

**Ballot Simplification Committee - DRAFT for Consideration on Friday, August 3, 2012**

**Gross Receipts Tax** *(working title only, subject to change)*

**The Way It Is Now:**

The City requires businesses to pay a 1.5% tax on payroll expense. The tax applies to all compensation a business pays for services performed in the City. Small businesses with less than \$250,000 in payroll expense are exempt from the tax.

The City also requires businesses to pay an annual business registration fee based on the payroll expense tax paid the previous year. The registration fee ranges from \$25 to \$500.

**The Proposal:**

Proposition \_\_\_ would create a City gross receipts tax for most businesses. The tax rate would vary depending on industry. For each industry, the maximum rates would fall within a range, depending on a business's annual gross receipts from business activity in the City:

- 0.075% – 0.160% for retail trade, wholesale trade, and certain services
- 0.125% – 0.475% for manufacturing, transportation and warehousing, information, biotechnology, clean technology, and food services
- 0.300% – 0.400% for accommodations; utilities; and arts, entertainment and recreation
- 0.525% – 0.650% for private education and health services, and administrative and support services
- 0.300% – 0.450% for construction
- 0.400% – 0.560% for financial services; insurance; and professional, scientific and technical services
- 0.285% – 0.325% for real estate and rental and leasing services

Certain businesses that have their headquarters or administrative offices in San Francisco, but operate primarily in other locations, would pay the "gross receipts" tax based on payroll expense. The tax rate for these businesses would be 1.4% of payroll expense.

Proposition \_\_\_ would require the City to phase in the gross receipts tax, and phase out the payroll expense tax, over a five-year period beginning in 2014. Each year, the

Controller would increase the gross receipts tax and decrease the payroll tax according to a set formula.

Proposition \_\_\_ would set the final gross receipts tax rate based on the City's gross receipts tax revenue during the five-year phase-in period:

- If in any year during the five-year period the City's gross receipts tax revenue exceeds the revenue the City would have received under the current payroll expense tax system, then the gross receipts tax rates will stop increasing. The rates would remain at that level, except for a one-time increase for real estate services with gross receipts of over \$25 million. The gross receipts tax would fully replace the payroll expense tax.
- If the gross receipts tax revenue never equals the revenue the City would have received under the current payroll expense tax system, then the payroll expense tax will not be fully phased out. Businesses would continue to pay a gross receipts tax and a reduced payroll expense tax.

Small businesses that earn less than \$1 million annually would be exempt from the gross receipts tax. The \$1 million threshold would be adjusted each year to account for inflation.

Proposition \_\_\_ would also increase annual business registration fees. These fees would range from \$75 for small businesses to \$35,000 for businesses with more than \$200 million a year in gross receipts. The fees would be adjusted each year to account for inflation.

Proposition \_\_\_ would also establish penalties for failure to properly register a business.

**A "YES" Vote Means:** If you vote "yes," you want the City to impose a gross receipts tax, reduce or eliminate the payroll expense tax, and increase business registration fees.

**A "NO" Vote Means:** If you vote "no," you do not want the City to make these changes.

word count: 553 [suggested word limit: 300]