

LEGISLATIVE DIGEST

[Business and Tax Regulations Code - Payroll Expense Tax Exclusion in Central Market Street and Tenderloin Area]

Ordinance amending Article 12-A of the Business and Tax Regulations Code by adding Section 906.3 to establish a payroll expense tax exclusion for businesses located in the Central Market Street and Tenderloin Area and requiring persons with an annual payroll expense of over \$1,000,000 to enter into a Community Benefit Agreement with the City Administrator.

Existing Law

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

Amendments to Current Law

The proposed amendment would amend Section 906 to establish a payroll expense tax exclusion for businesses in the Central Market Street and Tenderloin Area, provided, however, that in no event shall the tax exclusion reduce a business's payroll expense tax liability to less than the business's payroll expense tax liability for its Base year.

Base year means the 2010 tax year for a person who maintains a fixed place of business in the Area on the effective date of the ordinance. For a person that moves a business to the Area from another part of San Francisco, Base Years means that person's full tax year for the year prior to entering into a lease agreement or buying real property in the Area. Finally, for a business that commences to maintain a fixed place of business in San Francisco after the effective date of this ordinance, Base Year means that business's first full tax year in the Area.

Businesses with annual payroll expenses greater than \$1,000,000 must enter into a community benefits agreement with the City Administrator in order to be eligible to claim the tax exclusion. The exclusion will be available for a period of 8 years from the effective date of this legislation and businesses may avail themselves of the exclusion for 6 years. After the legislation expires, no unused portions of the exclusion may be claimed.

FILE NO.

Background Information

Under Business and Tax Regulations Code Section 901 et seq., businesses pay a payroll expense tax based on the compensation paid to employees and others for work or services rendered in San Francisco. (Section 901.1) This proposed amendment would amend Section 906 to establish a payroll expense tax exclusion for the purpose of encouraging entities to retain and hire employees to work in the Central Market Street and Tenderloin Area.