Payroll Expense Tax Exclusion for Stock-Based Compensation]

Ordinance amending Article 12-A of the San Francisco Business and Tax Regulations Code by adding Section 906.5 to establish a payroll expense tax exclusion for stock-based compensation and amending Section 902.1 to remove stock options from the definition of Payroll Expense.

Existing Law

San Francisco imposes a payroll expense tax on business entities based on the compensation they pay to employees and others for work or services performed in San Francisco. (Business and Tax Regulations Code Section 901 et seq.) The tax rate is 1.5% of taxable payroll expense. This tax is determined each year based on the payroll expenses of the entity. Stock-Based Compensation is subject to the payroll expense tax.

Amendments to Current Law

The proposed amendment would amend Section 906 to establish an exclusion from the payroll expense tax for Stock-Based Compensation. No exclusion, however, is allowed to the extent that it reduces a person's payroll expense tax liability below \$1,500 per employee. In such case, the person's payroll expense tax shall be fixed at \$1,500 per employee. The exclusion may not be claimed retroactively.

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) Stock-Based Compensation is included in an employer's payroll expense. This proposed amendment would amend Section 906 to establish a payroll expense tax exclusion that excludes Stock-Based Compensation from the payroll expense tax. The exclusion cannot be used to reduce a person's payroll expense tax liability to less than \$1,500 per employee.

Items 6 and 7
Files 11-0337 & 11-0462

Department(s):
 Office of Economic and Workforce Development
 Treasurer/Tax Collector

EXECUTIVE SUMMARY

Legislative Objectives

- File 11-0337 would amend the City's Business and Tax Regulation Code to establish a Payroll Expense Tax exclusion for the tax years 2011, 2012, and 2013 for that portion of an eligible business' payroll expense that is attributable to stock compensation
- File 11-0462 would amend the City's Business and Tax Regulation Code to establish a Payroll Expense Tax exclusion for stock-based compensation and would permanently remove stock options from the definition of Payroll Expense.

Key Points

- Businesses with an annual payroll of \$250,000 or more currently pay Payroll Expense Taxes to the City of 1.5 percent of the firm's payroll expenses, including stock options, for work or services performed in San Francisco. Certain biotechnology and clean energy technology businesses are currently exempt from the Payroll Expense Tax and recently Ordinance 64-11 (File 11-0155) established a Payroll Expense Tax exclusion for businesses in the Central Market and Tenderloin Area.
- The Controller's Office of Economic Analysis issued a report on March 15, 2011 stating that it is common practice for technology businesses to compensate employees with stock options and advising that City Payroll Expense Tax liability associated with stock options appears to be an incentive for technology businesses to relocate outside of San Francisco.

Fiscal Impacts

- File 11-0337 would require one-time General Fund expenditures of approximately \$30,000 for professional services to amend reporting documents, noting that additional costs may be necessary to further amend reporting documents in order to validate a \$1,500 tax minimum for any given employee.
- File 11-0462 would require one-time General Fund expenditures of approximately \$30,000 for professional services to amend reporting documents.
- Stock compensation information is not currently collected by the Treasurer/Tax Collector's Office and it is not possible to identify prospective companies that would benefit from the proposed Payroll Expense Tax exclusions for stock compensation

Recommendations

- Approval of the proposed ordinances are policy decisions for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

In accordance with the City's Business and Tax Regulations Code Section 902.1¹, currently, San Francisco businesses pay Payroll Expense Taxes to the City of 1.5 percent of the firm's payroll expenses for work or services performed in San Francisco. Each San Francisco businesses' tax liability is determined annually based on the payroll expenses of the entity. Business and Tax Regulations Code Section 905-A provides an exemption for businesses with a payroll of \$250,000 or less from the Payroll Expense Tax liability. Sections 906.1 and 906.2 of the Business and Tax Regulations Code also provide exclusions for businesses engaged in certain biotechnology enterprises and clean energy technology, respectively. Section 906.3 also provides a Payroll Expense Tax exclusion for certain businesses that are located in or relocate to the Central Market Street and Tenderloin Area.

Charter Section 2.105 provides that all legislative acts in San Francisco be by ordinance, approved by a majority of the Board of Supervisors.

Background

In 2004, the Board of Supervisors approved Ordinance 26-04 (File 03-1990) that amended the definition of "Payroll Expense" to clarify that the definition includes bonuses and property issued or transferred in exchange for the performance of services (including but not limited to stock options). As a result, companies received clarification that they are required to pay Payroll Taxes on gains from employee stock options when companies conduct an Initial Public Offering².

On April 19, 2011, the Board of Supervisors approved Ordinance 64-11 (File 11-0155) establishing a Payroll Expense Tax exclusion for businesses in the Central Market and Tenderloin Area. The Controller's Office of Economic Analysis issued an economic impact report to accompany the legislation on March 15, 2011. The report stated that it is common practice for technology businesses to compensate employees with stock options and found that future Payroll Expense Tax liability associated with stock options appears to be a significant incentive for technology businesses to relocate outside of San Francisco.

¹ Business and Tax Regulations Code Section 902.1(a) specifically defines Payroll Expense as compensation paid to individuals including shareholders of a professional corporation or a Limited Liability Company (LLC), for salaries, wages, bonuses, commissions, property issued or transferred in exchange for the performance of services (including but not limited to stock options), compensation for services to owners of pass-through entities, and any other form of compensation, who during any tax year, perform work or render services, in whole or in part in the City.

² An Initial Public Offering is when a company issues common stock or shares to the public for the first time. Typically the companies conducting an Initial Public Offering are smaller, younger companies seeking capital to expand, but also large privately owned companies may conduct an Initial Public Offering to become publicly traded.

DETAILS OF PROPOSED LEGISLATION*File 11-0337*

File 11-0337 would amend Article 12-A of the City's Business and Tax Regulation Code by adding Section 906.4 to establish a Payroll Expense Tax exclusion for that portion of an eligible business' payroll expense that is attributable to stock compensation³ for tax years 2011, 2012, and 2013. The proposed ordinance would become effective at least 30 days after the Board of Supervisors approves the proposed ordinance, estimated to be approximately June 16, 2011. Section 906.4 would expire on December 31, 2013.

Under the proposed ordinance, an eligible business' Payroll Expense Tax would be excluded if the business is (a) a technology business⁴, (b) employs at least 100 employees in San Francisco, (c) was founded after 2001, and (d) undertakes an Initial Public Offering on a public stock exchange during the period of the exclusion.

In order to be eligible for the Payroll Expense Tax exclusion for stock compensation, businesses must (a) file with the Tax Collector's Office an affidavit to establish entitlement to the tax exclusion, including supporting documentation prescribed by the Tax Collector; (b) maintain records and documentation in a manner acceptable to the Tax Collector that objectively substantiates the claimed tax exclusion; (c) provide the records and documentation to the Tax Collector's Office upon request; and (d) file an annual Payroll Expense Tax Return with the Tax Collector's Office regardless of the amount of tax liability shown on the return after claiming the exclusion. Under the proposed ordinance of File 11-0337, the Office of the Treasurer/Tax Collector would be responsible for adopting rules and regulations for implementing the proposed Payroll Expense Tax exclusion for stock compensation and the Tax Collector would be responsible for verifying all exclusion claims.

Under the proposed ordinance of File 11-0337, the Payroll Expense Tax exclusion for stock compensation would not reduce an eligible business' Payroll Expense Tax liability below \$1,500 for any individual employee. In addition, the proposed Payroll Expense Tax exclusion for stock compensation could not be concurrently claimed by a business that claims any other Payroll Expense Tax exclusion, such as the existing biotechnology, clean energy, or Central Market Street and Tenderloin Area Payroll Expense Tax exclusions.

File 11-0462

File 11-0462 would amend Article 12-A of the City's Business and Tax Regulation Code by removing stock options from the definition of Payroll Expense in Section 902.1 and by adding Section 906.5 to establish a Payroll Expense Tax exclusion for that portion of an eligible business' payroll expense that is attributable to stock compensation.

³ The proposed ordinance defines stock compensation as any stock option granted prior to the date of initial public offering.

⁴ The proposed ordinance defines a technology business as a Web-based company whose core mission business plan and revenues are developed through services or goods accessed by the way of the Internet.

Similar to the above noted provisions in File 11-0337, in the proposed ordinance in File 11-0462, in order to be eligible for the Payroll Expense Tax exclusion for stock compensation, businesses must (a) file with the Tax Collector's Office an affidavit to establish entitlement to the tax exclusion; (b) maintain records and documentation in a manner acceptable to the Tax Collector that objectively substantiates the claimed tax exclusion; (c) provide the records and documentation to the Tax Collector's Office upon request; and (d) file an annual Payroll Expense Tax Return with the Tax Collector's Office regardless of the amount of tax liability shown on the return after claiming the exclusion. Similarly, under the proposed ordinance, the Office of the Treasurer/Tax Collector would be responsible for adopting rules and regulations for implementing the proposed Payroll Expense Tax exclusion for stock compensation and the Tax Collector would be responsible for verifying all exclusion claims.

The proposed Payroll Expense Tax exclusion for stock compensation in File 11-0462 could also not be concurrently claimed by a business that claims any other Payroll Expense Tax exclusion, such as the existing biotechnology, clean energy, or Central Market Street and Tenderloin Area Payroll Expense Tax exclusions. Additionally, the proposed Payroll Expense Tax exclusion for stock compensation could not be claimed retroactively.

FISCAL ANALYSIS

Prospective Businesses and Payroll Tax Impacts

In 2004, the Board of Supervisors approved Ordinance 26-04 (File 03-1990) amending the definition of "Payroll Expense" to clarify that the definition includes bonuses and property issued or transferred in exchange for the performance of services, including but not limited to stock options. As a result, San Francisco companies received clarification that they are currently required to pay Payroll Expense Taxes on gains from employee stock options when a company conducts an Initial Public Offering.

According to Ms. Jennifer Matz, Director of the Office of Economic and Workforce Development (OEWD), it is not possible to identify prospective companies in the City that would benefit from the proposed Payroll Expense Tax exclusion for stock compensation since companies do not tend to announce their intention to conduct an Initial Public Offering before the event occurs.

According to Mr. Greg Kato, Policy and Legislative Manager with the Treasurer/Tax Collector's Office, stock compensation information is not currently collected by the Treasurer/Tax Collector's Office.

The Controller's Office of Economic Analysis will be issuing an economic impact report on Payroll Expense Tax exclusions for stock compensation prior to the Budget and Finance Committee Meeting on May 4, 2011.

Administrative Impacts and Costs

File 11-0337

Mr. Kato, with the Treasurer/Tax Collector's Office, reports that it is not known how many businesses will conduct an Initial Public Offering within the June 2011 through December 2013 timeframe specified in the proposed ordinance and therefore cannot estimate how many businesses would qualify for the proposed Payroll Expense Tax exclusion for stock compensation. Under the proposed ordinance of File 11-0337, each business would be required to file an annual Payroll Expense Tax Return with the Tax Collector's Office regardless of the amount of the tax liability, after claiming the requested exclusion. Also, as previously mentioned, on April 19, 2011, the Board of Supervisors approved Ordinance 64-11 (File 11-0155) establishing a Payroll Expense Tax exclusion for businesses in the Central Market and Tenderloin Area. To implement the recently approved legislation, the Treasurer/Tax Collector's Office reported initial one-time General Fund expenditures of approximately \$162,000 to create the necessary forms and establish procedures to verify each businesses employment and payroll data and provide refunds in the first year (2011), and approximately \$81,000 of General Fund expenditures in each of the following years to annually review and audit the Payroll Expense Tax exclusions for certain businesses in the Central Market and Tenderloin Area. Mr. Kato advises that the majority of the cost to implement the proposed ordinance would be absorbed in the implementation of the Payroll Expense Tax exclusion for businesses in the Central Market and Tenderloin Area that was recently approved by the Board of Supervisors; however, Mr. Kato notes that an additional one-time General Fund expenditure of approximately \$30,000 for professional services to make the necessary amendments to the revised reporting documents would be needed to incorporate the Payroll Expense Tax exclusion for stock compensation into the Tax Collector's administration of the Payroll Expense Tax.

Under the proposed amended Section 906.4(c) of File 11-0337, the Payroll Expense Tax exclusion for stock compensation would not reduce an eligible business' Payroll Expense Tax liability below \$1,500 for any individual employee; as such eligible businesses' Payroll Tax Liability would be fixed at a minimum of \$1,500 for each individual employee. However, Mr. Kato advises that currently the Tax Collector does not track the tax liability associated with individual employees. Therefore, Mr. Kato reports that if the Tax Collector was required to validate a \$1,500 tax minimum for any given employee there would be an additional administrative cost, as employee counts are currently a self-reported, un-validated data point on the Tax Collector's business tax form. However, Mr. Kato advises that if the Tax Collector's Office is able to make changes related to individual employees on the business tax forms at the same time as the Central Market and Tenderloin Area tax exclusion changes are implemented, such consolidation would greatly reduce the potential costs.

File 11-0462

As with the previously discussed proposed ordinance, Mr. Kato reports that it is not known how many businesses will conduct an Initial Public Offering and therefore cannot estimate how many businesses would qualify for the proposed Payroll Expense Tax exclusion for stock compensation under the proposed ordinance of File 11-0462.

Under the proposed ordinance of File 11-0462, each business would also be required to file an annual Payroll Expense Tax Return with the Tax Collector's Office regardless of the amount of the tax liability, after claiming the requested exclusion. Also, as previously mentioned, on April 19, 2011, the Board of Supervisors approved Ordinance 64-11 (File 11-0155) establishing a Payroll Expense Tax exclusion for businesses in the Central Market and Tenderloin Area. To implement the recently approved legislation, the Treasurer/Tax Collector's Office reported initial one-time General Fund expenditures of approximately \$162,000 to create the necessary forms and establish procedures to verify each businesses employment and payroll data and provide refunds in the first year (2011), and approximately \$81,000 of General Fund expenditures in each of the following years to annually review and audit the Payroll Expense Tax exclusions for certain businesses in the Central Market and Tenderloin Area. Mr. Kato advises that the majority of the cost to implement the proposed ordinance of File 11-0462 would be absorbed in the implementation of the Payroll Expense Tax exclusion for businesses in the Central Market and Tenderloin Area; however, Mr. Kato notes that an additional one-time General Fund expenditure of approximately \$30,000 for professional services to make the necessary amendments to the revised reporting documents would be needed to incorporate the Payroll Expense Tax exclusion for stock compensation into the Tax Collector's administration of the Payroll Expense Tax.

POLICY CONSIDERATIONS

Loss of Future City Payroll Expense Taxes Related to Businesses Conducting an Initial Public Offering versus Relocation of Technology Companies out of the City

The Budget and Legislative Analyst notes that if either of the proposed Payroll Expense Tax exclusion for stock compensation is not approved, companies that plan to conduct an Initial Public Offering may not stay and grow their business in San Francisco, such that San Francisco will lose the existing annual Payroll Expense Taxes that these companies currently pay to the City. On the other hand, if the proposed Payroll Expense Tax exclusion for stock compensation is approved and eligible companies stay in the City, the existing Payroll Expense Taxes currently paid by these companies would continue to accrue to the City's General Fund and possibly increase if the companies expand. However, if the proposed Payroll Expense Tax exclusion for stock options is approved, potentially a significant amount of revenue related to stock compensation if eligible companies were to conduct an Initial Public Offering would be foregone

Reported Possible Amendments to File 11-0337 Proposed Ordinance


The following may be introduced as amendments to the proposed ordinance of File 11-0337:

- Remove the technology company requirement;
- Remove the greater than 100 employee requirement;
- Remove the \$1,500 per individual employee requirement and replace with a minimum amount of stock option Payroll Tax the companies would have to pay; and
- Extend the time limit to six years.

Depending on the extent of the amendments that are approved, the proposed ordinance may need to be continued.

RECOMMENDATIONS

Approval of the proposed ordinances are policy decisions for the Board of Supervisors.



for Harvey M. Rose

cc: Supervisor Chu
Supervisor Mirkarimi
Supervisor Kim
President Chiu
Supervisor Avalos
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Controller
Greg Wagner