

LEGISLATIVE DIGEST

[Business and Tax Regulations Code – Excluding Stock Compensation from Payroll Expense, Tax Years 2011 through 2013]

Ordinance amending Article 12-A of the San Francisco Business and Tax Regulations Code by adding Section 906.4 to establish a payroll expense tax exclusion for that portion of an Eligible Person's payroll expense that is attributable to stock compensation.

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. Stock compensation is subject to the payroll expense tax.

Amendments to Current Law

The proposed amendment would amend Section 906 to establish an exclusion from the payroll expense tax for stock compensation of Eligible Persons for the next three years. Under the exclusion, an Eligible Person is a person who as of January 1, 2011 is a Technology Business that employees at least 100 people in San Francisco, was founded after 2001 and undertakes an initial public offering during the next three years.

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 three year payroll expense tax exclusion for the purpose of excluding stock compensation from the payroll expense tax for certain technology companies that undergo an initial public offering within that same time period.