File No. 230155

Committee Item No. 1
Board Item No. 53

COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Brent Jalipa **Date** June 29, 2023
Completed by: Brent Jalipa **Date** July 13, 2023

[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 certain zip codes 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.

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

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

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

SEC. 953.1. GROSS RECEIPTS TAX APPLICABLE TO RETAIL TRADE; WHOLESALE TRADE; AND CERTAIN SERVICES.

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

* * * *

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

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

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

0.07% (e.g., $0.70 per $1,000) for taxable gross receipts between $1,000,000.01 and $2,500,000

0.095% (e.g., $0.95 per $1,000) for taxable gross receipts between $2,500,000.01 and $25,000,000

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

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

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

0.105% (e.g., $1.05 per $1,000) for taxable gross receipts between $1,000,000.01 and $2,500,000

0.142% (e.g., $1.42 per $1,000) for taxable gross receipts between $2,500,000.01 and $25,000,000

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

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

0.105% (e.g., $1.05 per $1,000) for taxable gross receipts between $0 and $1,000,000

0.14% (e.g., $1.40 per $1,000) for taxable gross receipts between $1,000,000.01 and $2,500,000

0.189% (e.g., $1.89 per $1,000) for taxable gross receipts between $2,500,000.01 and $25,000,000

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

* * * *

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

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

* * * *

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

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

0.088% (e.g., $0.88 per $1,000) for taxable gross receipts between $0 and $1,000,000

0.144% (e.g., $1.44 per $1,000) for taxable gross receipts between $1,000,000.01 and $2,500,000

0.259% (e.g., $2.59 per $1,000) for taxable gross receipts between $2,500,000.01 and $25,000,000

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

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

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

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

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

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

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

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

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

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

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

*** * * ***

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

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

*** * * ***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***   *   *   ***

SEC. 960.1. TAX CREDIT FOR OPENING* A *PHYSICAL LOCATION IN* DESIGNATED AREAS IN *THE CITY.

(a) A person or combined group that opens a physical location in the Designated Areas~~City~~ *on or after January 1, 2023 through and including December 31, 2027, shall be allowed a credit*

against that person or combined group's Gross Receipts Tax if the person or combined group did not have a physical location in the City for at least three years prior to opening the physical location. The credit under this Section 960.1 shall be an annual credit for each of up to three tax years immediately following the tax year in which the person or combined group opened the physical location in the Designated Areas~~City~~, provided the person or combined group maintains a physical location in the Designated Areas in the tax year that the credit is taken. To be eligible for the credit, the person or combined group must take the credit for each tax year on an original Gross Receipts Tax return filed with the Tax Collector. *The credit shall be in an amount per tax year, not to exceed $1,000,000 per tax year, calculated as follows:*

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

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

(b) For purposes of this Section 960.1:

(1) "Designated Areas" means the areas in the City located in zip codes 94102, 94103, 94104, 94105, 94107, 94108, 94109, 94111, 94133, and 94158, as those zip codes exist on the effective date of the ordinance adding this Section 960.1.

*(*2~~1~~*) "Opens a physical location" means that the person or combined group opens, by acquiring real property or pursuant to an agreement with a term for at least six months, a location of*

the person or combined group that is available for the person or combined group's use and can accommodate one or more employees.

*(*3~~2~~*) In determining whether a person or combined group had a physical location in the City prior to opening a physical location, any physical location in the City of the person or combined group's predecessor in interest shall be deemed a physical location in the City of that person or combined group.*

*(*4~~3~~*) The acquisition of an existing business shall not constitute the opening of a physical location.*

*(*5~~4~~*) In determining whether a person or combined group had a physical location in the City prior to opening a physical location, and in determining whether a person or combined group has opened a physical location in the* Designated Areas~~City,~~:

(A) A physical location shall not include a home or other residential location and shall also not include a location for a short-term residential rental use, as that term is defined in Section 41A.4 of Chapter 41A of the Administrative Code, as may be amended from time to time; and

(B) A~~a~~ *person or combined group that owned or leased real property* ~~in the City~~ *all of which such person or combined group leased or subleased to a third party that was not in such person's combined group and did not lease back shall not be* considered~~deemed~~ *to have had or opened a physical location* ~~in the City~~ *as a result of owning or leasing that real property for the time period in which the real property was leased or subleased to the third party.*

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

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

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

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

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

<u>(h) Commencing with a report filed no later than October 31, 2024, for the 2023 tax year, the Tax Collector shall submit an annual report by October 31 of the calendar year following each tax year to the Board of Supervisors for each tax year for which the credit under this Section 960.1 is in effect that sets forth aggregate information on the dollar amount of the credits taken each year and the number of businesses taking the credit.</u>

Section 2. Effective Date; Retroactivity.

(a) This ordinance shall become effective 30 days after enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board of Supervisors overrides the Mayor's veto of the ordinance.

(b) Upon the effective date of this ordinance, this ordinance shall be retroactive to January 1, 2023.

Section 3. Scope of Ordinance. In enacting this ordinance, the Board of Supervisors intends to amend only those words, phrases, paragraphs, subsections, sections, articles, numbers, punctuation marks, charts, diagrams, or any other constituent parts of the Municipal Code that are explicitly shown in this ordinance as additions, deletions, Board amendment additions, and Board amendment deletions in accordance with the "Note" that appears under the official title of the ordinance.

APPROVED AS TO FORM:
DAVID CHIU, City Attorney

By: /s/ Kerne H. O. Matsubara
KERNE H. O. MATSUBARA
Deputy City Attorney

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REVISED LEGISLATIVE DIGEST
(Amended in Committee, 6/28/2023)

[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 certain zip codes 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, 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 zip code 94102, 94103, 94104, 94105, 94107, 94108, 94109, 94111, 94133, or 94158 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. For purposes of determining whether a taxpayer had a prior physical location in the City and whether a taxpayer has opened a physical location: (1) a physical location would not include a home or residential location, or a location for short-term residential use, and (2) 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.

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, provided the taxpayer maintains a physical location in one of the designated zip codes in the year that the taxpayer takes the credit. The credit must be claimed for each tax year on an original gross receipts tax return filed with the Tax Collector. 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.

Background Information

This legislative digest reflects amendments made in committee on June 28, 2023 to: (1) limit the credit to taxpayers that open a physical location in certain zip codes in the City, (2) exclude residential locations from the definition of “physical location,” and (3) require that the taxpayer take the credit on an original tax return and maintain a physical location in a designated zip code for each year that it takes the credit.

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Item 1 **File 23-0155** *(Continued from 6/28/23 meeting)*	**Department:** Controller

EXECUTIVE SUMMARY

Legislative Objectives

- 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.
- 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.

Key Points

- 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.
- 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.
- 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.

Fiscal Impact

- The Controller's Office estimates that the delay in the gross receipts tax increase will cost $27.8 million.
- The Mayor's proposed FY 2023-24 – FY 2024-25 budget assumed revenue losses of $4.4 million in FY 2023-24 and $11.2 million in FY 2024-25 resulting from the new location tax credit. Subsequent analysis by the Controller's Office and the limiting of the new location tax credit to certain zip codes have resulted in revised estimates of gross receipt tax revenue: no revenue loss in FY 2023-24, a $0.6 million revenue decrease in FY 2024-25, and a $5 million revenue decrease in FY 2025-26.

Policy Consideration

- 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.

Recommendation

- 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

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).[1] 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.[2]

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 certain San Francisco zip codes[3] 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,

[1] 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.

[2] Roadmap to Downtown San Francisco's Future.

[3] The Budget & Appropriations Committee amended the ordinance on June 28, 2023 to limit the new location tax credit to the following zip codes: 94102, 94103, 94104, 94105, 94107, 94108, 94109, 94111, 94133, and 94158.

and recreation. Under the current tax schedule, most tax brackets in these sectors received tax decreases in 2021 and 2022.[4] 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

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

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.[5]

[4] 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.

[5] 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, certain zip codes in 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

Extension of Targeted Gross Receipts Tax Relief

The Controller's Office estimates that the delay in the gross receipts tax increase will cost $27.8 million. 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)

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

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

The Mayor's proposed FY 2023-24 – FY 2024-25 budget assumed revenue losses of $4.4 million in FY 2023-24 and $11.2 million in FY 2024-25 resulting from the new location tax credit. Subsequent analysis by the Controller's Office and the limiting of the new location tax credit to certain zip codes have resulted in revised estimates of gross receipt tax revenue: no revenue loss in FY 2023-24, a $0.6 million revenue decrease in FY 2024-25, and a $5 million revenue decrease in FY 2025-26.

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,[6] 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.[7] From Q4 of 2019 to the Q4 of 2022, office vacancy rates in the Greater Downtown area increased from 5.2% to 25.1%.[8]

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.

RECOMMENDATION

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

[6] *Options for Addressing Economic and Tax Revenue Trends in Downtown San Francisco*

[7] Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics

[8] JLL San Francisco Office Insight, Q4 2019 and Q4 2022

Item 10 **File 23-0155** *(Continued from 6/22/23 meeting)*	**Department:** Controller

EXECUTIVE SUMMARY

Legislative Objectives

- 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.
- 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.

Key Points

- 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.
- 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.
- 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.

Fiscal Impact

- The Controller's Office estimates the total cost of the proposed changes to be approximately $69.7 million, with the extension of targeted gross receipts tax relief costing an estimated $28 million and the new location tax credit costing an estimated $41.9 million.
- The proposed FY 2023-24 – FY 2024-25 budget assumed a higher revenue decrease from the new location portion of proposed tax change. As such, revenues of $3 million in FY 2023-24 and $5.7 million in FY 2024-25 could be appropriated in those years.

Policy Consideration

- 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.
- 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.

Recommendation

- 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

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).[1] 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.[2]

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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[1] 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.

[2] Roadmap to Downtown San Francisco's Future.

decreases in 2021 and 2022.[3] 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

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

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.[4]

[3] 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.

[4] 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 $69.70 million, with the extension of targeted gross receipts tax relief costing an estimated $28 million and the new location tax credit costing an estimated $41.9 million.

The proposed FY 2023-24 – FY 2024-25 budget assumed a higher revenue decrease from the new location portion of proposed tax change. As such, revenues of $3 million in FY 2023-24 and $5.7 million in FY 2024-25 could be appropriated in those years.

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)

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

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)

Tax Year	2023	2024	2025	2026	2027	2028	Total
Total	$1.4	$5.5	$9.1	$9.1	$9.1	$7.7	**$41.9**

Source: San Francisco Controller's Office

The Controller's Office originally projected that the new location tax credit would cost $84.4 million through 2028, but updated the analysis based on a closer review of tax filings which showed that historical "new" business locations were in fact changes in legal ownership.

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,[5] 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.[6] From Q4 of 2019 to the Q4 of 2022, office vacancy rates in the Greater Downtown area increased from 5.2% to 25.1%.[7]

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.

RECOMMENDATION

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

[5] *Options for Addressing Economic and Tax Revenue Trends in Downtown San Francisco*

[6] Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics

[7] JLL San Francisco Office Insight, Q4 2019 and Q4 2022

Item 15 File 23-0155	Department: Controller

EXECUTIVE SUMMARY

Legislative Objectives

- 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.
- 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.

Key Points

- 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.
- 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.
- 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.

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.

Policy Consideration

- 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.
- 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.

Recommendation

- 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

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).[1] 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.[2]

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

[1] 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.

[2] Roadmap to Downtown San Francisco's Future.

decreases in 2021 and 2022.[3] 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

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

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.[4]

[3] 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.

[4] 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)

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

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)

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

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.

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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,[5] 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.[6] From Q4 of 2019 to the Q4 of 2022, office vacancy rates in the Greater Downtown area increased from 5.2% to 25.1%.[7]

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.

[5] *Options for Addressing Economic and Tax Revenue Trends in Downtown San Francisco*

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RECOMMENDATION

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

Postponing Tax Increases and Tax Credits for a New Location: Economic Impact Report

CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

Office of Economic Analysis

Item #230155
June 22, 2023

Introduction

- The proposed legislation would change the City's business taxes in two ways:
- First, it would extend temporary reductions in the Gross Receipts Tax rate for certain industries.
- Second, it would provide a temporary tax credit for businesses in certain office-using industries that open a physical location in San Francisco.
- The Office of Economic Analysis has prepared this report after determining that the proposed legislation might have a material effect on the San Francisco economy.

Extended Rate Reductions: Policy Details

- Proposition F in November 2020 raised Gross Receipts Tax rates for most businesses, while eliminating the City's Payroll Expense Tax.
- However, the measure temporarily reduced the tax rates for the Retail Trade, Food Services, Manufacturing, Certain Services, Accommodations, and Arts, Entertainment, and Recreation industries. In general, these industries were most adversely affected by the COVID-19 pandemic. The reductions applied to tax years 2020 and 2021.
- In the measure, 2023 tax rates for those industries were raised back to 2020 levels, and then permanently raised again for tax years 2024 and beyond.
- The proposed measure would delay the planned increases for two years. Instead of rising in 2023 and 2024, the tax rates for these industries will rise in 2025 and 2026. The magnitude of the rate increases are unchanged; the proposed measure only shifts the timing.
- The proposed measure is effectively a tax cut for these industries, for tax years 2023-26.

Temporary Credit for New Locations: Policy Details

- Secondly, the proposed measure provides for a Gross Receipts Tax credit for businesses in certain office-using industries that open a new physical location in San Francisco.
- The credit is available for three years following the opening of the new physical location. The location must be opened January 1, 2023 and December 31, 2027. The credit may not be taken beyond the 2028 tax year.
- To qualify, a business must be opening its first location in the city, or returning to the city after an absence of at least three years. It cannot be a successor-in-interest to, or a member of a combined group containing, another San Francisco business.
- The business must also have Gross Receipts in the Information, Financial Services, Insurance, Professional, Scientific, and Technical Services, or Administrative and Support Services industries.
- The credit is equal to 0.45% of the business's San Francisco Gross Receipts, which is roughly half of the average rate paid by businesses in these industries. The maximum allowable credit each year is set at $1 million.
- Some businesses pay the Administrative Office Tax instead of the Gross Receipts Tax. Such businesses that qualify would receive a credit equal to 0.7% of their San Francisco payroll expense, again subject to the $1 million annual cap.

Economic Impact Factors

- The proposed legislation is projected to have both positive and negative effects on the economy.
- The proposed postponement of tax increases for the COVID-impacted industries would effectively lower their business taxes, which would create an incentive to grow and expand jobs in the city. Similarly, the new location tax credit would lower business taxes for impacted businesses, and this would encourage them to lease space and hire employees within the city. This investment and hiring would create positive multiplier effects throughout the economy.
- However, both the postponed rate increases, and the new location tax credit, would reduce General Fund revenue. This would, in turn, reduce City spending and generate negative multiplier effects on the broader local economy.
- The net economic impact depends on the relative strength of the positive and negative effects.

Revenue Impact of the Rate Postponement

- The table below shows the revenue impact of the proposed postponement of tax increases for the COVID-impact industries, in millions of dollars.

Industry	2023	2024	2025	2026
Retail Trade	$1.4	$4.2	$4.2	$1.4
Food Services	$0.8	$2.3	$2.3	$0.8
Manufacturing	$0.6	$1.7	$1.7	$0.6
Accommodations	$0.4	$1.2	$1.2	$0.4
Arts, Entertainment, and Recreation	$0.2	$0.7	$0.7	$0.2
Certain Services	$0.1	$0.3	$0.3	$0.1
Total	$3.5	$10.4	$10.4	$3.5

Revenue Impact of the New Location Tax Credit

- The table below shows the estimate annual revenue loss associated with the new location tax credit.
- The estimate was determined by calculating what the proposal would have cost in 2021, had it applied to businesses that established a new location in the city in the prior three years.
- The estimate is subject to a high degree of uncertainty, because of the volatility in tax liabilities of new businesses, and difficulties in identifying returning businesses and successors-in-interest with existing City data.

	2023	2024	2025	2026	2027	2028
Total Cost	$1.4	$5.5	$9.1	$9.1	$9.1	$7.7

Economic Impact Assessment

- In 2020 and 2021, venture capital investment in San Francisco and the Bay Area reached record highs. However, relatively few of those new businesses signed office leases, and the office vacancy rate in the city remains at record highs.
- In this context, the new location tax credit is likely to have a moderately stimulative effect on leasing and employment in office industries, although a quantitative estimate of employment would be highly speculative.
- The impact of the incentive is likely to be modest, especially when compared to current office vacancy rates.
- Similarly, the reduced General Fund spending could be managed in a variety of ways, each with their own impact on the economy, and again the impact on City finances would be relatively modest.
- For this reason, a net economic impact estimate is challenging to estimate, likely modest, and highly speculative.

Staff Contact

Ted Egan, Ph.D., Chief Economist

ted.egan@sfgov.org

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

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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M E M O R A N D U M

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.

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RESPONSE FROM SMALL BUSINESS COMMISSION - Date: ____________________

____ **No Comment**

____ **Recommendation Attached**

____
Chairperson, Small Business Commission

From:	Board of Supervisors (BOS)
To:	BOS-Supervisors; BOS-Legislative Aides
Cc:	Calvillo, Angela (BOS); Somera, Alisa (BOS); Ng, Wilson (BOS); De Asis, Edward (BOS); Entezari, Mehran (BOS); Jalipa, Brent (BOS)
Subject:	FW: OPPOSING UNLESS AMENDED Budget and Appropriations Committee June 26, 2023 and June 28, 2023 (10am) Agenda Item #10 [Business and Tax Regulations Code - Gross Receipts Tax Rate Increases Postponement and Credits for Opening City Location] File #230155
Date:	Tuesday, June 27, 2023 5:24:48 PM

From: aeboken <aeboken@gmail.com>
Sent: Monday, June 26, 2023 1:12 AM
To: BOS-Supervisors <bos-supervisors@sfgov.org>; BOS-Legislative Aides <bos-legislative_aides@sfgov.org>
Cc: Charles Head <charlesnhead@hotmail.com>; zrants <zrants@gmail.com>
Subject: OPPOSING UNLESS AMENDED Budget and Appropriations Committee June 26, 2023 and June 28, 2023 (10am) Agenda Item #10 [Business and Tax Regulations Code - Gross Receipts Tax Rate Increases Postponement and Credits for Opening City Location] File #230155

TO: Budget and Appropriations Committee members and Board of Supervisors

I'm opposing this legislation unless the Information (Technology) component is deleted from the New Location Tax Credit especially AI (Artificial Intelligence).

The City's Twitter Tax Break brought displacement , gentrification, increased income Inequality and a tech industry which has attempted to exert undue influence on the City.

There was attempt last year by OEWD for another round of tax breaks for tech startups.

For this current proposal, the BLA estimates a loss of tax revenue of $84 million for the new location tax credit component and an estimated loss of tax revenue of $28 million for the extended rate reductions for gross receipts tax.

In the Office of Economic Analysis report by the City's Chief Economist, on slide #8 titled Economic Impact Assessment it states "For this reason, a net economic impact estimate is challenging to estimate, likely modest, and highly speculative.".

As Peter Coyote wrote in his essay, San Francisco: For Sale by New Owners:

"The San Francisco I knew and loved has been face-lifted, sleeked, chromed, polished, colonized, homogenized, and marginalized as a cultural innovative force."

“The transformation was accomplished in a smooth, seamless manner by money and addiction to power.”

“San Francisco is too expensive, too monoculturally wealthy. Tech wealth and privilege have transformed it into a cushy enclave for the heartless.”

Eileen Boken,
President

Sunset-Parkside Education and Action Committee (SPEAK)*

*For identification purposes only.

SENT FROM MY VERIZON, SAMSUNG GALAXY SMARTPHONE

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

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