

## Sales Tax

### Definition and Examples

*An increase to San Francisco's sales tax for general revenue or dedicated purposes.*

There are multiple ways that a sales tax measure can be put into place. For instance, the City and County of San Francisco and the San Francisco Municipal Transportation Agency are authorized to place a sales tax increase on the ballot. The sales tax can either be for general purposes or can be for a dedicated purpose such as transportation. There is also state enabling legislation authorizing sales tax measures specifically for transportation purposes. For example, this is the basis for the Proposition K 0.5% sales tax approved by the voters in 2003, that is administered by the San Francisco County Transportation Authority.

### Establishment and Administration

A general-purpose sales tax could be placed on the ballot by a 2/3 vote of the Board of Supervisors and would require simple majority (50%+1) voter approval.

A dedicated sales tax could also be placed on the ballot by a 2/3 vote of the Board of Supervisors, and would require a 2/3 super-majority approval by San Francisco voters.

As of 2017, San Francisco's overall sales tax rate is 8.5%. This represents the standard statewide 7.25% sales tax rate plus an additional local sales tax of 1.25%. San Francisco's sales tax rate was 8.75% until the end of 2016, when the statewide sales tax rate decreased from 7.5% to 7.25%.

California has a statewide cap on local option sales taxes of 2%, leaving San Francisco with only a 0.75% capacity to increase the local sales tax. If needed in the future, authorization could be sought to allow San Francisco to exceed the state sales tax cap, but it would require the passage of state legislation. There has been ample precedent for this in recent legislative session.

### Expenditures

A general purpose sales tax revenues would be deposited into the City and County's General Fund and would be eligible for any expenditure that the Board of Supervisors and Mayor would see fit, with revenues allocated annually through the City's budget process.

A dedicated tax increase would likely be approved alongside an expenditure plan that would describe how the funds would be spent.

### Revenues

Sales taxes have high revenue potential, but are impacted by variations in the economy. Sales tax revenue growth is, by definition, dependent on growth in San Francisco's sales receipts, which has historically experienced long-term growth at a higher average annual rate than other revenue sources such as fuel taxes or vehicle fees. Estimated revenues for a .25% to .75% sales tax increase are as follows:

- First year (2018/19): \$51 - \$157 million
- 25-year forecast (in \$2017): \$1,275 - \$3,925 million

## Policy and Equity Considerations

Sales taxes do not typically influence transportation behavior in the way other revenue mechanisms such as direct parking or fuel charges can. Despite a clear transportation policy linkage, the majority of California's population, including San Francisco's, already pays a local sales tax for transportation, providing an accepted precedent for funding transportation in this manner.

Sales tax is regressive, though there are some exemptions that help to mitigate this such as exempting many food products for human consumption from the sales tax. According to the City's Chief Economist, in San Francisco, residents pay approximately 58% of collected sales taxes, visitors pay approximately 34% and businesses pay about 8%.