Additional Tax on Commercial Rents Mostly for Child Care and Education *

Digest by the Ballot Simplification Committee

Status: Draft for Consideration
On: Wednesday, February 28, 2018
Members: Packard, Anderson, Patterson

Deadline to Request Reconsideration: TBD

The Way It Is Now: The City collects a gross receipts tax on many businesses operating in San Francisco. That tax is generally based on the total gross revenue a business receives in San Francisco. Those revenues include rents from leasing commercial property, such as office buildings, warehouses and other industrial buildings, and retail spaces.

For gross revenues between zero and five million dollars, the maximum rate for the City's gross receipts tax applicable to commercial rents is 0.285%. For gross revenues above five million dollars, the maximum rate for the City's gross receipts tax applicable to commercial rents is 0.3%. Beginning in 2021, for gross revenues over $25 million, the maximum rate for the City's gross receipts tax applicable to commercial rents will be 0.325%.

Businesses with $1 million dollars or less in total gross revenues within San Francisco are generally exempt from the gross receipts tax. Certain other businesses, including certain non-profit organizations, banks, and insurance companies, are also exempt.

The State Median Income ("SMI") is a level of income based on all incomes earned within the State of California. Half of all households in the state have incomes above this level and half have incomes below it. The Area Median Income ("AMI") is a level of income based on all incomes earned within San Francisco. Half of all households in San Francisco have incomes above this level and half have incomes below it.

The Proposal: Proposition ___ would, in addition to the existing gross receipts tax, impose a new gross receipts tax of:

- 1% on the revenues a business receives from the lease of warehouse space in the City; and
- 3.5% on the revenues a business receives from the lease of other commercial spaces in the City.

This additional tax would generally not apply to businesses exempt from the existing gross receipts tax. It also would not apply to revenues received from leases to businesses engaged in:

- Production, Distribution or Repair (PDR) uses. PDR uses include a variety of business-related uses such as industrial, automotive, storage and wholesale. They also include uses by small businesses such as furniture makers, recording studios, auto repair shops, plumbing supply stores, art studios and lumber yards.
- The retail sale of goods and services directly to consumers; or
- Arts activities or entertainment activities.

This additional tax would also not apply to revenues received from certain non-profits.

The City would use 85% of the funds from this additional tax for:

- child care and education for children from newborns through age five whose parents earn 85% or less of the SMI;
- child care and education for children from newborns through age three whose parents earn 200% or less of the AMI;

**Working title, for identification only. The Director of Elections determines the title of each local ballot measure; measure titles are not considered during Ballot Simplification Committee meetings.*

- investment in services that support the physical, emotional and cognitive development of children from newborns through age five; and

- increased compensation for people who provide child care and education for children from newborns through age five.

The City could use the remaining 15% of funds collected from this additional tax for any public purpose.

A "YES" Vote Means: If you vote “yes,” you want to impose a new gross receipts tax of 1% on the revenues a business receives from the lease of warehouse space in the City, and 3.5% on the revenues a business receives from the lease of certain other commercial spaces in the City, mostly to fund child care and education for young children, and for other public purposes.

A "NO" Vote Means: If you vote “no,” you do not want to make these changes.