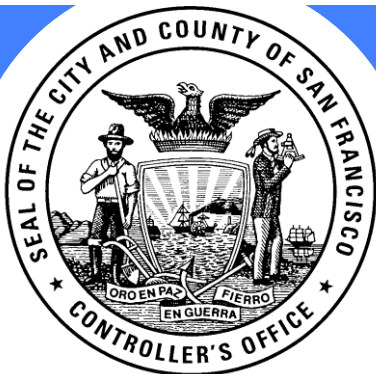


# Business Tax Briefing



**CITY & COUNTY OF SAN FRANCISCO**

Office of the Controller

Office of Treasurer & Tax Collector

August 2023

# The high-level findings from our review

2

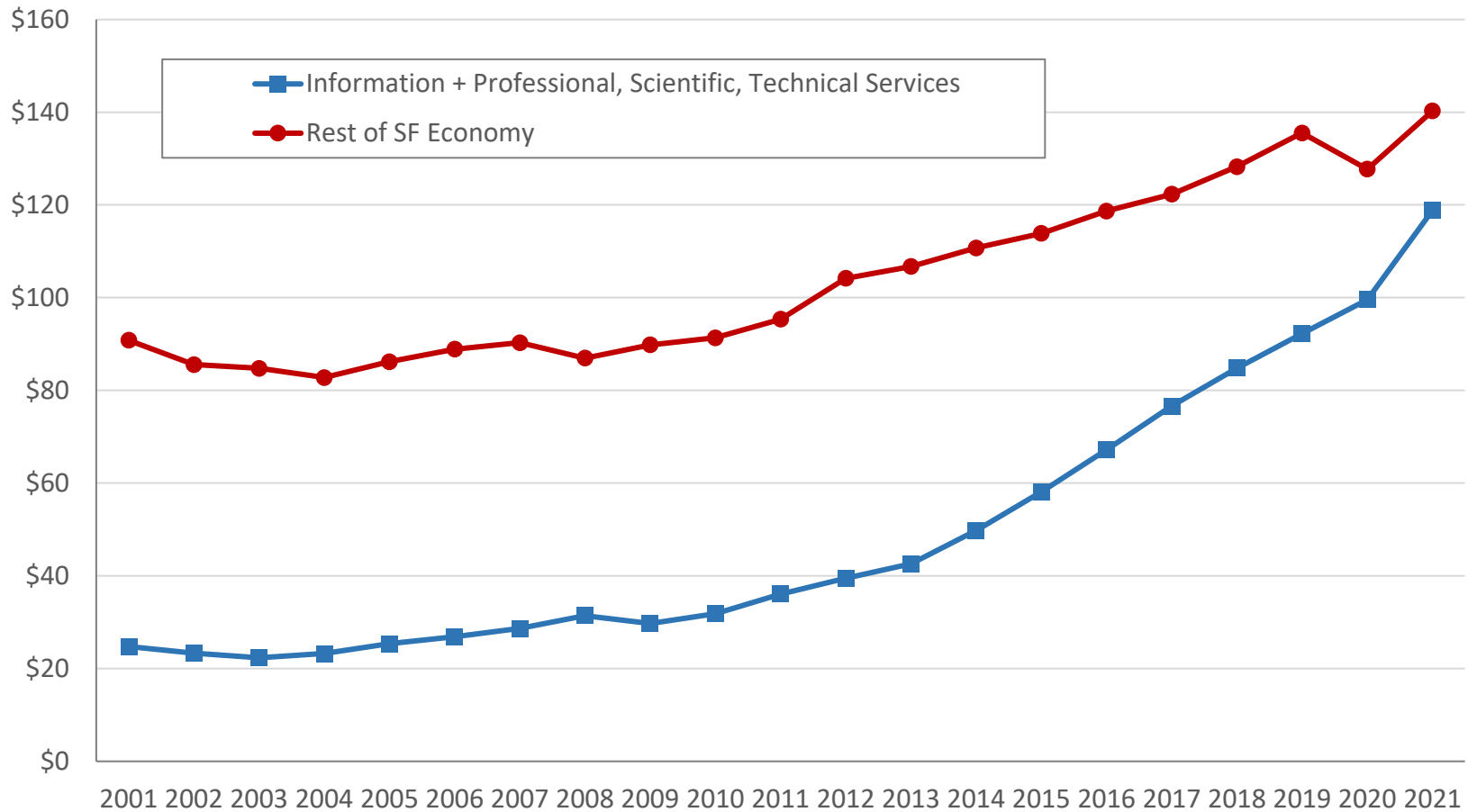
Our review of the impacts of remote work points to three source of risk to the City's tax base stemming from recent economic and policy changes:

1. An increasing concentration of the tax base in office industries that are most impacted by remote work. Important linkages between work location and the City's tax take.
2. An increasing reliance on large commercial office activities & values, which have been curtailed in the short term, and are likely to generate lower value in the long term.
3. An increase in revenue volatility stemming from increased reliance on the largest businesses and other tax changes.

# Tech GDP Has Grown at 3X The Rest of the Local Economy

3

Sources of San Francisco Real GDP, 2001-2021 (Billions of 2021 \$)  
Information/Professional Services, and the Rest of the City's Economy

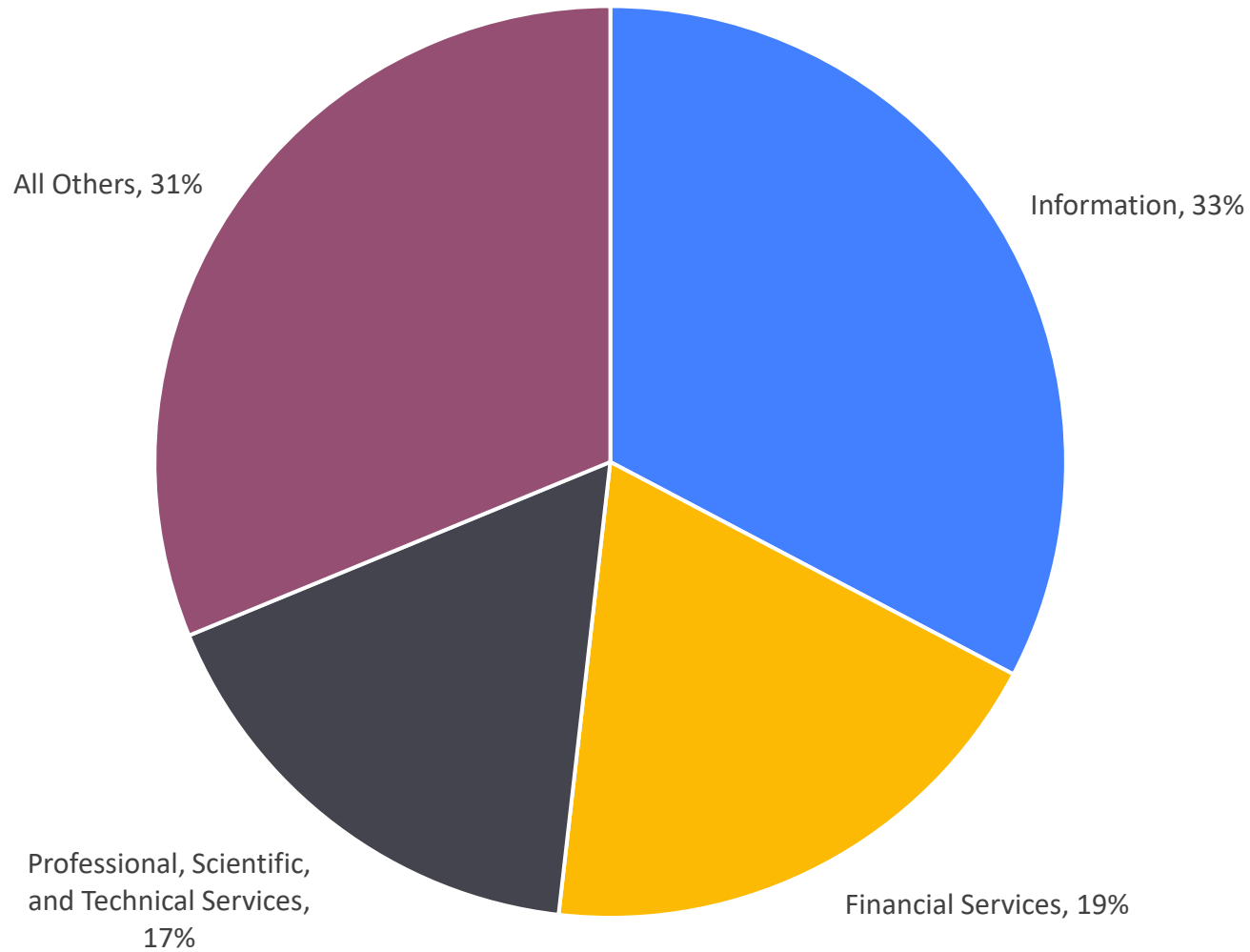




# Heavy Concentration in Office Industries

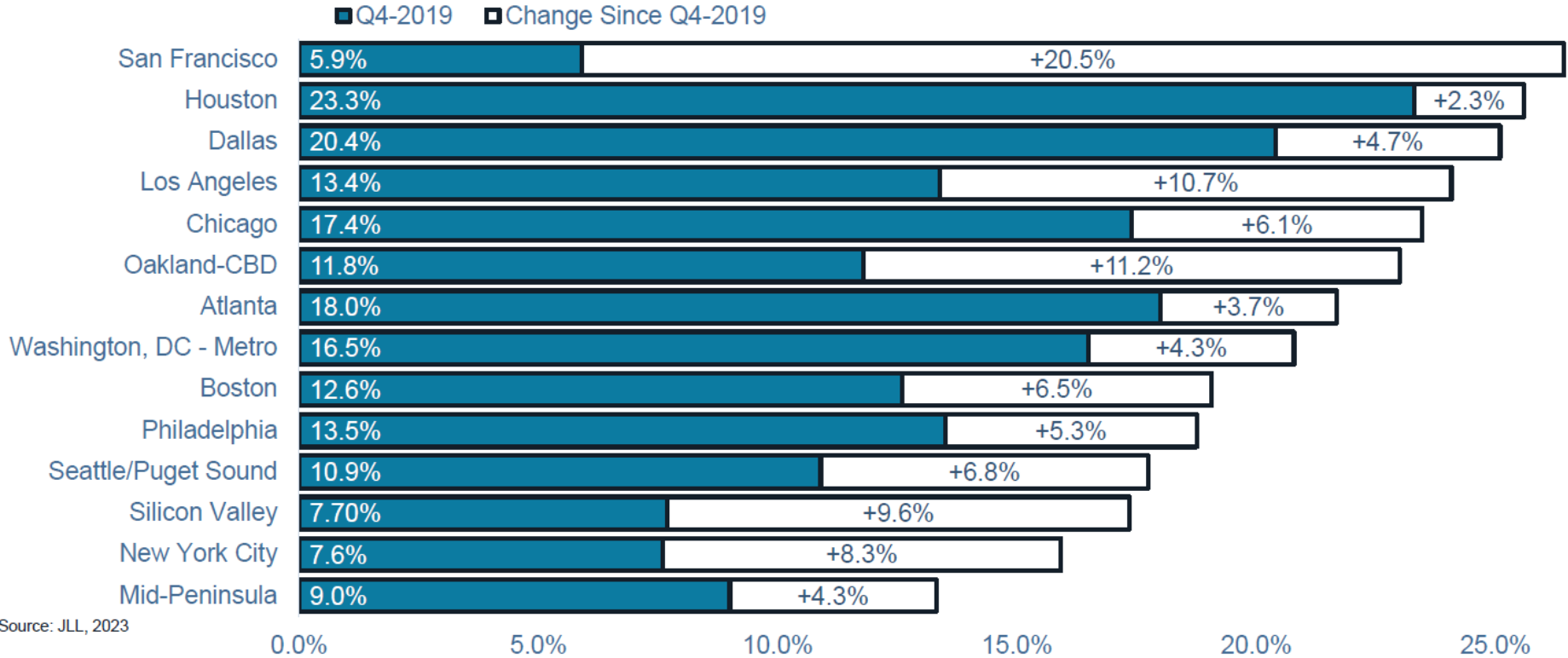
5

Percent of Gross Receipts Tax Revenue by Industry, 2021



# Bay Area Context – Office Market Performance

6



# Concentration Risk Summary

7

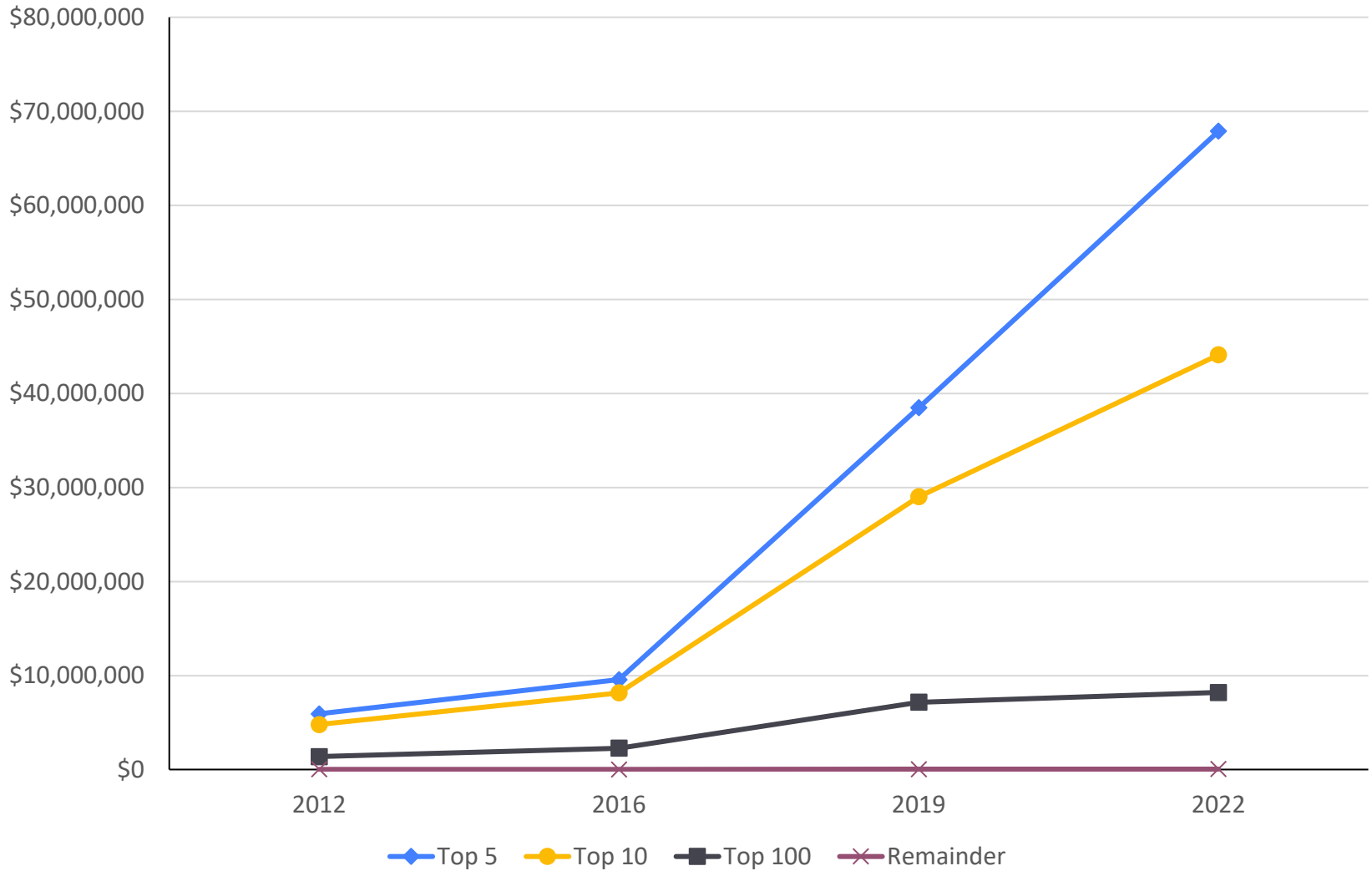
## Amount (in \$ million) and Percentage of All Business Taxes Owed, by Business Size, 2012-2022

	Top 5	Top 10	Top 100	All Others
2012	\$30 (7%)	\$48 (12%)	\$138 (34%)	\$270 (66%)
2022	\$339 (24%)	\$441 (31%)	\$820 (58%)	\$588 (42%)

# An 11x Increase in Average Payment by Largest Businesses

8

Average Business Tax Owed, by Business Size, 2012-2022





# City Taxes for a Large Company in Bay Area Tech Centers

9

<b>Sample Large Tech Company</b>	
Sector:	Information
Total Sales:	\$30 Billion
Local Sales:	\$30 Million
Local Employees:	10,000
Local office space:	4 million sf
Payroll Factor	20%

<b>City</b>	<b>Information Sector Employment, 2021</b>	<b>Business Tax Liability</b>
San Francisco	35,878	\$39,886,480
Mountain View	21,798	\$2,009,195
San Jose	13,872	\$171,301
Sunnyvale	11,676	\$28,122
Menlo Park	10,712	\$8,000
Oakland	5,967	\$65,993,100
Santa Clara	4,700	\$350,000
Palo Alto	4,409	\$300,000
Redwood City	3,866	\$6,276

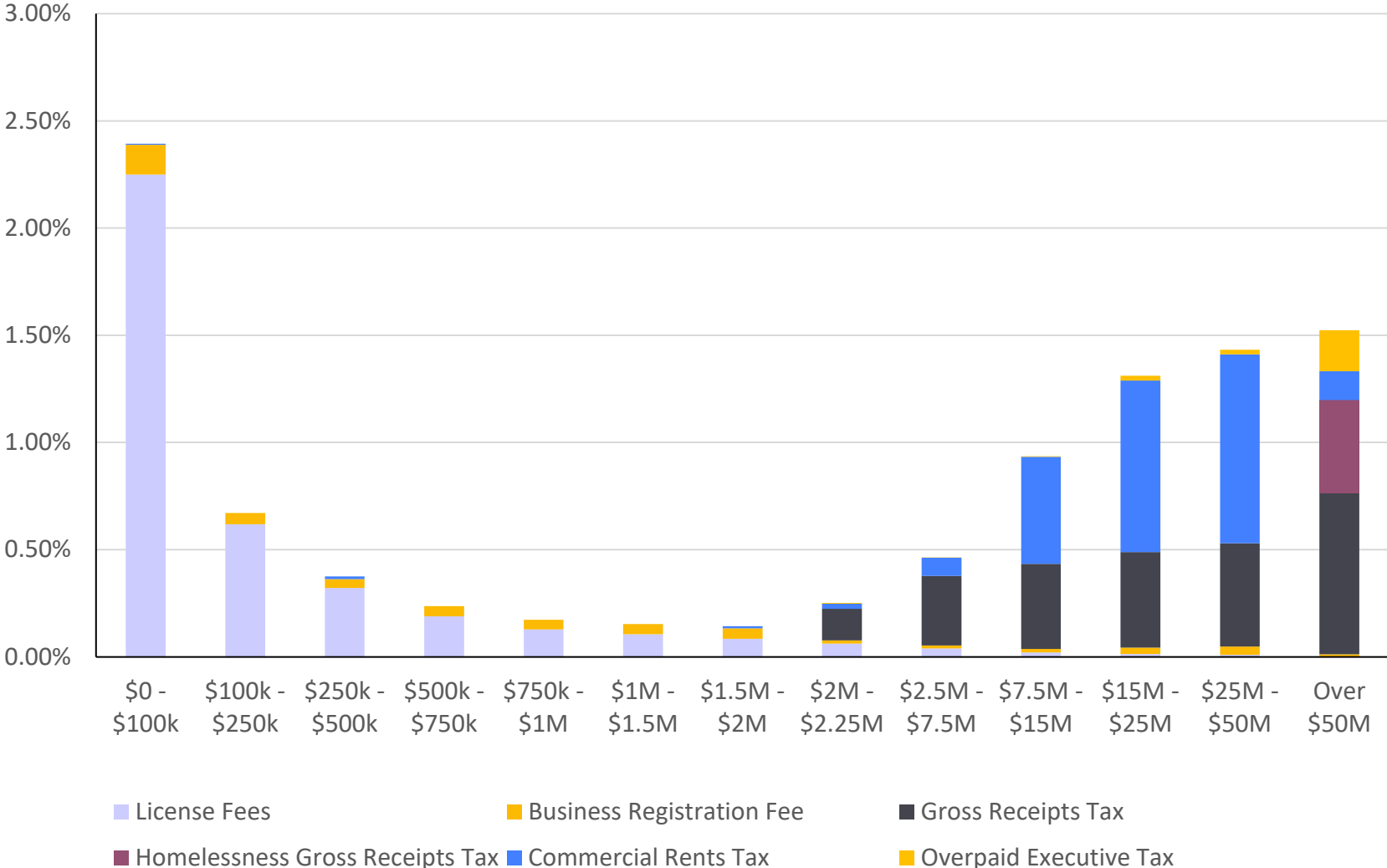
# New Taxes Have Raised Overall Revenue Volatility

10

	Pre-2008 Taxes	Post-2008 Taxes
High Volatility	Pre-2008 Transfer Tax	Transfer Tax increases Overpaid Executives Tax Homelessness Gross Receipts Tax
Medium Volatility	Hotel Tax Sales Tax Utility User Tax	Commercial Rents Tax Gross Receipts Tax
Low Volatility	Property Tax	

# License Fees Cause Regressivity for Small Business

Cumulative Tax and Fee Burden by Size of Business, as % of San Francisco Gross Receipts, 2022-23



- Tax complexity
- Timing of tax cycle and payments
- Predictability of future tax liability
- Incorporating revenue from fees into business tax structure
- Industry-specific issues (construction, retail, residential rent, others)
- Litigation and legal risk

- July '23      Report on new risks to the City's business tax base  
Mayor Breed & President Peskin request to us
- Sept-Nov      Regular sessions with key stakeholders  
CON & TTX CAT options analysis & vetting
- Dec      Final CON & TTX recommendations to Mayor and Board
- Jan – Jun '24      Mayor & Board legislative and policy discussions/decisions
- Nov '24      Election to consider potential general tax changes