Business Tax Project Overview: Gross Receipts Roundtable Meeting #1
Outline

- Overview of the City’s Business Taxes
- Overview of our recent report on remote work’s impact on business taxes
- Overview of our envisioned process to develop recommendations
- Discussion
Gross Receipts-Based Taxes in Context

City Tax Revenue by Tax, FY2022-23 (Total: $5.8 Billion)

- Gross Receipts Tax / AOT: 14%
- Homelessness Gross Receipts Tax / HAOT: 4%
- Commercial Rents Tax: 3%
- Overpaid Executive Tax: 4%
- Business Registration: 1%
- Hotel Tax: 5%
- Sales Tax: 3%
- Transfer Tax: 3%
- Other Local Taxes: 5%
- Property Tax: 58%
Evolution of the City’s Business Tax System

Business Tax Revenue, by Specific Tax, 2012-2022

- Gross Receipts Tax
- Payroll Expense Tax
- Commercial Rents Tax
- Homelessness Gross Receipts Tax
- Overpaid Executive Tax
Business Tax Payments by Business Size

Business Tax Owed, 2022, by Tax and Size of Taxpayer (in San Francisco Gross Receipts)

- $0 - $2.5M
- $2.5 - $10M
- $10M - $25M
- $25M - $50M
- $50M - $100M
- $100M - $500M
- $500M +

Key:
- Blue: Commercial Rents
- Yellow: Gross Receipts
- Black: Homelessness Gross Receipts
- Purple: Overpaid Executives
Our review of the impacts of remote work points to three sources 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.

2. An increasing reliance on large commercial office activities, 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. This is due to both changes to tax policy, and changes in how the city’s economy has evolved.
Tech GDP Has Grown at 3X The Rest of the Local Economy

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

- Information + Professional, Scientific, Technical Services
- Rest of SF Economy
Per Capita, Inflation-Adjusted San Francisco Tax Revenue, by Year of Tax Approval

- Pre-2008
- 2008
- 2010
- 2012
- 2016
- 2018
- 2019
- 2020
- 2021

Years:
- FY99
- FY00
- FY01
- FY02
- FY03
- FY04
- FY05
- FY06
- FY07
- FY08
- FY09
- FY10
- FY11
- FY12
- FY13
- FY14
- FY15
- FY16
- FY17
- FY18
- FY19
- FY20
- FY21
- FY22
Heavy Concentration in Office Industries

Percent of Gross Receipts Tax Revenue by Industry, 2021

- Information, 33%
- Financial Services, 19%
- Professional, Scientific, and Technical Services, 17%
- All Others, 31%
Bay Area Context – Office Market Performance

<table>
<thead>
<tr>
<th>City</th>
<th>Q4-2019</th>
<th>Change Since Q4-2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>5.9%</td>
<td>+20.5%</td>
</tr>
<tr>
<td>Houston</td>
<td>23.3%</td>
<td>+2.3%</td>
</tr>
<tr>
<td>Dallas</td>
<td>20.4%</td>
<td>+4.7%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>13.4%</td>
<td>+10.7%</td>
</tr>
<tr>
<td>Chicago</td>
<td>17.4%</td>
<td>+6.1%</td>
</tr>
<tr>
<td>Oakland-CBD</td>
<td>11.8%</td>
<td>+11.2%</td>
</tr>
<tr>
<td>Atlanta</td>
<td>18.0%</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Washington, DC - Metro</td>
<td>16.5%</td>
<td>+4.3%</td>
</tr>
<tr>
<td>Boston</td>
<td>12.6%</td>
<td>+6.5%</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>13.5%</td>
<td>+5.3%</td>
</tr>
<tr>
<td>Seattle/Puget Sound</td>
<td>10.9%</td>
<td>+6.8%</td>
</tr>
<tr>
<td>Silicon Valley</td>
<td>7.70%</td>
<td>+9.6%</td>
</tr>
<tr>
<td>New York City</td>
<td>7.6%</td>
<td>+8.3%</td>
</tr>
<tr>
<td>Mid-Peninsula</td>
<td>9.0%</td>
<td>+4.3%</td>
</tr>
</tbody>
</table>

Source: JLL, 2023
## GRT Revenue Lost to Remote Work, 2021

<table>
<thead>
<tr>
<th>Industry</th>
<th>SFGR, 2021 ($B)</th>
<th>SFGR 2021 using 2019 Factor ($B)</th>
<th>GRT/HGRT Cost of Reduced Factor ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>$17.7</td>
<td>$35.3</td>
<td>$230</td>
</tr>
<tr>
<td>Information</td>
<td>$27.8</td>
<td>$40.7</td>
<td>$151</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>$16.1</td>
<td>$25.6</td>
<td>$103</td>
</tr>
<tr>
<td>Total, Three Sectors</td>
<td>$60.5</td>
<td>$99.9</td>
<td>$485</td>
</tr>
</tbody>
</table>
Leading to Increasing Concentration Risk

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

<table>
<thead>
<tr>
<th></th>
<th>Top 5</th>
<th>Top 10</th>
<th>Top 100</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$30 (7%)</td>
<td>$48 (12%)</td>
<td>$138 (34%)</td>
<td>$270 (66%)</td>
</tr>
<tr>
<td>2022</td>
<td>$339 (24%)</td>
<td>$441 (31%)</td>
<td>$820 (58%)</td>
<td>$588 (42%)</td>
</tr>
</tbody>
</table>
An 11x Increase in Average Payment by Largest Businesses

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

- Top 5
- Top 10
- Top 100
- Remainder
### Sample Large Tech Company

<table>
<thead>
<tr>
<th>Sector</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales:</td>
<td>$30 Billion</td>
</tr>
<tr>
<td>Local Sales:</td>
<td>$30 Million</td>
</tr>
<tr>
<td>Local Employees:</td>
<td>10,000</td>
</tr>
<tr>
<td>Local office space:</td>
<td>4 million sf</td>
</tr>
<tr>
<td>Payroll Factor</td>
<td>20%</td>
</tr>
</tbody>
</table>

### City Information Sector Employment, 2021 - Business Tax Liability

<table>
<thead>
<tr>
<th>City</th>
<th>Information Sector Employment, 2021</th>
<th>Business Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>35,878</td>
<td>$39,886,480</td>
</tr>
<tr>
<td>Mountain View</td>
<td>21,798</td>
<td>$2,009,195</td>
</tr>
<tr>
<td>San Jose</td>
<td>13,872</td>
<td>$171,301</td>
</tr>
<tr>
<td>Sunnyvale</td>
<td>11,676</td>
<td>$28,122</td>
</tr>
<tr>
<td>Menlo Park</td>
<td>10,712</td>
<td>$8,000</td>
</tr>
<tr>
<td>Oakland</td>
<td>5,967</td>
<td>$65,993,100</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>4,700</td>
<td>$350,000</td>
</tr>
<tr>
<td>Palo Alto</td>
<td>4,409</td>
<td>$300,000</td>
</tr>
<tr>
<td>Redwood City</td>
<td>3,866</td>
<td>$6,276</td>
</tr>
</tbody>
</table>
### New Taxes Have Raised Overall Revenue Volatility

<table>
<thead>
<tr>
<th>Volatility Level</th>
<th>Pre-2008 Taxes</th>
<th>Post-2008 Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Volatility</strong></td>
<td>Pre-2008 Transfer Tax</td>
<td>Transfer Tax increases Overpaid Executives Tax Homelessness Gross Receipts Tax</td>
</tr>
<tr>
<td><strong>Medium Volatility</strong></td>
<td>Hotel Tax Sales Tax Utility User Tax</td>
<td>Commercial Rents Tax Gross Receipts Tax</td>
</tr>
<tr>
<td><strong>Low Volatility</strong></td>
<td>Property Tax</td>
<td></td>
</tr>
</tbody>
</table>
License Fees Cause Regressivity for Small Business

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

- Simplification Options
- Increasing Predictability for Taxpayers
- Reducing Volatility of City Revenues
- Methods to Encourage Companies to Stay and Grow in San Francisco
- Expand Small Business Support
What’s Next?

This Fall
- Research & options analysis
- Monthly business stakeholder meetings
- Parallel discussions with other stakeholders

October 12
- Second Meeting of This Group
  3:30 – 5pm, City Hall Room 305
  Topic – Presentation of Initial Concepts

November 2
- Third Meeting of This Group
  3:30 – 5pm, City Hall Room 305
  Topic – Presentation of Refined Concepts

December
- Final recommendations to Mayor and Board
Please contact us with your questions, concerns, and ideas:

- José Cisneros, Treasurer, jose.cisneros@sfgov.org
- Ben Rosenfield, Controller, ben.rosenfield@sfgov.org
- Sarah Dennis-Phillips, Executive Director of OEWD, sarah.dennis-phillips@sfgov.org
- Amanda Fried, Chief of Policy and Communications, Treasurer’s Office, amanda.fried@sfgov.org
- Ted Egan, Chief Economist, Controller’s Office, ted.egan@sfgov.org
- Laurel Arvanitidis, Director of Business Development, OEWD, laurel.arvanitidis@sfgov.org