Business Taxes (Gross Receipts and Payroll)

Definition and Examples

The two main components of San Francisco's Business Tax are the gross receipts tax and the payroll expense tax. The gross receipts tax is an ad valorem tax on a business's gross revenue where rates are marginal and progressive, and vary by major industry type. The payroll tax is a flat rate on a business's payroll expense.

In November 2012, voters approved Proposition E to replace the payroll tax with a gross receipts tax. This initiative outlined a five-year phase-out period ending Tax Year 2018 where the payroll tax rates would be lowered as gross receipts tax rates and collections increase to replace payroll tax collections. If gross receipts collections have not fully replaced payroll tax collections after reaching the maximum approved rates at the end of the phase-out period, then the payroll tax will not have been fully-phased out and there will be a residual payroll tax rate.

Before Proposition E, the Payroll Tax was 1.5% of all payroll expense. The payroll tax rate for tax year 2017 is 0.703%. The final year of the phase out will be tax year 2018. However, it is unlikely the payroll tax will be fully-phased out.

The gross receipts tax is likely to reach the maximum voter-approved rates. The rates below are marginal and progressive:

Industry	$0-$1,000,000	$1,000,001-$2,500,000	$2,500,001-$25,000,000	$25,000,000 and Over
Retail Trade; Wholesale; and Certain Services	0.075%	0.100%	0.135%	0.160%
Manufacturing, Transportation and Warehousing; Information; Biotechnology, Clean Technology, and Food Services	0.125%	0.205%	0.370%	0.475%
Accommodations; Utilities; and Arts, Entertainment, and Recreation	0.300%	0.325%	0.325%	0.400%
Private Education and Health Services; Adminsitrative and Support Services; and Miscellaneous Business Activities	0.525%	0.550%	0.600%	0.650%
Constructions	0.300%	0.350%	0.400%	0.450%
Financial Services; Insurance; and Professional Scientific and Technical Services	0.400%	0.460%	0.510%	0.560%
	$0-$1,000,000	**$1,000,001-$5,000,001**	**$5,000,001-$25,000,000**	**$25,000,000 and Over**
Real Estate and Rental and Leasing Services	0.285%	0.285%	0.300%	0.300%

Both the gross receipts and payroll tax have certain tax exemptions. Both exempt small businesses. In tax year 2017, small business was defined as $1,090,000 or less in gross receipts or $300,000 or less in payroll expense. The small business threshold increases by CPI.

Establishment and Administration

This tax can be proposed as either a general tax or a dedicated tax. Upon majority approval by the Board of Supervisors, a general tax version of this proposal would require a 50% majority of San Francisco voters, while a dedicated version of this proposal would require a 2/3rds majority of San Francisco voters.

Given the complexity of the gross receipts tax compared to the payroll tax, the Treasurer Tax Collector had to expand collections and compliance operations. Changes to rates are not likely to affect operations, however changes to the industry structure, such as adding a new industry category, will increase compliance costs.

Expenditures

Revenue generated by these business taxes could be used for any City purposes. The taxes could also be dedicated for specific City transportation purposes.

Revenues

Since business tax rates are still moving, and without specific structural changes to the taxes, these estimates are based on expected revenues at the end of the phase-out period. For this fact sheet, we are providing information about three different types of increases to the current gross receipts tax rates, as well as information about increasing the payroll tax.

- Gross Receipts Tax: general increase. This would increase gross receipts tax rates across the board, by 1-5% of current rates. Based on Controller's office estimates, this would generate:
  - First year (2018/19): $5 - $23 million
  - 25-year total ($2017): $125 - $575
- Gross Receipts Tax: commercial property tax rate increase. This would increase the gross receipts tax rate on commercial rent revenues. The current rate is 0.3%. Dependent upon choices in rate increases, exclusions, and geographic boundaries, this increase could generate:
  - First year (2018/19): $25 - $75 million
  - 25-year total ($2017): $625 - $1,875 million
- Gross Receipts Tax: gig economy. This would increase the gross receipts tax rate on revenues made from facilitating independent contractor services within San Francisco. Dependent upon options to narrow or expand taxed activities and upon rate changes, this could generate:
  - First year (2018/19): $15 - $75 million
  - 25-year total ($2017): $375 - $1,875 million
- Payroll Tax increase. This would increase payroll tax collections by 1-5% across the board. This could generate an estimated:
  - First year (2018/19): $2 - $12 million
  - 25-year total ($2017): $50 - $300 million

Both gross receipts tax revenues and payroll tax revenues rise and fall with the business cycle. Payroll tax are typically more volatile than gross receipts taxes. In addition, payroll tax changes in response to economic changes tend to lag the gross receipts response.

Policy and Equity Considerations

Business tax rates are still moving, and the City is still learning about our gross receipts collections and the adjustments that will need to be made in order to fully phase-out the payroll tax. The City could potentially seek to extend the phase out period.

Each of the four increase types described in the section above has its own policy and equity considerations.

- Gross Receipts Tax: general increase. The current structure is progressive, and this increase would hit each sector of the economy at the same rate. Small businesses are currently exempt.
- Gross Receipts Tax: commercial property tax rate increase. This could be designed to target commercial businesses based on typical vehicle trip generation models. This would approximate the number of people commuting to work and impacting our transportation network. The rate increase would help offset that impact.

- Gross Receipts Tax: gig economy. This could be structured to include a narrow or wide set of corporations. There are over 90,000 self-employed people in the city.
- Payroll Tax increase. In this scenario, the payroll tax would be increased at the same rate across all industries. Small businesses are currently exempt.