

LEGISLATIVE DIGEST

[Initiative Ordinance - Business and Tax Regulations, Administrative Codes - Gross Receipts Tax Rates for Financial Services]

Motion ordering submitted to the voters at an election to be held on November 3, 2026, an Ordinance amending the Business and Tax Regulations Code and Administrative Code, beginning January 1, 2027, to change the gross receipts tax business activity classification in Category 6 to include certain business activities currently in Category 5, increase the gross receipts tax rates for Category 6 business activities, and direct that 12% of the gross receipts tax revenues from Category 6 business activities be used as follows: 1) revenues received for tax years 2027 through 2035 shall fund a municipal finance corporation or public bank, or if such corporation or bank has not been created by December 31, 2031, and the Board of Supervisors so directs, to fund loans for social housing developments, renewable energy and electrification projects, and small businesses, and 2) revenues received for tax year 2036 and beyond shall go to the general fund and be available for any governmental purpose; and increasing the City's appropriations limit by the amount collected under the gross receipts tax for four years from November 3, 2026.

Existing Law

The City imposes a Gross Receipts Tax under Article 12-A-1 of the Business and Tax Regulations Code on businesses engaged in business within the City. The Gross Receipts Tax is a general tax, the revenues from which go to the general fund and may be used at the option of the Mayor and the Board of Supervisors for any lawful City purpose. The Board of Supervisors, by majority vote, may amend Article 12-A-1 to reduce the Gross Receipts Tax without voter approval.

The Gross Receipts Tax rate ranges from 0.1% to 3.36% of gross receipts attributable to the City, depending on the amount of the business's taxable gross receipts and its business activity categories, except for businesses that pay the administrative office tax. Category 5 business activities means activities described in the 2022 North American Industry Classification System ("NAICS") codes 5222 (Nondepository Credit Intermediation) and 5223 (Activities Related to Credit Intermediation), among other activities. Category 6 business activities means activities described in NAICS codes 521 (Monetary Authorities-Central Bank), 5221 (Depository Credit Intermediation), 523 (Securities, Commodity Contracts, and Other Financial Investments and Related Activities), and 525 (Funds, Trusts, and Other Financial Vehicles). The Gross Receipts Tax rate for Category 5 business activities ranges from 1% to 1.68%, and the rate for Category 6 business activities ranges from 1.5% to 3.36%. The Gross Receipts Tax rates, including those for Categories 5 and 6, are scheduled to increase in tax years 2027 and 2028.

Amendments to Current Law

Effective beginning January 1, 2027, the proposed measure would move from Category 5 to Category 6, the business activities described in NAICS codes 5222 (Nondepository Credit Intermediation) and 5223 (Activities Related to Credit Intermediation). The Gross Receipts Tax rate for Category 6 would be increased and range from 1.69% to 3.85%.

The proposed measure also would convert the Gross Receipts Tax from a general tax to a special tax for tax years 2027 through 2035, the revenues from which must be used for certain specified purposes. Twelve percent of the Gross Receipts Tax revenues from Category 6 business activities for tax years 2027 through 2035 would go to a newly created Public Bank Fund to be used exclusively for the creation, capitalization, funding, and operation of a City-owned municipal finance corporation or public bank. If such corporation or bank has not been created by December 31, 2031, the Board of Supervisors by unanimous vote may provide that the 12% of Gross Receipts Tax revenues from Category 6 business activities shall go to: (1) the Mayor's Office of Housing and Community Development for loans for social housing developments, (2) the Department of the Environment for loans for commercial or residential renewable energy and electrification projects, and (3) the Office of Economic and Workforce Development or its successor for loans to small businesses with annual gross revenues under \$5 million. Once the Board of Supervisors makes the above determination, the annual appropriation legislation in subsequent years would determine the amounts allocated to each of the above three uses. Proceeds from the Gross Receipts Tax from Category 6 Business Activities received for tax year 2036 and for subsequent tax years shall be deposited to the City's general fund and may be expended for any purposes of the City. For tax years 2027 through 2035, 1% of the proceeds from the Gross Receipts Tax remaining after deposit of the above amounts in the Public Bank Fund would be deposited in a newly created Gross Receipts Tax Administration Fund that may be used for the administration of the Gross Receipts Tax, including administration of the Public Bank Fund.

This measure would require a unanimous vote of the Board of Supervisors to amend Article 12-A-1 to reduce the Category 6 Gross Receipts Tax rates or reduce the Gross Receipts Taxes paid for Category 6 business activities without voter approval. It would not impact the current majority vote required for the Board of Supervisors to reduce the Gross Receipts Tax for other business activity categories.

This measure would increase the City's appropriations limit under Article XIII B of the California Constitution by the total revenues collected Article 12-A-1 of the Business and Tax Regulations Code, for four years from November 3, 2026.