

LEGISLATIVE DIGEST
(Amended in Committee July 16, 2020)

[Initiative Ordinance - Business and Tax Regulations Code - Tax on Businesses With Disproportionate Executive Pay]

Motion ordering submitted to the voters at an election to be held on November 3, 2020, an Ordinance amending the Business and Tax Regulations Code to impose an additional gross receipts tax or an administrative office tax on businesses with a greater than 100:1 ratio of the compensation of the business's highest-paid managerial employee to the median compensation paid to the business's employees based in the City; and increasing the City's appropriations limit by the amount collected under the additional tax for four years from November 3, 2020.

Existing Law

The City currently imposes several taxes on businesses engaging in business in the City:

- Article 12 generally imposes a registration fee on all businesses engaged in any business in the City other than as an administrative office equal to between \$75 and \$35,000 (adjusted for inflation), depending on the type of business and the amount of gross receipts attributable to the City. Article 12 generally imposes a registration fee on businesses engaged in business as an administrative office equal to between \$15,000 and \$35,000 (adjusted for inflation), depending on the payroll expense of the business attributable to the City. These fees are deposited into the General Fund.
- Articles 12-A and 12-A-1 generally impose additional taxes on all businesses engaged in any business in the City other than as an administrative office equal to 0.075% to 0.65% of the business's gross receipts attributable to the City, depending on the type of business and amount of gross receipts attributable to the City, plus 0.38% of the business's payroll expense attributable to the City. In lieu of these taxes, Article 12-A-1 imposes a tax on all businesses engaged in business as an administrative office equal to 1.4% of the business's payroll expense attributable to the City. These taxes are deposited into the General Fund.
- Article 21 generally imposes an additional tax on all business engaged in business in the City that receive gross receipts from the lease of commercial space in properties in the City, with rates between 1% to 3.5% of the gross receipts from the lease of that commercial space, depending on the type of property. This tax is dedicated 15% to the General Fund and 85% to fund early care and education for young children.
- Article 28 generally imposes an additional tax on all businesses engaged in any business in the City other than as an administrative office equal to between 0.175% and 0.69% of the business's gross receipts attributable to the City in excess of

\$50 million, depending on the type of business. In lieu of this tax, Article 28 imposes a tax on all businesses engaged in business as an administrative office equal to 1.5% of the business’s payroll expense attributable to the City. This tax is dedicated to fund services for homeless people and to prevent homelessness.

- Commencing in 2021, Article 30 will impose an additional tax on all businesses engaged in cannabis business activities in the City equal to 1% to 5% of the gross receipts from those cannabis business activities in excess of \$500,000, depending on the type of cannabis business activities and the amount of gross receipts from those activities attributable to the City. This tax will be deposited into the General Fund.

Amendments to Current Law

Effective in 2022, this ordinance would create an additional tax that would generally apply to all businesses engaged in any business in the City where the compensation of the business’s highest-paid managerial employee to the median compensation paid to the business’s employees based in the City (the “Executive Pay Ratio”) exceeds 100:1. For businesses engaged in any business other than as an administrative office the tax rates would be a percentage of the business’s gross receipts attributable to the City, depending on the Executive Pay Ratio of the business, as follows:

Executive Pay Ratio	Tax Rate
More Than 100:1 but Less Than or Equal to 200:1	0.1%
More Than 200:1 but Less Than or Equal to 300:1	0.2%
More Than 300:1 but Less Than or Equal to 400:1	0.3%
More Than 400:1 but Less Than or Equal to 500:1	0.4%
More Than 500:1 but Less Than or Equal to 600:1	0.5%
More Than 600:1	0.6%

For businesses engaged in business as an administrative office, the tax rates would be a percentage of the business’s payroll expense attributable to the City, depending on the Executive Pay Ratio of the business, as follows:

Executive Pay Ratio	Tax Rate
More Than 100:1 but Less Than or Equal to 200:1	0.4%
More Than 200:1 but Less Than or Equal to 300:1	0.8%
More Than 300:1 but Less Than or Equal to 400:1	1.2%
More Than 400:1 but Less Than or Equal to 500:1	1.6%
More Than 500:1 but Less Than or Equal to 600:1	2.0%
More Than 600:1	2.4%

The additional tax would be a general tax. Proceeds from the tax would be deposited in the City’s general fund to be expended for any City purposes.

This ordinance would increase the City's appropriations limit under Article XIII B by the amounts collected from the additional tax for four years from November 3, 2020.

Background Information

This legislative digest reflects amendments made in committee on July 16, 2020, which limited a business's highest-paid employee in the calculation of the Executive Pay Ratio to the individual or officer of a person or combined group with managerial responsibility in a business function who received the most compensation for a tax year. As originally introduced, the highest paid employee for this purpose was not limited to individuals "with managerial responsibility in a business function." The amendments made in committee on July 16, 2020 also eliminated additional tax rate tiers for businesses with Executive Pay Ratios of more than 700:1 but less than or equal to 800:1, more than 800:1 but less than or equal to 900:1, and more than 1000:1.

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