

File No. 230155

Committee Item No. 15

Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Brent Jalipa Date June 16, 2023

Completed by: Brent Jalipa Date \_\_\_\_\_

1 [Business and Tax Regulations Code - Gross Receipts Tax Rate Increase Postponement and  
2 Credits for Opening City Location]

3 **Ordinance amending the Business and Tax Regulations Code to extend through**  
4 **December 31, 2024, the Gross Receipts Tax rates in effect on January 1, 2022, for the**  
5 **business activities of retail trade, certain services, manufacturing, food services,**  
6 **accommodations, and arts, entertainment and recreation, and postpone to**  
7 **January 1, 2025, the imposition of the Gross Receipts Tax rates otherwise set to go into**  
8 **effect beginning January 1, 2023, for those business activities; and to provide for**  
9 **businesses that open a physical location in the City on or after January 1, 2023,**  
10 **through December 31, 2027, and that did not have a physical location in the City for at**  
11 **least three years prior to that opening, an annual Gross Receipts Tax credit equal to**  
12 **0.45% of the business's San Francisco taxable gross receipts from one or more of the**  
13 **business activities of information, administrative and support services, financial**  
14 **services, insurance, and professional, scientific and technical services, for businesses**  
15 **not engaged in business in the City as an administrative office, or 0.7% of the taxable**  
16 **payroll expense of a business that engages in business in the City as an administrative**  
17 **office, for each of up to three tax years immediately following the tax year in which the**  
18 **business opened the physical location in the City, but no later than the 2028 tax year,**  
19 **and not to exceed \$1,000,000 per tax year.**

20  
21 **NOTE:** **Unchanged Code text and uncodified text** are in plain Arial font.  
22 **Additions to Codes** are in *single-underline italics Times New Roman font*.  
23 **Deletions to Codes** are in *strikethrough italics Times New Roman font*.  
24 **Board amendment additions** are in double-underlined Arial font.  
25 **Board amendment deletions** are in ~~strikethrough Arial font~~.  
**Asterisks (\* \* \* \*)** indicate the omission of unchanged Code subsections or parts of tables.

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

2 Section 1. Article 12-A-1 of the Business and Tax Regulations Code is hereby  
3 amended by revising Sections 953.1, 953.2, and 953.3, and adding Section 960.1, to read as  
4 follows:

5  
6 **SEC. 953.1. GROSS RECEIPTS TAX APPLICABLE TO RETAIL TRADE; WHOLESALE**  
7 **TRADE; AND CERTAIN SERVICES.**

8 (a) The gross receipts tax rates applicable to the business activities of retail trade,  
9 wholesale trade, and certain services are:

10 \* \* \* \*

11 (2) For the business activities of retail trade and certain services:

12 (A) For tax years 2021 *through and including 2024*~~and 2022~~:

13 0.053% (e.g., \$0.53 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000

14 0.07% (e.g., \$0.70 per \$1,000) for taxable gross receipts between \$1,000,000.01 and

15 \$2,500,000

16 0.095% (e.g., \$0.95 per \$1,000) for taxable gross receipts between \$2,500,000.01 and

17 \$25,000,000

18 0.224% (e.g., \$2.24 per \$1,000) for taxable gross receipts over \$25,000,000

19 (B) For tax year ~~2025~~2023:

20 0.079% (e.g., \$0.79 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000

21 0.105% (e.g., \$1.05 per \$1,000) for taxable gross receipts between \$1,000,000.01 and

22 \$2,500,000

23 0.142% (e.g., \$1.42 per \$1,000) for taxable gross receipts between \$2,500,000.01 and

24 \$25,000,000

25 0.224% (e.g., \$2.24 per \$1,000) for taxable gross receipts over \$25,000,000

1 (C) For tax years beginning on or after January 1, ~~2026~~2024:  
2 0.105% (e.g., \$1.05 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000  
3 0.14% (e.g., \$1.40 per \$1,000) for taxable gross receipts between \$1,000,000.01 and  
4 \$2,500,000  
5 0.189% (e.g., \$1.89 per \$1,000) for taxable gross receipts between \$2,500,000.01 and  
6 \$25,000,000  
7 0.224% (e.g., \$2.24 per \$1,000) for taxable gross receipts over \$25,000,000  
8 \* \* \* \*

9

10 **SEC. 953.2. GROSS RECEIPTS TAX APPLICABLE TO MANUFACTURING;**  
11 **TRANSPORTATION AND WAREHOUSING; INFORMATION; BIOTECHNOLOGY; CLEAN**  
12 **TECHNOLOGY; AND FOOD SERVICES.**

13 (a) The gross receipts tax rates applicable to the business activities of manufacturing,  
14 transportation and warehousing, information, biotechnology, clean technology, and food  
15 services are:

16 \* \* \* \*

17 (2) For the business activities of manufacturing and food services:

18 (A) For tax years 2021 *through and including 2024*~~and 2022~~:

19 0.088% (e.g., \$0.88 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000  
20 0.144% (e.g., \$1.44 per \$1,000) for taxable gross receipts between \$1,000,000.01 and  
21 \$2,500,000  
22 0.259% (e.g., \$2.59 per \$1,000) for taxable gross receipts between \$2,500,000.01 and  
23 \$25,000,000  
24 0.665% (e.g., \$6.65 per \$1,000) for taxable gross receipts over \$25,000,000

25 (B) For tax year ~~2025~~2023:

1 0.131% (e.g., \$1.31 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000

2 0.215% (e.g., \$2.15 per \$1,000) for taxable gross receipts between \$1,000,000.01 and  
3 \$2,500,000

4 0.389% (e.g., \$3.89 per \$1,000) for taxable gross receipts between \$2,500,000.01 and  
5 \$25,000,000

6 0.665% (e.g., \$6.65 per \$1,000) for taxable gross receipts over \$25,000,000

7 (C) For tax years beginning on or after January 1, ~~2026~~2024:

8 0.175% (e.g., \$1.75 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000

9 0.287% (e.g., \$2.87 per \$1,000) for taxable gross receipts between \$1,000,000.01 and  
10 \$2,500,000

11 0.518% (e.g., \$5.18 per \$1,000) for taxable gross receipts between \$2,500,000.01 and  
12 \$25,000,000

13 0.665% (e.g., \$6.65 per \$1,000) for taxable gross receipts over \$25,000,000

14 \* \* \* \*

15

16 **SEC. 953.3. GROSS RECEIPTS TAX APPLICABLE TO ACCOMMODATIONS; UTILITIES;**  
17 **AND ARTS, ENTERTAINMENT AND RECREATION.**

18 (a) The gross receipts tax rates applicable to the business activities of  
19 accommodations; utilities; and arts, entertainment and recreation are:

20 \* \* \* \*

21 (2) For the business activities of accommodations and arts, entertainment and  
22 recreation:

23 (A) For tax years 2021 *through and including 2024*~~and 2022~~:

24 0.21% (e.g., \$2.10 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000

25

1 0.228% (e.g., \$2.28 per \$1,000) for taxable gross receipts between \$1,000,000.01 and  
2 \$2,500,000

3 0.228% (e.g., \$2.28 per \$1,000) for taxable gross receipts between \$2,500,000.01 and  
4 \$25,000,000

5 0.56% (e.g., \$5.60 per \$1,000) for taxable gross receipts over \$25,000,000

6 (B) For tax year 20252023:

7 0.315% (e.g., \$3.15 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000

8 0.341% (e.g., \$3.41 per \$1,000) for taxable gross receipts between \$1,000,000.01 and  
9 \$2,500,000

10 0.341% (e.g., \$3.41 per \$1,000) for taxable gross receipts between \$2,500,000.01 and  
11 \$25,000,000

12 0.56% (e.g., \$5.60 per \$1,000) for taxable gross receipts over \$25,000,000

13 (C) For tax years beginning on or after January 1, 20262024:

14 0.42% (e.g., \$4.20 per \$1,000) for taxable gross receipts between \$0 and \$1,000,000

15 0.455% (e.g., \$4.55 per \$1,000) for taxable gross receipts between \$1,000,000.01 and  
16 \$2,500,000

17 0.455% (e.g., \$4.55 per \$1,000) for taxable gross receipts between \$2,500,000.01 and  
18 \$25,000,000

19 0.56% (e.g., \$5.60 per \$1,000) for taxable gross receipts over \$25,000,000

20 \* \* \* \*

21

22 **SEC. 960.1. TAX CREDIT FOR OPENING PHYSICAL LOCATION IN THE CITY.**

23 (a) A person or combined group that opens a physical location in the City on or after  
24 January 1, 2023 through and including December 31, 2027, shall be allowed a credit against that  
25 person or combined group's Gross Receipts Tax if the person or combined group did not have a

1 physical location in the City for at least three years prior to opening the physical location. The credit  
2 under this Section 960.1 shall be an annual credit for each of up to three tax years immediately  
3 following the tax year in which the person or combined group opened the physical location in the City.  
4 The credit shall be in an amount per tax year, not to exceed \$1,000,000 per tax year, calculated as  
5 follows:

6 (1) for a person or combined group not engaged in business within the City as an  
7 administrative office, as defined in Section 953.8 of Article 12-A-1, 0.45% of the person or combined  
8 group's taxable gross receipts during the tax year from one or more of the business activities of  
9 information, administrative and support services, financial services, insurance, and professional,  
10 scientific and technical services, as those activities are defined in Sections 953.2, 953.4, and 953.6 of  
11 this Article 12-A-1, without regard to any application of Section 953.9 of Article 12-A-1; or

12 (2) for a person or combined group engaged in business within the City as an  
13 administrative office, as defined in Section 953.8 of Article 12-A-1, 0.7% of the person or combined  
14 group's taxable payroll expense during the tax year.

15 (b) For purposes of this Section 960.1:

16 (1) "Opens a physical location" means that the person or combined group opens, by  
17 acquiring real property or pursuant to an agreement with a term for at least six months, a location of  
18 the person or combined group that is available for the person or combined group's use and can  
19 accommodate one or more employees.

20 (2) In determining whether a person or combined group had a physical location in the  
21 City prior to opening a physical location, any physical location in the City of the person or combined  
22 group's predecessor in interest shall be deemed a physical location in the City of that person or  
23 combined group.

24 (3) The acquisition of an existing business shall not constitute the opening of a physical  
25 location.

1                   (4) In determining whether a person or combined group had a physical location in the  
2 City prior to opening a physical location, and in determining whether a person or combined group has  
3 opened a physical location in the City, a person or combined group that owned or leased real property  
4 in the City all of which such person or combined group leased or subleased to a third party that was  
5 not in such person's combined group and did not lease back shall not be deemed to have had or opened  
6 a physical location in the City as a result of owning or leasing that real property for the time period in  
7 which the real property was leased or subleased to the third party.

8                   (c) For purposes of this Section 960.1, "taxable gross receipts" means a person or combined  
9 group's gross receipts, not excluded under Section 954 of Article 12-A-1, attributable to the City.

10                   (d) For purposes of this Section 960.1, "taxable payroll expense" means "payroll expense" as  
11 defined in Section 953.8(f) of Article 12-A-1, attributable to the City.

12                   (e) In no event shall the credit under this Section 960.1 reduce a person or combined group's  
13 Gross Receipts Tax liability to less than \$0 for any tax year. The credit under this Section shall not be  
14 refundable and may not be carried forward to a subsequent tax year.

15                   (f) Notwithstanding Section 6.22-1 of the Business and Tax Regulations Code or any other  
16 provision of law that would limit public disclosure, the person or each person in the combined group  
17 that is engaging in business within the City waives any right to confidentiality in the fact that it has  
18 claimed any credit under this Section 960.1 for a particular tax year. Nothing in this subsection (f)  
19 shall constitute a waiver of the confidentiality of the information in the person or combined group's  
20 Gross Receipts Tax return, including the amount of any credit claimed under this Section, other than  
21 the fact that the person or combined group has claimed a credit under this Section.

22                   (g) Notwithstanding any other provision of this Section 960.1, no person or combined group  
23 may claim the credit authorized under this Section 960.1 for tax years commencing on or after  
24 January 1, 2029.





**LEGISLATIVE DIGEST**  
**(SUBSTITUTED 03/21/23)**

[Business and Tax Regulations Code - Gross Receipts Tax Rate Increase Postponement and Credits for Opening City Location]

**Ordinance amending the Business and Tax Regulations Code to extend through December 31, 2024, the Gross Receipts Tax rates in effect on January 1, 2022, for the business activities of retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment and recreation, and postpone to January 1, 2025, the imposition of the Gross Receipts Tax rates otherwise set to go into effect beginning January 1, 2023, for those business activities; and to provide for businesses that open a physical location in the City on or after January 1, 2023, through December 31, 2027, and that did not have a physical location in the City for at least three years prior to that opening, an annual Gross Receipts Tax credit equal to 0.45% of the business's San Francisco taxable gross receipts from one or more of the business activities of information, administrative and support services, financial services, insurance, and professional, scientific and technical services, for businesses not engaged in business in the City as an administrative office, or 0.7% of the taxable payroll expense of a business that engages in business in the City as an administrative office, for each of up to three tax years immediately following the tax year in which the business opened the physical location in the City, but no later than the 2028 tax year, and not to exceed \$1,000,000 per tax year.**

Existing Law

The City currently imposes a Gross Receipts Tax on businesses to fund general municipal purposes. For 2022, the rates ranged from 0.053% to 0.975% of taxable gross receipts, depending on the business's type of business activities and amount of taxable gross receipts. For qualifying businesses that pay the alternative Administrative Office Tax, the 2022 rate was 1.47% of San Francisco payroll expense. Proposition F, approved by voters in November 2020, increased the 2023 Gross Receipts Tax rates for the business activities of retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment and recreation, with additional rate increases beginning in 2024. For certain other business activities, the Gross Receipts Tax rates were scheduled to increase beginning in 2023, if total taxable gross receipts reported by all taxpayers for 2021 equaled or exceeded 90 percent of 2019 total taxable gross receipts. Proposition F also increased the administrative office tax rate to 1.54% for 2023, if the above 2021 gross receipts threshold was met. The Controller certified that the 90 percent threshold was not met, so the scheduled rate increases for administrative offices and those other business activities will not take effect in 2023.

The City currently does not provide tax credits against the Gross Receipts Tax.

Amendments to Current Law

This ordinance would postpone by two years the Gross Receipts Tax rate increases for 2023 and subsequent years applicable to the business activities of retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment and recreation.

This ordinance also would provide a non-refundable credit against the Gross Receipts Tax for each person or combined group (“taxpayer”) that opens a physical location in the City on or after January 1, 2023 through December 31, 2027, provided the taxpayer did not have a physical location in the City for at least three years prior to that opening. To qualify for the credit, the taxpayer must open a location, by acquisition of real property or through an agreement for at least six months, that is available for the taxpayer’s use and can accommodate one or more employees. In determining whether a taxpayer had a physical location in the City prior to opening a physical location, any physical location in the City of the taxpayer’s predecessor in interest would be considered a physical location in the City of that taxpayer. The acquisition of an existing business would not be considered the opening of a physical location. Real property that a taxpayer has leased or subleased to a third party would not be considered a physical location of that taxpayer for the period of such lease or sublease—for purposes of determining whether a taxpayer had a physical location in the City prior to opening a physical location and whether a taxpayer has opened a physical location.

The credit would be 0.45% of the taxpayer’s total San Francisco taxable gross receipts from one or more of the business activities of information, administrative and support services, financial services, insurance, and professional, scientific and technical services, or 0.7% of the taxable payroll expense of a taxpayer that engages in business in the City as an administrative office. Taxpayers may take the credit for each of up to three tax years immediately following the tax year in which the taxpayer opened the physical location in the City. Taxpayers may not carry forward the credit to a subsequent tax year and may not take the credit in the 2029 and subsequent tax years.

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<p><b>Item 15</b> <b>File 23-0155</b></p>	<p><b>Department:</b> Controller</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance provides up to three years of business tax credits for businesses in several office-based sectors that open (or opened) a physical location in San Francisco between Jan. 1, 2023 and Dec. 31, 2027, through no later than tax year 2028.</li> <li>• It also postpones by two years Gross Receipts Tax rate increases for certain sectors that are scheduled to take effect for tax years 2023 and 2024.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would introduce a temporary Gross Receipts Tax credit for businesses in specific office-based sectors that open in, or relocate to, San Francisco during tax years 2023-2027.</li> <li>• Qualifying businesses would be eligible for up to three years of credits, starting with the first tax year after the business opened a new San Francisco location, through no later than 2028. The maximum available credit per business is \$1 million per year.</li> <li>• The proposed ordinance would also delay for two years Gross Receipts Tax rate increases scheduled to take effect for 2023 and 2024 for the following sectors: retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment, and recreation. It would delay these increases until 2025 and 2026.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The Controller’s Office estimates the total cost of the proposed changes to be approximately \$112 million, with the extension of targeted gross receipts tax relief costing an estimated \$28 million and the new location tax credit costing an estimated \$84 million.</li> <li>• The proposed FY 2023-24 – FY 2024-25 budget assumes these revenue decreases.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The proposed changes are part of Mayor Breed’s plan to stabilize Downtown and promote economic recovery amid the continuing impact of the Covid-19 pandemic and the increase in remote work.</li> <li>• Revenue projections from March 2023 project average business tax revenue of \$934.4 million per year between FY 2022-23 and FY 2025-26. These projections are \$104.8 million lower per year, on average, than the average revenue that had been projected for the same years in the January 2022 five-year forecast.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinance is a policy matter for the Board of Supervisors.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

**BACKGROUND**

In November of 2020, San Francisco voters approved Proposition F, which directed the City to complete its phaseout of the payroll tax and implementation of the Gross Receipts Tax, which is now the City’s primary business tax. Under the schedule laid out in Proposition F, Gross Receipts Tax rates increased in 2021 for most industries, but to provide temporary relief for industries disproportionately affected by the Covid-19 pandemic, the Proposition F tax rate schedule included two-year tax rate decreases for specific sectors: retail trade; manufacturing; food services accommodations; arts, entertainment and recreation; and certain services (a classification that includes businesses such as nail salons).<sup>1</sup> Gross receipts tax rates for these sectors are scheduled to increase for both 2023 and 2024.

In the years since Proposition F, San Francisco’s economy has continued to reflect challenges brought by Covid-19 and related decreases in commuting and travel. Declines in tourism, business travel and in-person office work have also contributed to an increase in commercial vacancies Downtown, which has traditionally been a core driver of the City’s economy and tax revenue. The proposed ordinance would implement two types of tax relief as part of Mayor Breed’s broader strategy for supporting Downtown’s economic recovery.<sup>2</sup>

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance (1) postpones by two years Gross Receipts Tax rate increases for certain sectors that are scheduled to take effect for tax years 2023 and 2024, and (2) provides up to three years of business tax credits for businesses in several office-based sectors that open (or opened) a physical location in San Francisco between Jan. 1, 2023 and Dec. 31, 2027, through no later than tax year 2028.

**Extension of Targeted Gross Receipts Tax Relief**

The proposed ordinance would delay for two years Gross Receipts Tax rate increases scheduled to take effect for 2023 and 2024 and keep them at the 2022 levels for the following sectors: retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment, and recreation. Under the current tax schedule, most tax brackets in these sectors received tax

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<sup>1</sup> The top tax bracket, for businesses reporting more than \$25 million in annual gross receipts, received a 40 percent increase in their marginal tax rate between 2021 and 2022.

<sup>2</sup> [Roadmap to Downtown San Francisco’s Future.](#)

decreases in 2021 and 2022.<sup>3</sup> The gross receipts tax rate for these brackets are scheduled to increase by 50% and 33%, respectively, for tax years 2023 and 2024. The proposed ordinance would delay these increases until 2025 and 2026, maintaining 2022 gross receipts tax rates until then.

Exhibit 1 below compares the schedule of increases in the proposed ordinance with current schedule of increases as laid out in Proposition F.

**Exhibit 1: Proposed Delays of Tax Rate Increases for Gross Receipts Up to \$25 Million Annually**

	2023 Scheduled Increase	<b>2023 Proposed Increase</b>	2024 Scheduled Increase	<b>2024 Proposed Increase</b>	2025 Scheduled Increase	<b>2025 Proposed Increase</b>	2026 Scheduled Increase	<b>2026 Proposed Increase</b>
<b>Business Activity</b>								
Certain Services	50%	<b>0</b>	33%	<b>0</b>	0	<b>50%</b>	0	<b>33%</b>
Retail Trade	50%	<b>0</b>	33%	<b>0</b>	0	<b>50%</b>	0	<b>33%</b>
Food Services	50%	<b>0</b>	33%	<b>0</b>	0	<b>50%</b>	0	<b>33%</b>
Manufacturing	50%	<b>0</b>	33%	<b>0</b>	0	<b>50%</b>	0	<b>33%</b>
Accommodations	50%	<b>0</b>	33%	<b>0</b>	0	<b>50%</b>	0	<b>33%</b>
Arts, Entertainment, and Recreation	50%	<b>0</b>	33%	<b>0</b>	0	<b>50%</b>	0	<b>33%</b>

Source: San Francisco Controller’s Office

Note: Tax rates for gross receipts beyond \$25 million are not scheduled to change and would not be affected by the proposed ordinance.

For the affected tax brackets, tax rates in these sectors ranged from 0.05% to 0.26% in 2022, depending on the sector and tax bracket. Following the increases described above, this range will increase from 0.11% to 0.52% in 2024 under the current schedule or in 2026 under the proposed ordinance.<sup>4</sup>

<sup>3</sup> The proposed ordinance would not affect top tax bracket, which applies to gross receipts over \$25 million. Tax rates for this tax bracket did not receive the 2021 and 2022 decreases and instead received a 40% increase in 2021. Tax rates for gross receipts beyond \$25 million are not scheduled to change and would not be affected by the proposed ordinance.

<sup>4</sup> In the top tax bracket, gross receipts tax rates were fully implemented in 2021 for these sectors and range from 0.22% (Certain Services) to 0.67% (Food Services and Manufacturing).

**New Location Tax Credit**

The proposed ordinance would also introduce a temporary Gross Receipts Tax credit for businesses in specific office-based sectors that open in, or relocate to, San Francisco during tax years 2023-2027. (This includes eligible businesses that have already opened in 2023). Qualifying businesses would be eligible for up to three years of credits, starting with the first tax year after the business opened a new San Francisco location, through no later than 2028. The maximum available credit per business is \$1 million per year. Businesses that reopen in San Francisco that previously had a City location within the past three years are not eligible for the credit.

Businesses in the following sectors that pay the Gross Receipts Tax are eligible for the tax credit: information; administrative and support services; financial services, insurance, and professional, scientific; and technical services. For these businesses, the proposed credit would be equal to 0.45% of San Francisco taxable gross receipts in the relevant year. The 2023 tax rates for these industries range from 0.57% to 0.94% of gross receipts.

Although most San Francisco businesses pay the Gross Receipts Tax, some businesses that have an administrative presence only in the City are instead required to pay an Administrative Office Tax. For these businesses, the proposed credit would be equal to 0.7% of taxable payroll.

**Reporting to the Board of Supervisors**

The proposed ordinance would require the Tax Collector to provide an annual report to the Board of Supervisors with the number of businesses taking the credit and the aggregate amount credited to these businesses. These reports would be due by October 31 of each year following the tax years that the credit is in effect.

**FISCAL IMPACT**

The Controller's Office estimates the total cost of the proposed changes to be approximately \$112 million, with the extension of targeted gross receipts tax relief costing an estimated \$28 million and the new location tax credit costing an estimated \$84 million. The proposed FY 2023-24 – FY 2024-25 budget assumes these revenue decreases.

**Extension of Targeted Gross Receipts Tax Relief**

To estimate the impact of the proposed delays in increasing the affected Gross Receipts Tax rates, the Controller's Office assumed 2021 levels of taxable business activity for tax years 2023-2026. It then subtracted the projected revenue under the proposed schedule of increases from the projected revenue under the current schedule of increases. Exhibit 2 below shows the results of this analysis, rounded to the nearest thousand.

**Exhibit 2: Estimated General Fund Revenue Loss of Extending Targeted Gross Receipts Tax Relief (Millions)**

<b>Business Activity</b>	<b>FY 2022-23*</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
Accommodations	\$0.4	\$1.2	\$1.2	\$0.4	<b>\$3.3</b>
Arts, Entertainment, and Recreation	\$0.2	\$0.7	\$0.7	\$0.2	<b>\$1.8</b>
Certain Services	\$0.1	\$0.3	\$0.3	\$0.1	<b>\$0.7</b>
Food Services	\$0.8	\$2.3	\$2.3	\$0.8	<b>\$6.3</b>
Manufacturing	\$0.6	\$1.7	\$1.7	\$0.6	<b>\$4.5</b>
Retail Trade	\$1.4	\$4.2	\$4.2	\$1.4	<b>\$11.3</b>
<b>Total</b>	<b>\$3.5</b>	<b>\$10.4</b>	<b>\$10.4</b>	<b>\$3.5</b>	<b>\$27.8</b>

Source: San Francisco Controller's Office

FY 2022-23 values are for half the fiscal year. The proposed ordinance would decrease revenues in the 2023 calendar and going forward.

**New Location Tax Credit**

Exhibit 3 below shows projected costs of the new location tax credit, as calculated by the Controller's Office. To estimate these costs, the Controller's Office reviewed tax return data for tax years 2019, 2020, and 2021 and then calculated the tax credits for tax year 2021 for businesses that opened a San Francisco location during those years. It then adjusted this figure to account for the eligibility timeline of the proposed tax credit (i.e., for FY 2023, no businesses will be receiving the tax credit for a second or third year).

**Exhibit 3: Estimated Cost of New Location Tax Credit (Millions)**

<b>Tax Year</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Total</b>
Administrative Services	\$0.2	\$0.4	\$0.8	\$0.8	\$0.8	\$0.8	<b>\$3.8</b>
Financial Services	\$1.2	\$3.8	\$5.5	\$5.5	\$5.5	\$5.5	<b>\$27.0</b>
Information	\$1.6	\$3.9	\$5.5	\$5.5	\$5.5	\$5.5	<b>\$27.5</b>
Insurance	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	<b>\$0.4</b>
Professional, Scientific, Technical Services	\$1.4	\$3.1	\$5.2	\$5.2	\$5.2	\$5.2	<b>\$25.3</b>
<b>Total</b>	<b>\$4.4</b>	<b>\$11.2</b>	<b>\$17.2</b>	<b>\$17.2</b>	<b>\$17.2</b>	<b>\$17.2</b>	<b>\$84.4</b>

Source: San Francisco Controller's Office

**Estimated Jobs Added**

The Controller's Office is currently conducting an economic analysis to project how many new jobs the new location tax credit would create between 2023 and 2027, relative to what would be expected without the tax credit.



**POLICY CONSIDERATION****Limitations of Cost Estimates**

The cost estimates above use 2021 as a baseline year and assume business activity will remain at the same level in the coming years. Notably, 2021 was the second year of the Covid-19 pandemic; should the City's economic recovery continue in the coming years, relevant business activity may exceed 2021 activity levels, resulting in the actual costs of the proposed changes exceeding estimated costs. Alternatively, should economic activity fall below 2021 levels in certain years, actual costs would likely be lower than projected.

The projected cost for the new location tax credit also does not account for businesses that relocate to San Francisco, having previously had a location in the City more than three years prior. Because these relocations do not require a new business license, they do not show up in the data the Controller's Office used to project costs of the new location tax credit. Businesses in this category that relocate to San Francisco and receive the tax credit would increase both the tax credit's cost and the number of jobs associated with its implementation.

**Job Losses and Downtown Vacancies**

The proposed changes are part of Mayor Breed's plan to stabilize Downtown and promote economic recovery amid the continuing impact of the Covid-19 pandemic and the increase in remote work. As we reported in February,<sup>5</sup> the City lost nearly 22,837 total private sector jobs between the second quarter of 2019 and the second quarter of 2022, with the Accommodation and Food Services (-24,977 jobs) and Retail Trade (-7,711 jobs) sectors experiencing the greatest reductions.<sup>6</sup> From Q4 of 2019 to the Q4 of 2022, office vacancy rates in the Greater Downtown area increased from 5.2% to 25.1%.<sup>7</sup>

**Lower Projections of Overall Business Tax Revenue**

The March 2023 five-year revenue projections issued jointly by the Controller, Mayor's Office, and our office project average business tax revenue of \$934.4 million per year between FY 2022-23 and FY 2025-26. However, these projections are \$104.8 million lower per year, on average, than the average revenue of \$1,039.18 million that had been projected for the same years in the January 2022 five-year forecast. Factors contributing to this decrease in projected revenue include an increased estimate of long-term telecommuting rates among office workers and reductions in the City's population.

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<sup>5</sup> [Options for Addressing Economic and Tax Revenue Trends in Downtown San Francisco](#)

<sup>6</sup> Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics

<sup>7</sup> JLL San Francisco Office Insight, Q4 2019 and Q4 2022

**RECOMMENDATION**

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

BOARD of SUPERVISORS



City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. (415) 554-5184  
Fax No. (415) 554-5163  
TDD/TTY No. (415) 554-5227

## MEMORANDUM

TO: José Cisneros, City Treasurer, Office of the Treasurer and Tax Collector

FROM: Brent Jalipa, Assistant Clerk, Budget and Finance Committee

DATE: March 24, 2023

SUBJECT: SUBSTITUTE PROPOSED ORDINANCE INTRODUCED

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The Board of Supervisors' Budget and Finance Committee has received the following substitute to a proposed Ordinance, introduced by Mayor London Breed:

**File No. 230155-2**

**Ordinance amending the Business and Tax Regulations Code to extend through December 31, 2024, the Gross Receipts Tax rates in effect on January 1, 2022, for the business activities of retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment and recreation, and postpone to January 1, 2025, the imposition of the Gross Receipts Tax rates otherwise set to go into effect beginning January 1, 2023, for those business activities; and to provide for businesses that open a physical location in the City on or after January 1, 2023, through December 31, 2027, and that did not have a physical location in the City for at least three years prior to that opening, an annual Gross Receipts Tax credit equal to 0.45% of the business's San Francisco taxable gross receipts from one or more of the business activities of information, administrative and support services, financial services, insurance, and professional, scientific and technical services, for businesses not engaged in business in the City as an administrative office, or 0.7% of the taxable payroll expense of a business that engages in business in the City as an administrative office, for each of up to three tax years immediately following the tax year in which the business opened the physical location in the City, but no later than the 2028 tax year, and not to exceed \$1,000,000 per tax year.**

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Amanda Kahn Fried, Office of the Treasurer and Tax Collector

BOARD of SUPERVISORS



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## MEMORANDUM

TO: Katy Tang  
**Small Business Commission, City Hall, Room 448**

FROM: Brent Jalipa, Assistant Clerk  
Budget and Finance Committee

DATE: March 24, 2023

SUBJECT: REFERRAL FROM BOARD OF SUPERVISORS  
Budget and Finance Committee

The Board of Supervisors' Budget and Finance Committee has received the following proposed legislation, substituted by Mayor London Breed on March 21, 2023, which is being referred to the Small Business Commission for comment and recommendation.

**File No. 230155-2**

**Ordinance amending the Business and Tax Regulations Code to extend through December 31, 2024, the Gross Receipts Tax rates in effect on January 1, 2022, for the business activities of retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment and recreation, and postpone to January 1, 2025, the imposition of the Gross Receipts Tax rates otherwise set to go into effect beginning January 1, 2023, for those business activities; and to provide for businesses that open a physical location in the City on or after January 1, 2023, through December 31, 2027, and that did not have a physical location in the City for at least three years prior to that opening, an annual Gross Receipts Tax credit equal to 0.45% of the business's San Francisco taxable gross receipts from one or more of the business activities of information, administrative and support services, financial services, insurance, and professional, scientific and technical services, for businesses not engaged in business in the City as an administrative office, or 0.7% of the taxable payroll expense of a business that engages in business in the City as an administrative office, for each of up to three tax years immediately following the tax year in which the business opened the physical location in the City, but no later than the 2028 tax year, and not to exceed \$1,000,000 per tax year.**

Please return this cover sheet with the Commission's response to Brent Jalipa, Budget and Finance Clerk, by email to: [brent.jalipa@sfgov.org](mailto:brent.jalipa@sfgov.org).

\*\*\*\*\*

**RESPONSE FROM SMALL BUSINESS COMMISSION - Date:** \_\_\_\_\_

\_\_\_\_ **No Comment**

\_\_\_\_ **Recommendation Attached**

\_\_\_\_\_  
**Chairperson, Small Business Commission**

**From:** [Conine-Nakano, Susanna \(MYR\)](#)  
**To:** [BOS Legislation, \(BOS\)](#)  
**Cc:** [Paulino, Tom \(MYR\)](#); [Arvanitidis, Laurel \(ECN\)](#); [Bell, Tita \(BOS\)](#)  
**Subject:** Mayor -- Substitute Ordinance -- Gross Receipts Tax Rate  
**Date:** Tuesday, March 21, 2023 4:47:53 PM  
**Attachments:** [ORD Gross Receipts Tax Rate and Credits SUBSTITUTE.docx](#)  
[DIG Gross Receipts Tax Rate and Credits SUBSTITUTE.docx](#)  
[CAT Approval.msg](#)

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Hello Clerks,

Attached for introduction to the Board of Supervisors is an Ordinance amending the Business and Tax Regulations Code to extend through December 31, 2024 the Gross Receipts Tax rates in effect on January 1, 2022 for the business activities of retail trade, certain services, manufacturing, food services, accommodations, and arts, entertainment and recreation, and postpone to January 1, 2025 the imposition of the Gross Receipts Tax rates otherwise set to go into effect beginning January 1, 2023 for those business activities; and to provide for businesses that open a physical location in the City on or after January 1, 2023 through December 31, 2027, and that did not have a physical location in the City for at least three years prior to that opening, an annual Gross Receipts Tax credit equal to 0.45% of the business's San Francisco taxable gross receipts from one or more of the business activities of information, administrative and support services, financial services, insurance, and professional, scientific and technical services, for businesses not engaged in business in the City as an administrative office, or 0.7% of the taxable payroll expense of a business that engages in business in the City as an administrative office, for each of up to three tax years immediately following the tax year in which the business opened the physical location in the City, but no later than the 2028 tax year, and not to exceed \$1,000,000 per tax year.

The attached substitute ordinance will supersede File 230155.

Please note that Supervisor Engardio is a co-sponsor of this legislation.

Best,  
Susanna

**Susanna Conine-Nakano**

Office of Mayor London N. Breed  
City & County of San Francisco  
1 Dr. Carlton B. Goodlett Place, Room 200  
San Francisco, CA 94102  
415-554-6147