FILE NO. 180373

LEGISLATIVE DIGEST

[Initiative Ordinance - Business and Tax Regulations Code - Gross Receipts Tax on Transportation Network Company Services and Private Transit Vehicle Services]

Motion ordering submitted to the voters at an election to be held on November 6, 2018, an Ordinance amending the Business and Tax Regulations Code to add a new gross receipts tax category for transportation network company services and private transit vehicle services, revise the application of the gross receipts tax for persons engaged in multiple business activities, and eliminate the payroll expense tax exclusion and the gross receipts tax limit for certain persons in the Central Market Street and Tenderloin Area; and increasing the City's appropriations limit by the amount collected under the new gross receipts tax category for four years from November 6, 2018.

Existing Law

Persons engaged in business in the City, including transportation network companies ("TNCs") and companies providing private transit vehicle ("PTV") services, currently pay a gross receipts tax to the City. Rates vary by line of business and the amount of the person's taxable gross receipts, and range from 0.075% to 0.65%. If a business conducts multiple lines of business that cross multiple rate schedules, special rules apply depending on whether a business activity accounts for more than 80% of the business's total gross receipts (the "80-20 Rule"), and whether a business activity accounts for less than 20% of the business's total gross receipts (the "20% Rule").

Persons engaged in business in the City also currently pay a payroll expense tax to the City. Certain businesses in the Central Market Street and Tenderloin Area are eligible for an exclusion from the payroll expense tax as well as a limit on the gross receipts tax. Such exclusion and limit are set to expire on May 20, 2019.

Amendments to Current Law

Effective January 1, 2019, this ordinance would increase the gross receipts tax for TNC services and PTV services by adding a new industry category for such services. The gross receipts tax rates for this industry category would be:

- .625% for taxable gross receipts between $0 and $1,000,000;
- .705% for taxable gross receipts between $1,000,000.01 and $2,500,000;
- .87% for taxable gross receipts between $2,500,000.01 and $25,000,000; and
- .975% for taxable gross receipts above $25,000,000.

The existing gross receipts tax rules and procedures, as amended by this ordinance, would apply to taxpayers in this new industry category. The gross receipts tax from this new industry category may be used for the City's general purposes.

Also effective January 1, 2019, this ordinance would replace the 80-20 Rule and the 20% Rule with a *de minimis* rule, by which taxpayers may combine the gross receipts from any business activity that generates less than $10,000 in total gross receipts with the gross receipts that generate the highest amount of the taxpayer's total gross receipts. The Tax Collector would have the authority to raise the $10,000 threshold prior to the beginning of a tax year, if the Tax Collector determines that doing so would improve filing simplicity without significantly reducing tax revenues.

This ordinance also would change the expiration date of the payroll expense tax exclusion and gross receipts tax limit for certain businesses in the Central Market Street and Tenderloin Area from May 20, 2019 to December 31, 2018.

This ordinance would increase the City's appropriations limit under Article XIII B by the amounts collected from the additional tax from this new industry category, for four years from November 6, 2018.

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