

CITY AND COUNTY OF SAN FRANCISCO


BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Government Audit and Oversight Committee

FROM: Budget and Legislative Analyst 

SUBJECT: September 4, 2025 Government Audit and Oversight Committee

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Item 2 File 25-0576	Department: Treasurer-Tax Collector
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed ordinance would amend Article 12-A-1 of the Business and Tax Regulations Code to reclassify telecommunications business activities for the purpose of determining those business activities' gross receipts and homelessness gross receipts tax liability starting January 1, 2026. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> Proposition M (November 2024) changed the City's business tax structure, including by consolidating the categories of business activities and their associated tax rates into seven categories. Telecommunications business activities are currently Category 5 and the proposed ordinance would reclassify them as Category 4. Under the current tax structure, Category 4 business activities have lower tax rates than Category 5 businesses. Because the proposed ordinance shifts telecommunications business activities from Category 5 to Category 4, telecommunication taxpayers will pay less gross receipts taxes and homelessness gross receipts tax. According to the Tax Collector's Office, there are approximately 60 taxpayers with telecommunications business activities that pay gross receipts taxes in San Francisco. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> According to the Controller's Office, the proposed ordinance would result in an annual decrease of \$6.6 million in gross receipt tax revenue and an annual \$1.6 million decrease in homelessness gross receipts tax revenue starting in CY 2026, impacting FY 2026-27 revenues. The revenue loss is not assumed in the current FY 2025-26 – FY 2026-27 budget. Two other ordinances are pending at the Board of Supervisors that would approve settlements with telecommunications companies to resolve litigation in which the City claims the companies were underpaying certain telephone fees. They are being scheduled at the September 4, 2025 meeting of the Government Audit and Oversight Committee meeting together with this proposed tax rate change as a courtesy for the Committee to consider overall fiscal impact of items related to the same industry. File 25-0778 would approve a settlement with TPx Communications, with the City receiving \$3,660,000, and File 25-0769 would approve a settlement with AT&T, with the City receiving \$15,400,000. The \$19,060,000 in settlement funds would offset the decrease in General Fund revenues for approximately two years. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

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**Business Activity Categories for San Francisco Gross Receipts Taxes**

Proposition M (November 2024) changed the City's business tax structure, including by consolidating the categories of business activities and their associated tax rates. Telecommunications business activities are currently Category 5, along with other Information, Professional, Scientific, and Technical Services, and other business activities. The business activity categories used to determine gross receipts tax rates generally rely on the U.S. Census Bureau's 2022 North American Industry Classification System (NAICS). The seven business categories are shown in Appendix A to this report.

New Location Gross Receipts Tax Credit

In 2023, the Board of Supervisors approved an ordinance to delay certain scheduled increases in the gross receipts tax rate and to provide for a gross receipts tax credit for certain businesses opening a new physical location in San Francisco in the following zip codes: 94102, 94103, 94104, 94105, 94107, 94108, 94109, 94111, 94133, and 94158 (File 230155). To qualify, businesses must not have a physical location in San Francisco in the prior three years and open the location by December 31, 2027.

Starting in 2025, the business activities that qualify if the taxpayer meets all other requirements include those in gross receipts Categories 5 and Category 6 as well as businesses in NAICS Code 524 (Insurance Carriers and Related Activities), 5611 (Office Administrative Services), 5612 (Facilities Support Services), 5613 (Employment Services), 5614 (Business Support Services), 5615 (Travel Arrangement and Reservation Services), 5616 (Investigation and Security Services), 5617 (Services to Buildings and Dwellings), and 5619 (Other Support Services). Taxpayers engaged in business within the City as an administrative office may also qualify if they meet other requirements.

The tax credit is 0.45 percent of gross receipts from the qualifying business activities (or 0.7% of the taxable payroll expense if engaged in business as an administrative office), up to \$1 million per year, for three years following the tax year which the new physical location was opened.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Article 12-A-1 of the Business and Tax Regulations Code to reclassify telecommunications business activities (NAICS code 517) from Category 5 to Category 4 for the purpose of determining those business activities' gross receipts and homelessness gross receipts tax liability starting January 1, 2026.

Category 4 business activities have lower tax rates than Category 5 businesses. In 2026, the gross receipts tax rates range from 0.25% – 1.512% for Category 4 and 1.00% - 1.68% for Category 5. The homelessness gross receipts tax rates range from 0.25% - 0.738% for Category 4 and from 0.57% - 0.82% for Category 5. Appendix B to this report shows the gross receipts and homelessness gross receipts tax rates for Category 5 and Category 4 business activities. Because the proposed ordinance shifts telecommunications business activities from Category 5 to Category 4, taxpayers will pay less gross receipts taxes and homelessness gross receipts tax with respect to their telecommunications business activities. According to the Tax Collector's Office, there are approximately 60 taxpayers with telecommunications business activities that pay gross receipts taxes in San Francisco.

The proposed ordinance would continue to allow telecommunications business activities to qualify for the new location gross receipt tax credit while it is in effect through CY 2027. Under existing law, Category 4 businesses do not qualify for the new location tax credit, so moving telecommunications businesses from Category 5 to Category 4 would exclude them from the new location tax credit if the ordinance did not expressly incorporate telecommunications business activities into the credit as it does.

The proposed ordinance requires a supermajority vote by the Board of Supervisors because it is modifying the terms of the homelessness gross receipts tax (per Business and Tax Regulation Code Section 2811).

FISCAL IMPACT

According to the Controller's Office, the proposed ordinance would result in an annual decrease of \$6.6 million in gross receipt tax revenue and an annual \$1.6 million decrease in homelessness gross receipts tax revenue starting in CY 2026, impacting FY 2026-27 revenues. The revenue loss is not assumed in the current FY 2025-26 – FY 2026-27 budget.

Two other ordinances are pending at the Board of Supervisors that would approve settlements with telecommunications companies to resolve litigation in which the City claims the companies were underpaying certain telephone fees. They are being scheduled at the September 4, 2025 meeting of the Government Audit and Oversight Committee meeting together with this proposed tax rate change as a courtesy for the Committee to consider overall fiscal impact of items related to the same industry. File 25-0778 would approve a settlement with TPx Communications, with the City receiving \$3,660,000, and File 25-0769 would approve a settlement with AT&T, with the City receiving \$15,400,000. The \$19,060,000 in settlement funds would offset the decrease in General Fund revenues for approximately two years. There are eight other defendants named in the City's case regarding telephone fees. Due to attorney-client privilege, the Budget & Legislative Analyst's Office is unable to review the proposed settlement agreements, including whether they are related to this proposed tax rate change.

RECOMMENDATION

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

Appendix A: Business Categories for Gross Receipts Taxes (current)**Category 1:**

NAICS Codes: 42 (Wholesale Trade), 44 and 45 (Retail Trade), 532 (Rental and Leasing Services), 71 (Arts, Entertainment, and Recreation), 722 (Food Services and Drinking Places), 811 (Repair and Maintenance), 812 (Personal and Laundry Services) but not 812930 (Parking Lots and Garages), and 813 (Religious, Grantmaking, Civic, Professional, and Similar Organizations)

Category 2:

NAICS Code: 721 (Accommodation)

Category 3:

NAICS Codes: 531 (Real Estate), 5612 (Facilities Support Services), 5617 (Services to Buildings and Dwellings), 812930 (Parking Lots and Garages)

Category 4:

NAICS Codes: 11 (Agriculture, Forestry, Fishing and Hunting), 21 (Mining, Quarrying, and Oil and Gas Extraction), 22 (Utilities), 31 through 33 (Manufacturing), 48 and 49 (Transportation and Warehousing), 524 (Insurance Carriers and Related Activities), 541714 (Research and Development in Biotechnology (except Nanotechnology)), 5611 (Office Administrative Services), 5613 (Employment Services), 5614 (Business Support Services), 5615 (Travel Arrangement and Reservation Services), 5616 (Investigation and Security Services), 5619 (Other Support Services), 92 (Public Administration)

Category 5:

NAICS Codes: 51 (Information), 5222 (Nondepository Credit Intermediation), 5223 (Activities related to Credit Intermediation), 533 (Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)), 54 (Professional, Scientific, and Technical Services) but not 541714 (Research and Development in Biotechnology (except Nanotechnology)), 55 (Management of Companies and Enterprises), 562 (Waste Management and Remediation Services), 61 (Educational Services), 62 (Healthcare and Social Assistance), and all other business activities not otherwise exempt and not elsewhere subjected to a gross receipts tax rate or the administrative office tax.

Category 6:

NAICS Codes: 521 (Monetary Authorities-Central Bank), 5221 (Depository Credit Intermediation), 523 (Securities, Commodity Contracts, and Other Financial Investments and Related Activities), 525 (Funds, Trusts, and Other Financial Vehicles)

Category 7:

NAICS Code: 23 (Construction)

Source: Article 12A-1 of the Business Tax & Regulations Code

Appendix B: Gross Receipts Tax Rates

Gross Receipts	2026	2027	2028+			2026	2027	2028+
Category 4					Category 5			
0-\$1M	0.25%	0.26%	0.268%		0-\$1M	1.00%	1.04%	1.071%
\$1M-\$2.5M	0.25%	0.26%	0.268%		\$1M-\$2.5M	1.00%	1.04%	1.071%
\$2.5M-\$25M	0.30%	0.312%	0.321%		\$2.5M-\$25M	1.50%	1.56%	1.607%
\$25M-\$50M	0.504%	0.534%	0.557%		\$25M-\$50M	1.176%	1.246%	1.301%
\$50M-\$75M	0.84%	0.89%	0.929%		\$50M-\$75M	1.344%	1.424%	1.486%
\$75M-\$100M	0.84%	0.89%	0.929%		\$75M-\$100M	1.344%	1.424%	1.486%
\$100M-\$150M	1.176%	1.246%	1.301%		\$100M-\$150M	1.344%	1.424%	1.486%
\$150M-\$250M	1.176%	1.246%	1.301%		\$150M-\$250M	1.512%	1.602%	1.672%
\$250M-\$500M	1.344%	1.424%	1.486%		\$250M-\$500M	1.68%	1.78%	1.858%
\$500M-\$1B	1.344%	1.424%	1.486%		\$500M-\$1B	1.68%	1.78%	1.858%
\$1B+	1.512%	1.602%	1.672%		\$1B+	1.68%	1.78%	1.858%

Homelessness Gross Receipts**2025 onward**

	Category 4	Category 5
\$25M-\$50M	0.246%	0.574%
\$50M-\$75M	0.41%	0.656%
\$75M-\$100M	0.41%	0.656%
\$100M-\$150M	0.574%	0.656%
\$150M-\$250M	0.574%	0.738%
\$250M-\$500M	0.656%	0.82%
\$500M-\$1B	0.656%	0.82%
\$1B+	0.738%	0.82%

Source: Treasurer-Tax Collector's Office