



Increases to the Sales Tax: Economic Impact Report

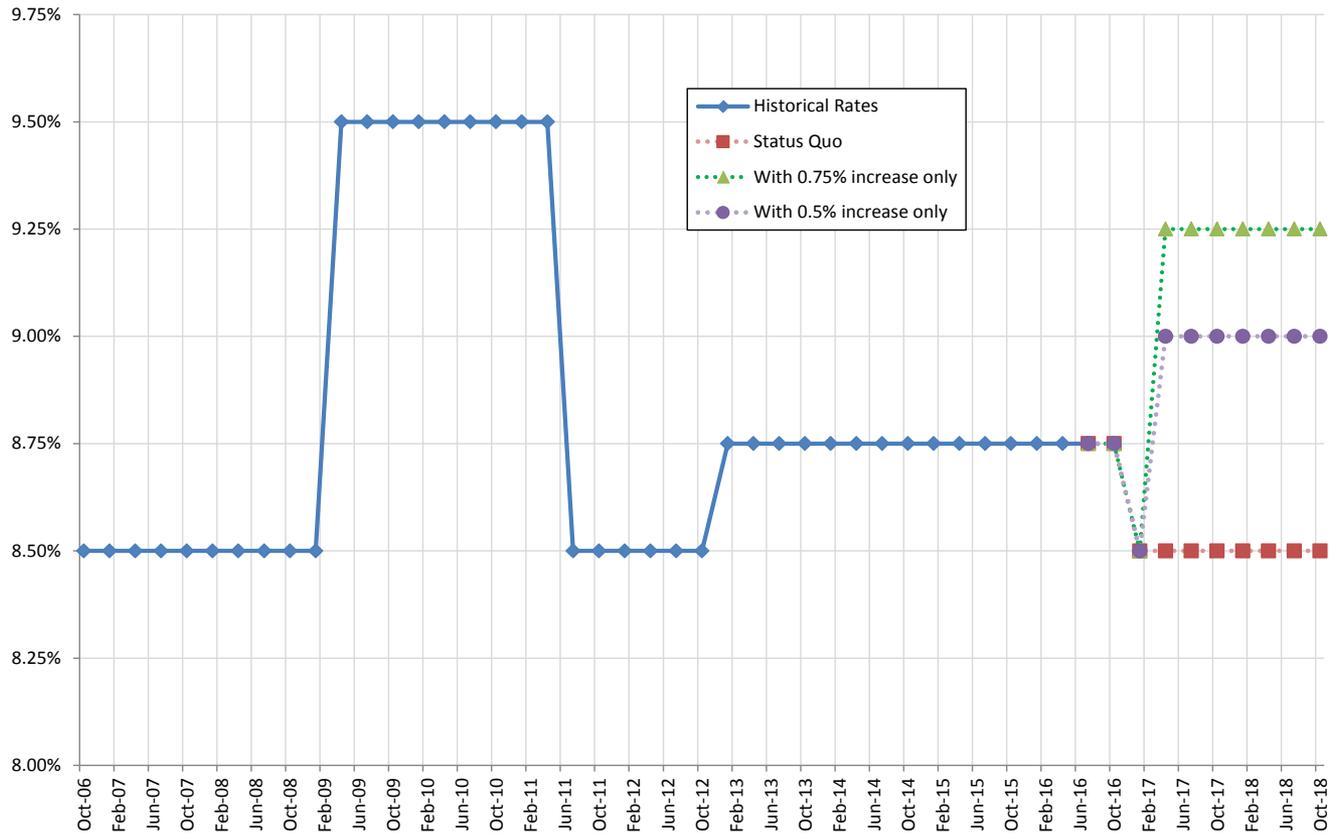
Office of Economic Analysis
Items #160670 & #160639
July 12th, 2016

Introduction

- Two proposed increases to the tax rate applicable to the sale and use of tangible personal property in San Francisco have been proposed for the November 2016 ballot.
- Item #160670, introduced by Mayor Lee, and Supervisors Avalos, Farrell, and Wiener, would apply a 0.75% tax on retail sales transactions . This is a general tax proposal, the revenue from which could be used for any governmental purpose. It would require a simple majority of the voters to be adopted.
- Item #160639, introduced by Supervisors Wiener and Avalos, would raise the sales and use tax rate by 0.5%. This proposal would be a dedicated tax increase, used to fund the City's transportation plan. As a dedicated tax, it would require approval by two-thirds of the voters to become law.
- The Office of Economic Analysis has determined that both items would have a material impact on the city's economy, if adopted. Because the two tax proposals would affect the economy in similar ways, they are considered together in this economic impact report.

Timeline of Sales Tax Rates in San Francisco

Historic and Potential Future San Francisco Sales Tax Rates, Under the Two Proposals and the Status Quo



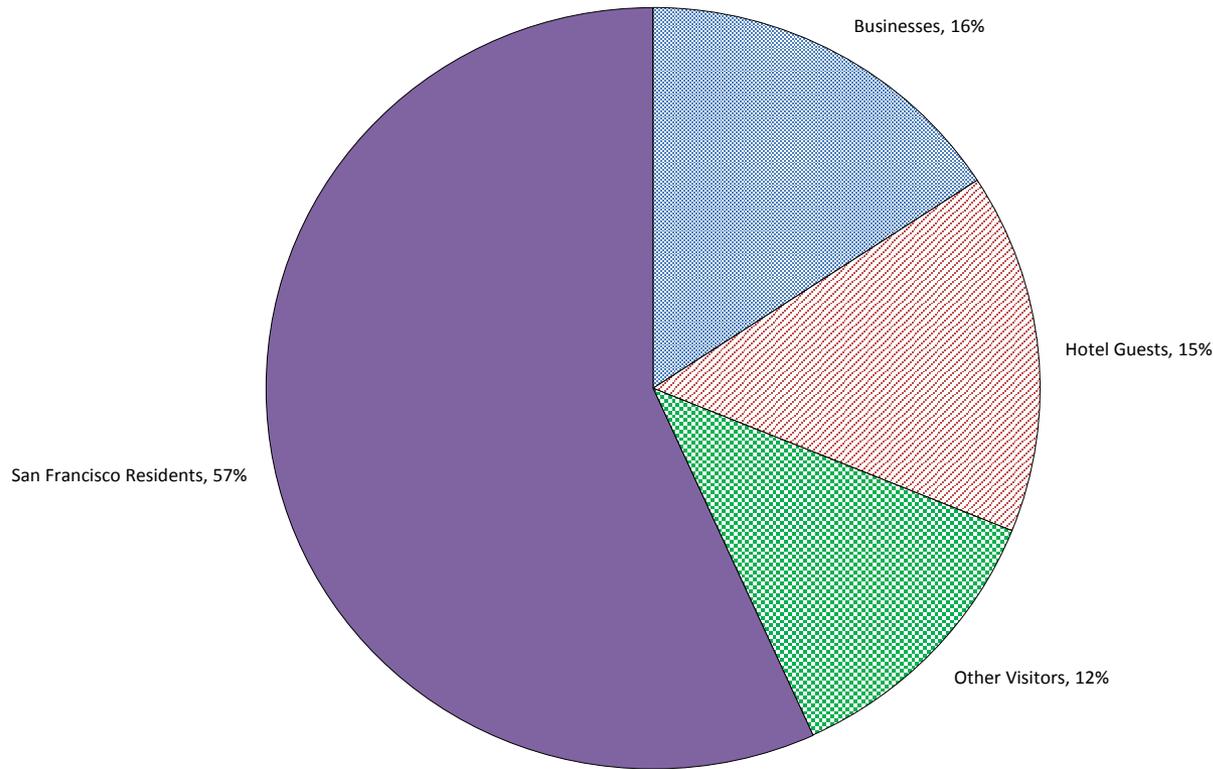
Over the past ten years, the Sales Tax rate in San Francisco has fluctuated between 8.5% and 9.5%.

The rate is currently 8.75%, but will decline to 8.5% on October 1st due to the expiration of Proposition 30's temporary sales tax increase.

If the 0.75% proposal becomes law, the rate will rise to 9.25% on April 1, 2017, and the rate will rise to 9.0% if the 0.5% proposal is adopted.

Who Pays the Sales Tax?

**Estimated Distribution of San Francisco Sales Tax Revenue
by Type of Taxpayer, 2015**



The distribution of sales tax payments by type of payer can be estimated with data from the Board of Equalization, and a recent survey of visitor spending produced by San Francisco Travel.

Business-to-business categories constitute 16% of the city's sales tax revenue. Of the remainder, based on SF Travel's data, we estimate hotel guests account for 15%, and other visitors (residents of other Bay Area cities, and out-of-town visitors not staying in San Francisco hotels) account for another 12%. The remainder, 57%, is generated by San Francisco residents.

Economic Impact Factors

- The proposed sales tax increases will raise the effective prices paid by consumers for goods and services subject to sales and use tax.
- Higher prices will lead consumers to reduce their consumption of local goods and services subject to the higher taxes, which will reduce sales at local merchants selling these items. Depending on how price-sensitive consumers are, sales at merchants selling non-taxable goods and services may decline as well.
- These negative economic impacts on the private sector are set against the positive economic impacts of higher spending by the City, which will increase public sector employment and spending on City contractors, creating positive multiplier effects in the local economy.
- The net economic impact of the increases depend on the relative importance of these positive and negative effects.

Economic Impact Assessment

- The proposed 0.75% sales tax increase is projected to lead to a decline in consumption spending in the city of between \$150 million and \$155 million per year, beginning in 2017.
- However, the tax increase is expected to generate nearly as much tax revenue as it costs in consumption spending – approximately \$154 million by FY17-18.
- Because local government spending has a higher local multiplier than retail trade and services, the net impact of the tax increase on employment is positive: a loss of between 430 and 480 private sector jobs, but a gain of approximately 580 jobs in the public sector, for a net increase of 100 to 150 jobs.
- The proposed 0.5% increase, being two-thirds the size of the proposed 0.75% increase, has two-thirds of the economic impact. Again the private sector job impact is projected to be negative, by between 280 and 320 jobs, but the overall public and private employment impact is expected to be positive, between 65 and 100 jobs.

Staff Contacts

Ted Egan, Ph.D., Chief Economist

ted.egan@sfgov.org

(415) 554-5268