

San Francisco Business Tax Reform: Final Rate Details of the Two Alternatives

Ben Rosenfield, Controller
Ted Egan, Chief Economist

April 18, 2012



Two Proposals

1. Gross Receipts Alternative to fully replace the Payroll Tax
2. Payroll-Only Alternative

Gross Receipts Alternative High Level Summary

- Proposal is designed to be revenue neutral.
- Phase-in period will ensure revenue neutrality.
- Six schedules, up from four. Separate schedules established for Construction and Wholesale Trade.
- Each schedule has five tiers, up from four. A tier for \$100k - \$1M in gross receipts has been added to each schedule.
- Rates are marginal.
- For Financial Services, gross receipts include fees and capital gains, including interest income, but excluding all dividend and distribution payments.
- Apportionment rules:
 - Payroll-based apportionment will apply to Financial Services, Professional Services, Administrative and Support Services, Education and Health Services, and Other Services.
 - Property-based apportionment will apply to Real Estate and Accommodations.
 - Sales + Payroll apportionment will apply to Construction, Manufacturing, Wholesale Trade, Retail Trade, Transportation & Warehousing, and Information.

Payroll Apportionment Example

Management Consultant Z

Professional, Technical, and Scientific Services (Schedule 3)

Company total gross receipts

\$ 100,000,000

Apportionment

			SF / Total	Weight	Adjusted	
Payroll	San Francisco	\$8,000,000				
	Total	\$40,000,000	20%	100%	20.00%	
					20.00%	20.00%

Taxable Gross Receipts				\$20,000,000
Tier One (\$100K - \$2.5M)	\$2,400,000	x .350% =		\$8,400
Tier Two (\$2.5M - \$25M)	\$17,500,000	x .400% =		\$70,000
Tier Three (\$25M+)	\$0	x .500% =		\$0
Total GR Payment				\$78,400



Property Apportionment Example

Hotel Y

Accommodations (Schedule 3)

San Francisco gross receipts

\$ 15,000,000

Apportionment

Taxable Gross Receipts			\$15,000,000
Tier One (\$100K - \$2.5M)	\$2,400,000	x .350% =	\$8,400
Tier Two (\$2.5M - \$25M)	\$12,500,000	x .400% =	\$50,000
Tier Three (\$25M+)	\$0	x .500% =	\$0
Total GR Payment			\$58,400



Sales + Payroll Apportionment Example

Video Game Developer X

Information (Schedule 2)

Company total gross receipts

\$ 1,000,000,000

Apportionment

			SF / Total	Weight	Adjusted	
Payroll expense	San Francisco	\$150,000,000				
	Total	\$300,000,000	50%	50%	25.00%	
GR Sales Destination	San Francisco	\$25,000,000				
	Total	\$1,000,000,000	3%	50%	1.25%	
					26.25%	26.25%

Taxable Gross Receipts				\$262,500,000
Tier One (\$100K - \$2.5M)	\$2,400,000	x .150% =		\$3,600
Tier Two (\$2.5M - \$25M)	\$22,500,000	x .250% =		\$56,250
Tier Three (\$25M+)	\$237,500,000	x .350% =		\$831,250
Total GR Payment				\$891,100



Schedule 1 Rates

Gross Receipts Level	Required Payment
\$0 - \$100,000	\$150 Registration Fee
\$100,001 - \$1,000,000	\$0 Additional Registration Fee + 0.075% of Gross Receipts
\$1,000,001 - \$2.5 million	\$0 Additional Registration Fee + 0.100% of Gross Receipts
\$2.5 million - \$25 million	\$100 Additional Registration Fee + 0.200% of Gross Receipts
\$25 million +	\$250 Additional Registration Fee + 0.300% of Gross Receipts

- Schedule 1 applies to Retail Trade, and Other Services (NAICS 81)
- Wholesale Trade has been moved to Schedule 6.



Schedule 2 Rates

Gross Receipts Level	Required Payment
\$0 - \$100,000	\$150 Registration Fee
\$100,001 - \$1,000,000	\$0 Additional Registration Fee + 0.125% of Gross Receipts
\$1,000,001- \$2.5 million	\$0 Additional Registration Fee + 0.200% of Gross Receipts
\$2.5 million - \$25 million	\$100 Additional Registration Fee + 0.300% of Gross Receipts
\$25 million +	\$250 Additional Registration Fee + 0.400% of Gross Receipts

- Schedule 2 applies to Manufacturing; Transportation & Warehousing; Information; and Food Services.
- Construction has been moved to Schedule 5.



Schedule 3 Rates

Gross Receipts Levels	Required Payment
\$0 - \$100,000	\$150 Registration Fee
\$100,001 - \$1,000,000	\$0 Additional Registration Fee + 0.325% of Gross Receipts
\$1,000,001- \$2.5 million	\$0 Additional Registration Fee + 0.350% of Gross Receipts
\$2.5 million - \$25 million	\$100 Additional Registration Fee + 0.400% of Gross Receipts
\$25 million +	\$250 Additional Registration Fee + 0.500% of Gross Receipts

- Schedule 3 applies to Financial Services; Real Estate & Rental and Leasing Services; Professional, Scientific, and Technical Services; Accommodations; and Arts, Entertainment, and Recreation.
- Owners of Rent-Controlled Buildings can exclude 50% of the gross receipts associated with those buildings from the tax.



Schedule 4 Rates

Gross Receipts Levels	Required Payment
\$0 - \$100,000	\$150 Registration Fee
\$100,001 - \$1,000,000	\$0 Additional Registration Fee + 0.525% of Gross Receipts
\$1,000,001- \$2.5 million	\$0 Additional Registration Fee + 0.550% of Gross Receipts
\$2.5 million - \$25 million	\$100 Additional Registration Fee + 0.600% of Gross Receipts
\$25 million +	\$250 Additional Registration Fee + 0.650% of Gross Receipts

- Schedule 4 applies to Private Education and Health Services, Insurance, and Administrative and Support Services.



Schedule 5 Rates

Gross Receipts Levels	Required Payment
\$0 - \$100,000	\$150 Registration Fee
\$100,001 - \$1,000,000	\$0 Additional Registration Fee + 0.300% of Gross Receipts
\$1,000,001- \$2.5 million	\$0 Additional Registration Fee + 0.300% of Gross Receipts
\$2.5 million - \$25 million	\$100 Additional Registration Fee + 0.300% of Gross Receipts
\$25 million +	\$250 Additional Registration Fee + 0.300% of Gross Receipts

- Schedule 5 applies to Construction.



Schedule 6 Rates

Gross Receipts Levels	Required Payment
\$0 - \$100,000	\$150 Registration Fee
\$100,001 - \$1,000,000	\$0 Additional Registration Fee + 0.080% of Gross Receipts
\$1,000,001- \$2.5 million	\$0 Additional Registration Fee + 0.080% of Gross Receipts
\$2.5 million - \$25 million	\$100 Additional Registration Fee + 0.080% of Gross Receipts
\$25 million +	\$250 Additional Registration Fee + 0.080% of Gross Receipts

- Schedule 6 applies to Wholesale Trade.



"Payroll-Only" Alternative

- At the request of some business groups, we developed a second alternative that addressed the challenges of the current tax by reforming the payroll tax instead of replacing it. Key features of this alternative include:
 - Proposal is expected to be revenue-neutral, except as noted below.
 - An increase the business license fee for all payers.
 - The introduction of special license fees for real estate and parking facility owners.
 - Reduction of the Payroll Tax Rate, converting into a progressive tax with marginal rates.
 - Explicit inclusion of the compensation of sole proprietors and partnerships into the Payroll Tax.
 - Broaden the business license fee to incorporate non-profits at \$150/yr.
 - Introduce a \$1M Payroll Tax Holiday for new businesses for their first year in operation.
 - Allow companies with stock-based compensation to average their payroll tax liability associated with that compensation over multiple years.
 - Retain all existing Payroll Tax exclusions.
 - Make permanent the Pre-IPO Stock-Based Compensation Exclusion. This will have an unknown fiscal impact in the future.

Business License Fee Schedule under the Payroll-Only Alternative

Business Payroll	Current Fee	Payroll-Only Fee
\$0 - \$67	\$25	\$150
\$67 - \$250,000	\$150	\$250
\$250,001 - \$666,666	\$150	\$500
\$666,667 - \$1,000,000	\$250	\$750
\$1,000,001 - \$3,333,333	\$250	\$2,500
\$3,333,334 - \$10,000,000	\$500	\$5,000
\$10,000,001 +	\$500	\$10,000



Special License Fees under the Payroll-Only Alternative

Apartment Units Rented	Current Fee	Payroll-Only Fee
0 – 3 unit building	\$0	\$0
4+ unit building	\$0	\$50 per unit
Commercial Real Estate Rented	Current Fee	Payroll-Only Fee
0 – 25,000 square feet building	\$0	\$0
25,001 +	\$0	\$0.15 per square foot
Commercial Parking Facilities	Current Fee	Payroll-Only Fee
0 – 100 space facility	\$0	\$0
100+ space facility	\$0	\$10,000 per facility



Marginal Payroll Tax Rates under the Payroll-Only Alternative

Business Payroll	Current Rate	Payroll-Only Rate
\$0 - \$67	0%	0%
\$67 - \$250,000	0%	0%
\$250,001 - \$666,666	1.5%	1.00%
\$666,667 - \$1,000,000	1.5%	1.15%
\$1,000,001 - \$3,333,333	1.5%	1.35%
\$3,333,334 - \$10,000,000	1.5%	1.35%
\$10,000,001 +	1.5%	1.35%

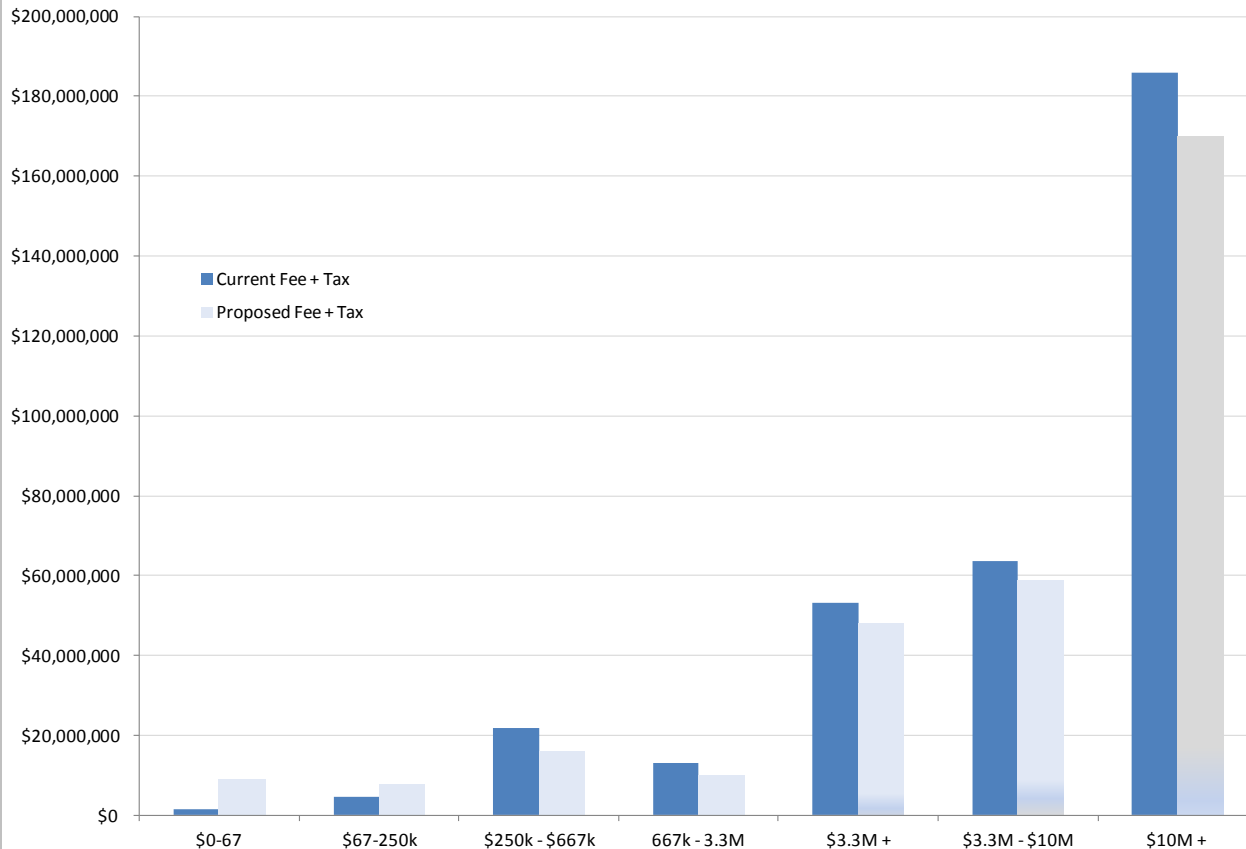


Fiscal Impact of the Payroll-Only Modifications

Feature	Value (\$M)
1. Inclusion of sole proprietors and partnerships over \$250k in compensation	\$8.8
2. Increase of business license fee.	\$23.2
3. Special License fees	\$18.1
4. Include non-profits in license fee at \$150 only	\$1.5
5. 1 Year New Firm Holiday	(\$3.5)
6. Reduced rate	(\$47.9)
7. Stock Compensation Smoothing	\$0.0
8. Retain existing payroll tax exclusions (Central Market, Biotech, etc.)	\$0.0
9. Make Pre-IPO Stock Compensation Exclusion permanent	Unknown
Net Fiscal Impact	\$0.1



Tax + Registration Fee Payment by Business Size: Current Payroll Tax, and Payroll-Only Alternative



Presently, the 360 businesses with greater than \$10 million in payroll expense account for 54% of the City's \$400 million in business tax revenue.

Under the Payroll-Only alternative, this share would fall to 53%, but every current taxpaying business would see a decline in their business tax payment.

The revenue would be made up by the increase in fees on the smallest businesses, the real estate fees, and new payroll tax revenue from sole proprietors with greater than \$250,000 in compensation.



Economic Impact of the Payroll-Only Alternative

Twenty-Year Employment and GDP Impact of the "Payroll Only" Alternative



The slight net reduction in the Payroll Tax in the Payroll-Only alternative would have a slight positive impact on jobs in San Francisco, creating an average of 175 jobs over the next 25 years. This job gain is significantly less than the gain associated with the Gross Receipts alternative, and represents about a 0.02% increase in citywide employment.

