



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller
Todd Rydstrom
Deputy Controller

Ms. Angela Calvillo
Clerk of the Board of Supervisors
1 Dr. Carlton B. Goodlett Place Room 244
San Francisco, CA 94102-4689

July 25, 2018

RE: File 180765 - Ordinance amending the Business Tax & Regulations Code – Additional gross receipts tax on cannabis; additional conditions subjecting persons to business taxes

Dear Ms. Calvillo,

Should this ordinance be approved, in my opinion, it would result in a tax revenue increase to the City of an estimated \$2-4 million in 2019, growing to \$7-16 million annually beginning in 2021. The tax is a general tax and proceeds would be deposited into the General Fund.

The measure would amend the City's Business Tax and Regulations Code to impose a cannabis business tax rate of between one percent and five percent depending on the type of cannabis business activity and amount of a business's gross receipts, beginning on January 1, 2021. In addition, the measure would exempt the first \$500,000 of gross receipts and exempt retail sales of medicinal cannabis. The tax rate may be adjusted between zero percent and seven percent at any time by a two-thirds vote of the Board of Supervisors, but the rate cannot be increased by more than 1 percent annually. This portion of the ordinance is estimated to generate \$5-12 million annually beginning in 2021.

Additionally, the ordinance would permit the City to tax businesses that do not have a physical presence here, provided those businesses' sales exceed \$500,000 annually. The revenue implications of this provision depend on the extent to which local wholesalers, retailers, and consumers directly receive shipments from these non-local businesses, as opposed to shipping through other distributors already subject to business tax. Currently, this is largely unknown to the City. We estimate shorter-term revenues of \$2 to 4 million annually as a result of this change, with the potential for significant additional tax revenue depending on the total sales from new required business tax payers. For each additional \$1 billion from such sales, City revenues would increase by approximately \$1.5 million.

Sincerely,


for Ben Rosenfield
Controller

Note: This analysis reflects our understanding of the proposal as of the date shown. At times further information is provided to us which may result in revisions being made to this analysis before the final Controller's statement appears in the Voter Information