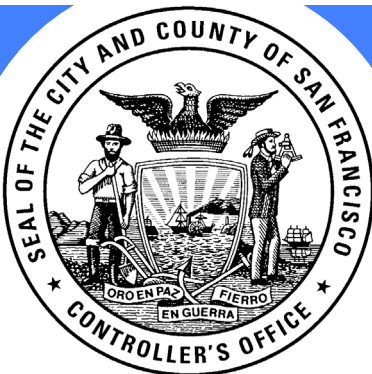


Business Tax Project Overview: Gross Receipts Roundtable Meeting #1



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

Office of Treasurer & Tax Collector

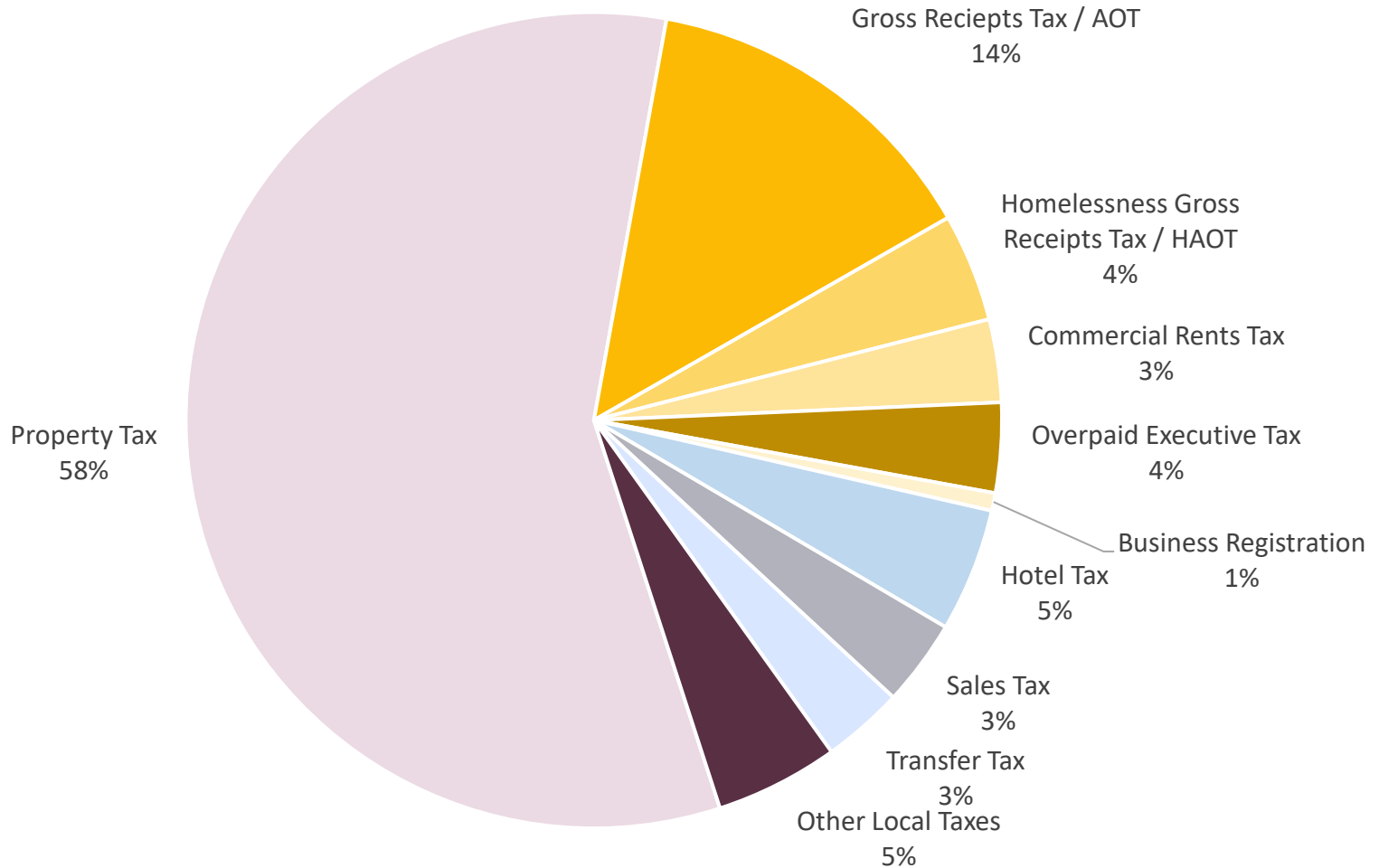
September 7, 2023

- 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

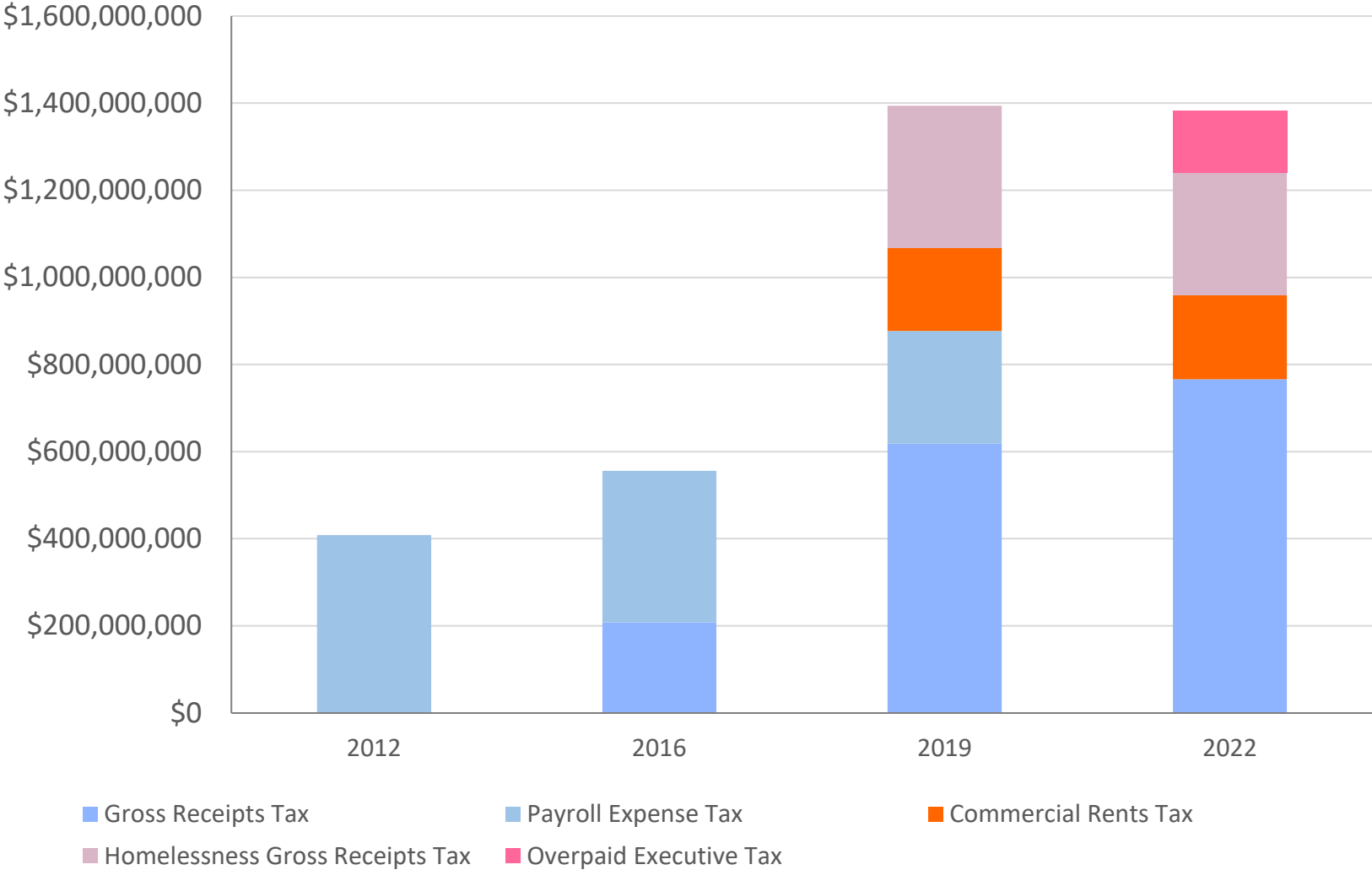
3

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



Evolution of the City's Business Tax System

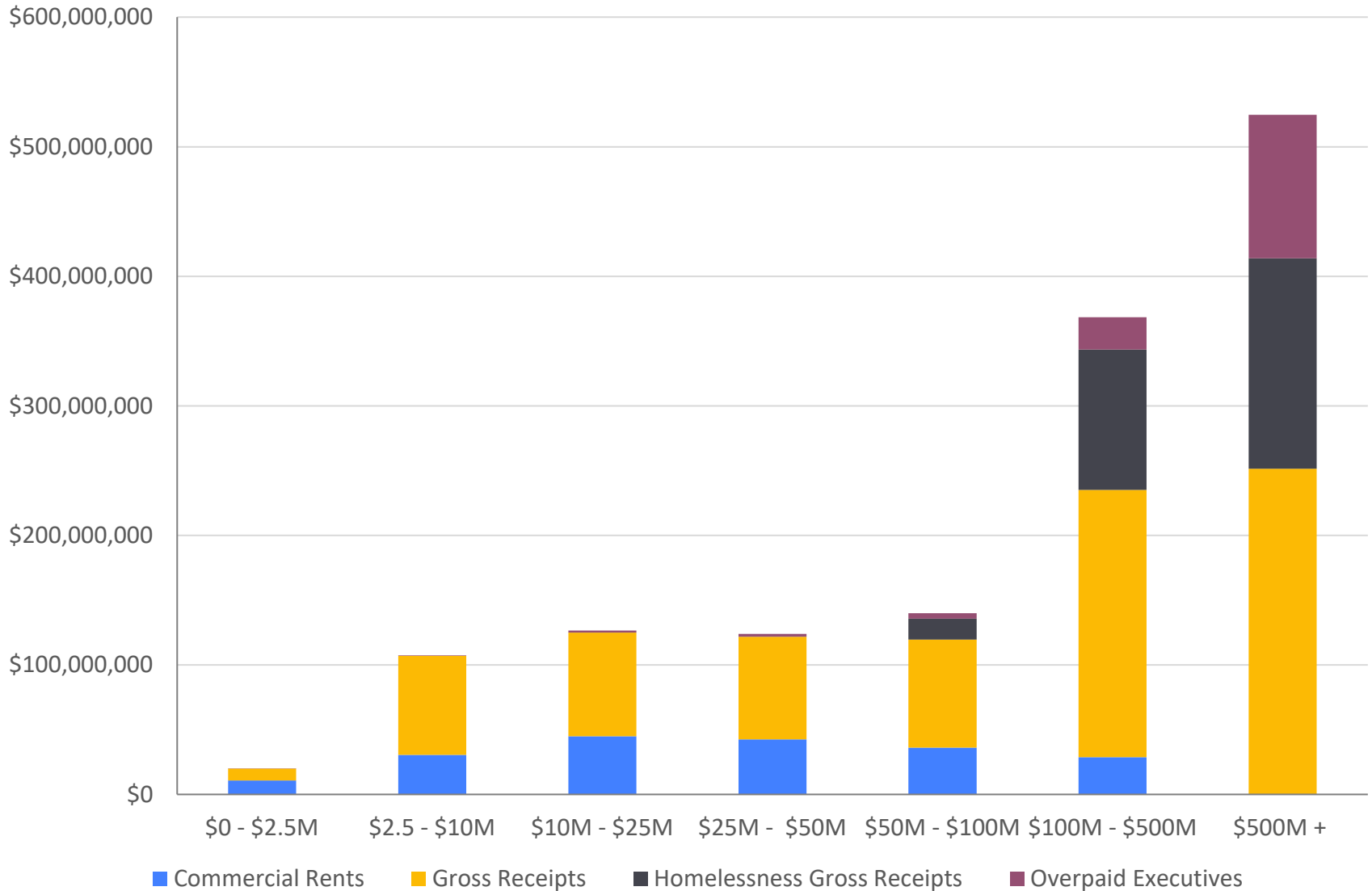
Business Tax Revenue, by Specific Tax, 2012-2022



Business Tax Payments by Business Size

5

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



High-level Findings from Our Review

6

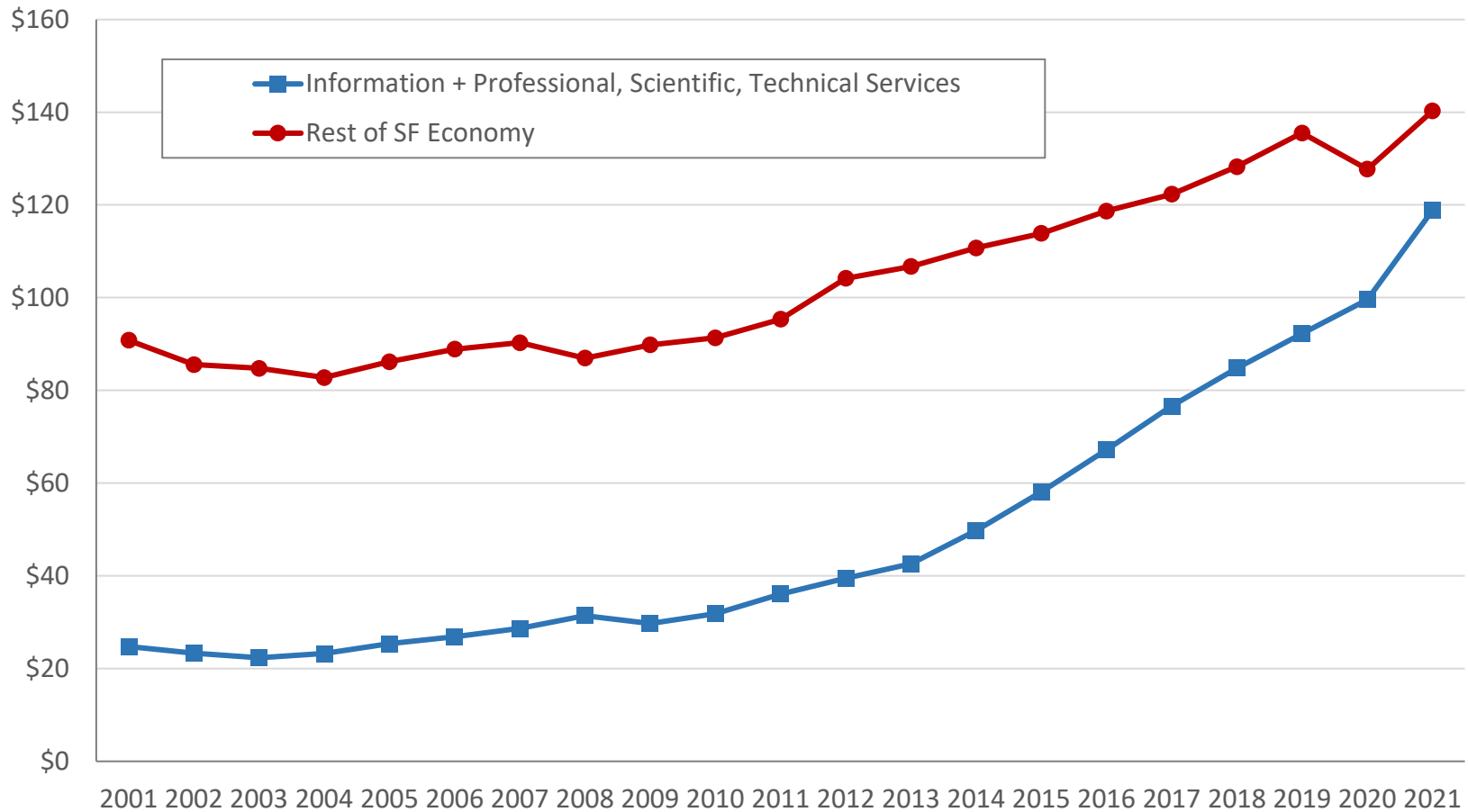
Our review of the impacts of remote work points to three source of risk to the City's tax base stemming from recent economic and policy changes:

1. An increasing concentration of the tax base in office industries that are most impacted by remote work.
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

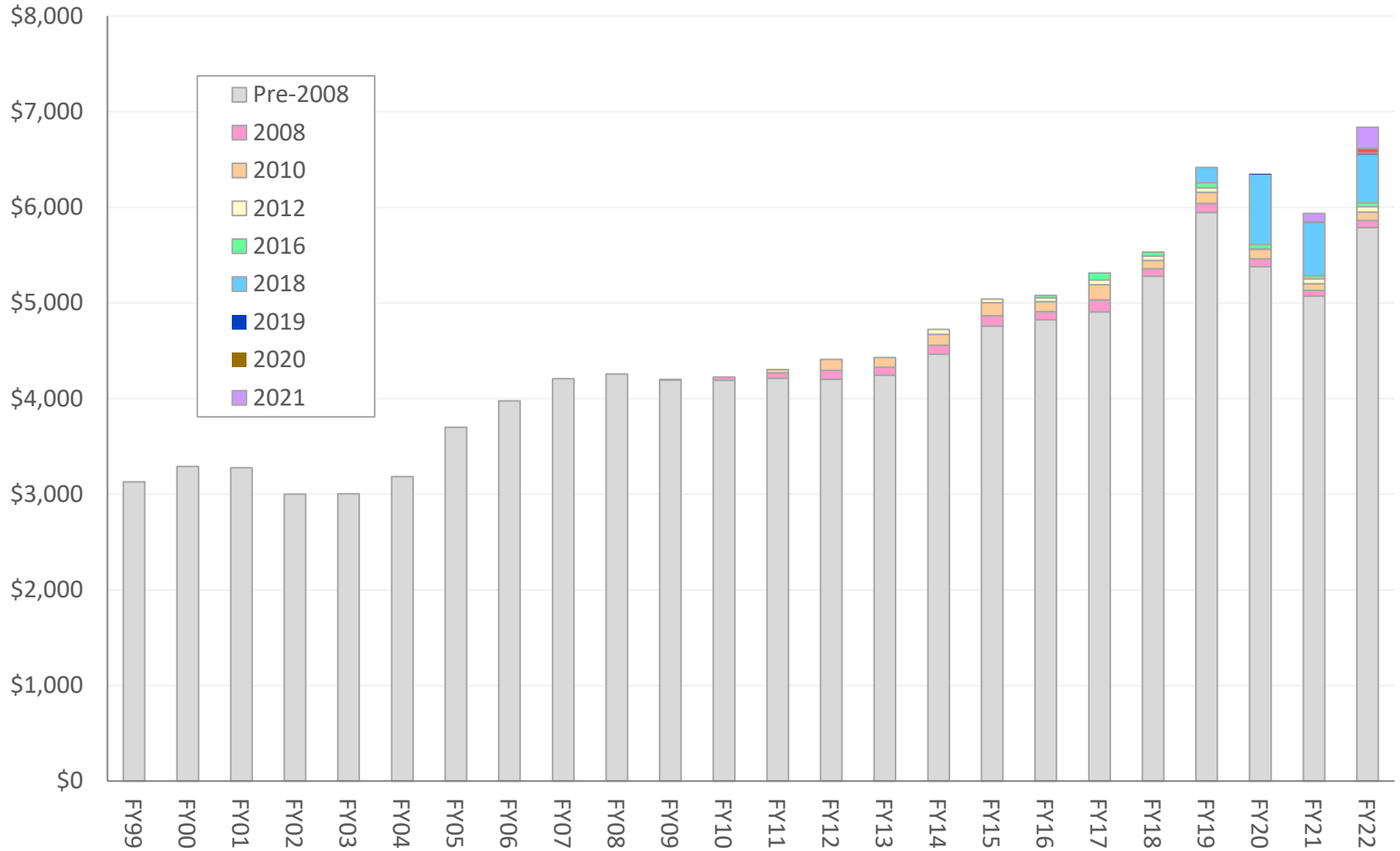
7

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



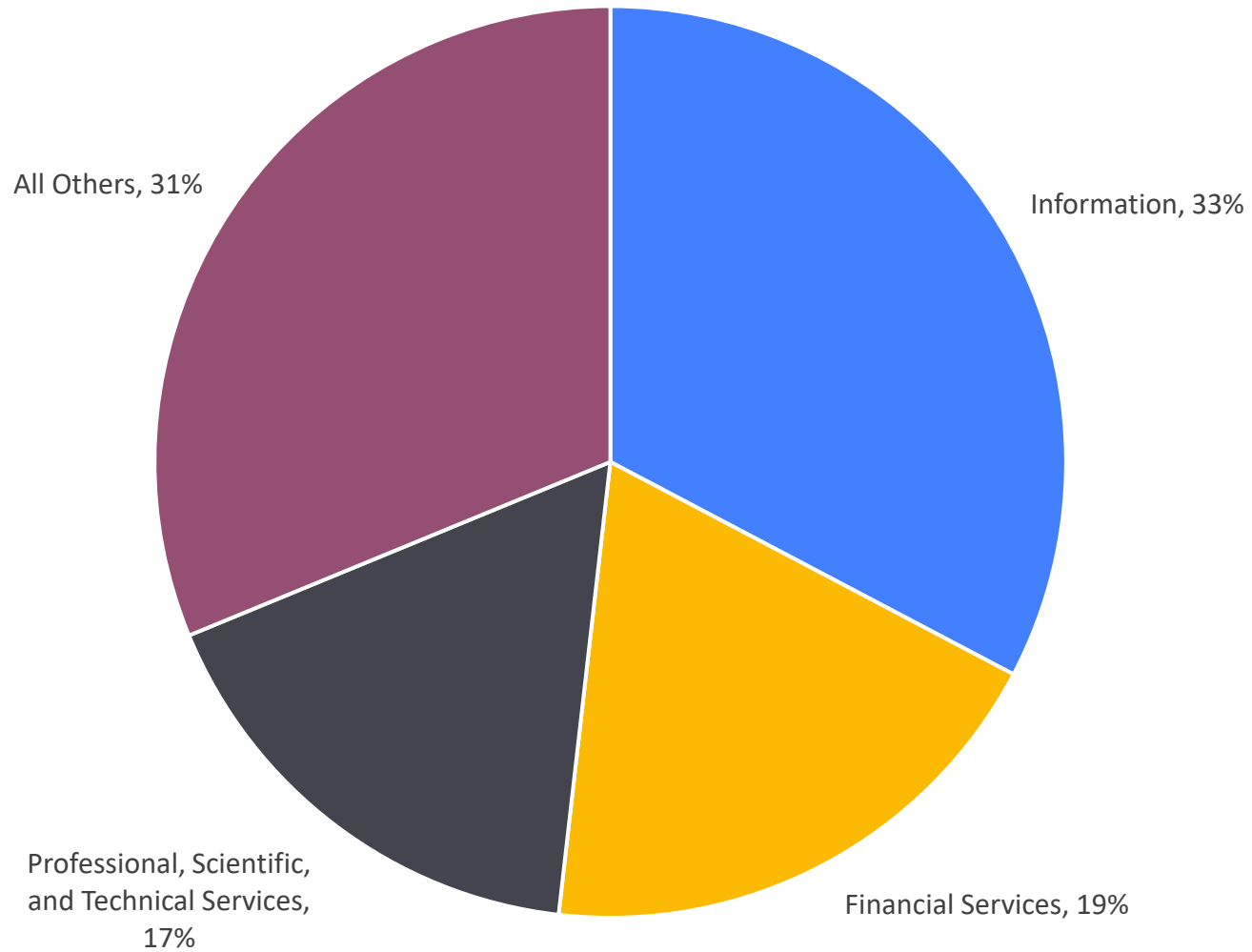
Per Capita Tax Revenue Growth

Per Capita, Inflation-Adjusted San Francisco Tax Revenue, by Year of Tax Approval



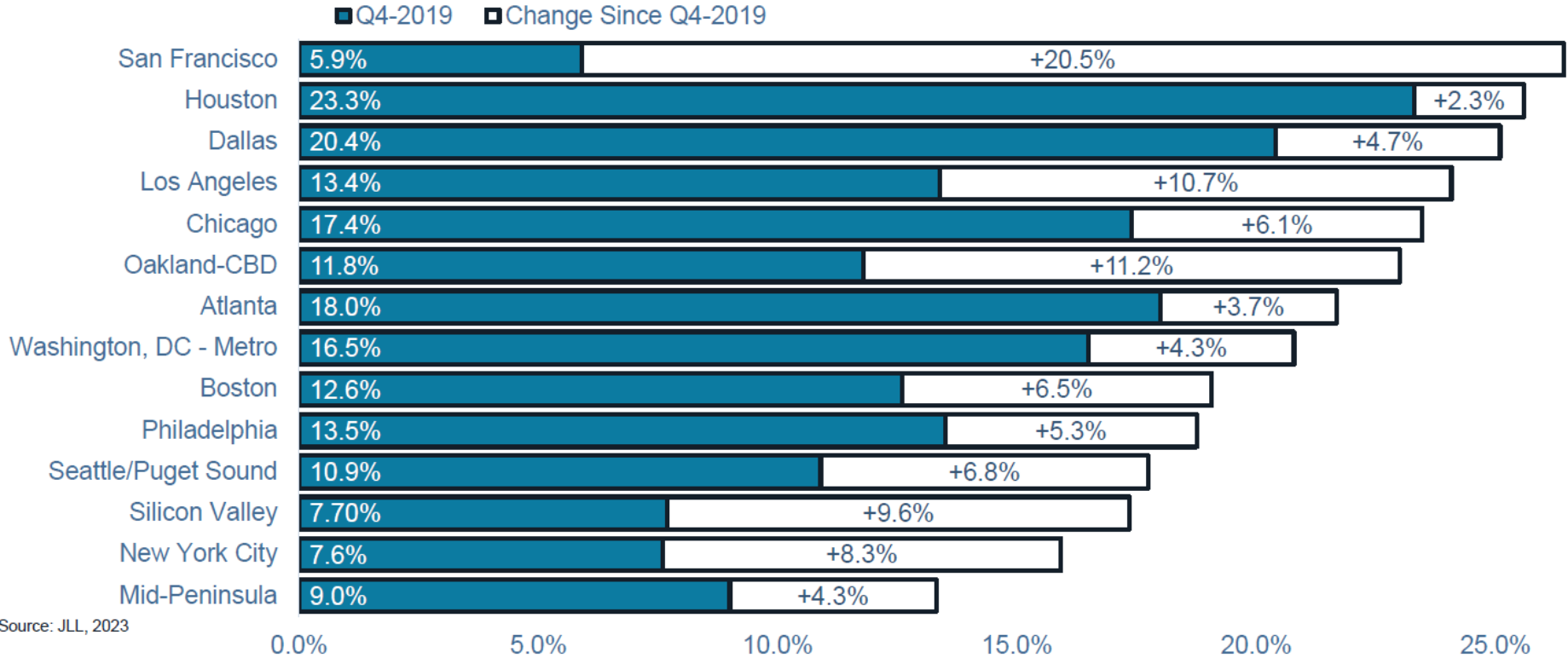
Heavy Concentration in Office Industries

Percent of Gross Receipts Tax Revenue by Industry, 2021



Bay Area Context – Office Market Performance

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GRT Revenue Lost to Remote Work, 2021

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Industry	SFGR, 2021 (\$B)	SFGR 2021 using 2019 Factor (\$B)	GRT/HGRT Cost of Reduced Factor (\$M)
Financial Services	\$17.7	\$35.3	\$230
Information	\$27.8	\$40.7	\$151
Professional, Scientific, and Technical Services	\$16.1	\$25.6	\$103
Total, Three Sectors	\$60.5	\$99.9	\$485

Leading to Increasing Concentration Risk

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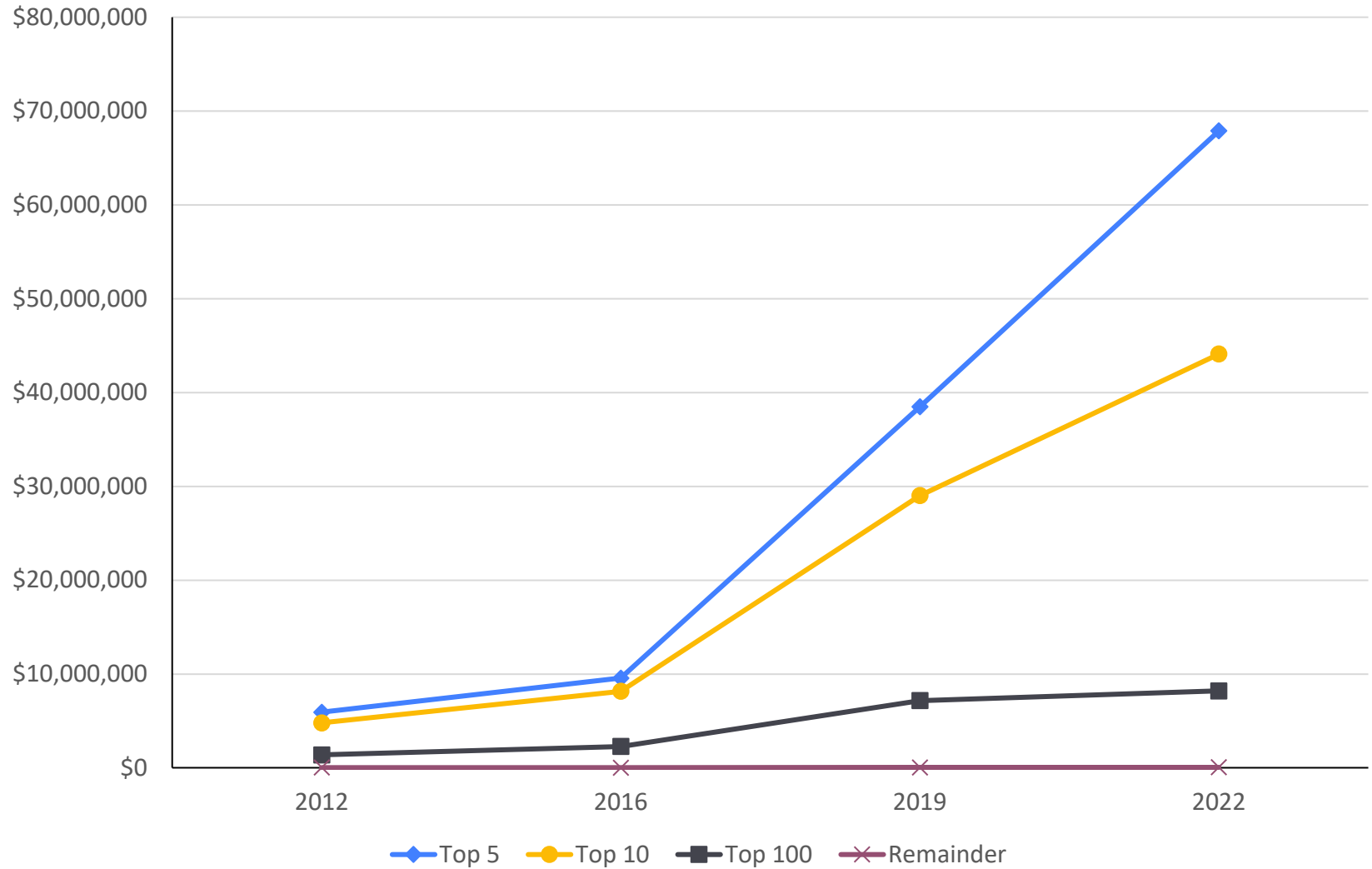
Amount (in \$ million) and Percentage of All Business Taxes Owed, by Business Size, 2012-2022

	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

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



City Taxes for a Large Company in Bay Area Tech Centers

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

City	Information Sector Employment, 2021	Business Tax Liability
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

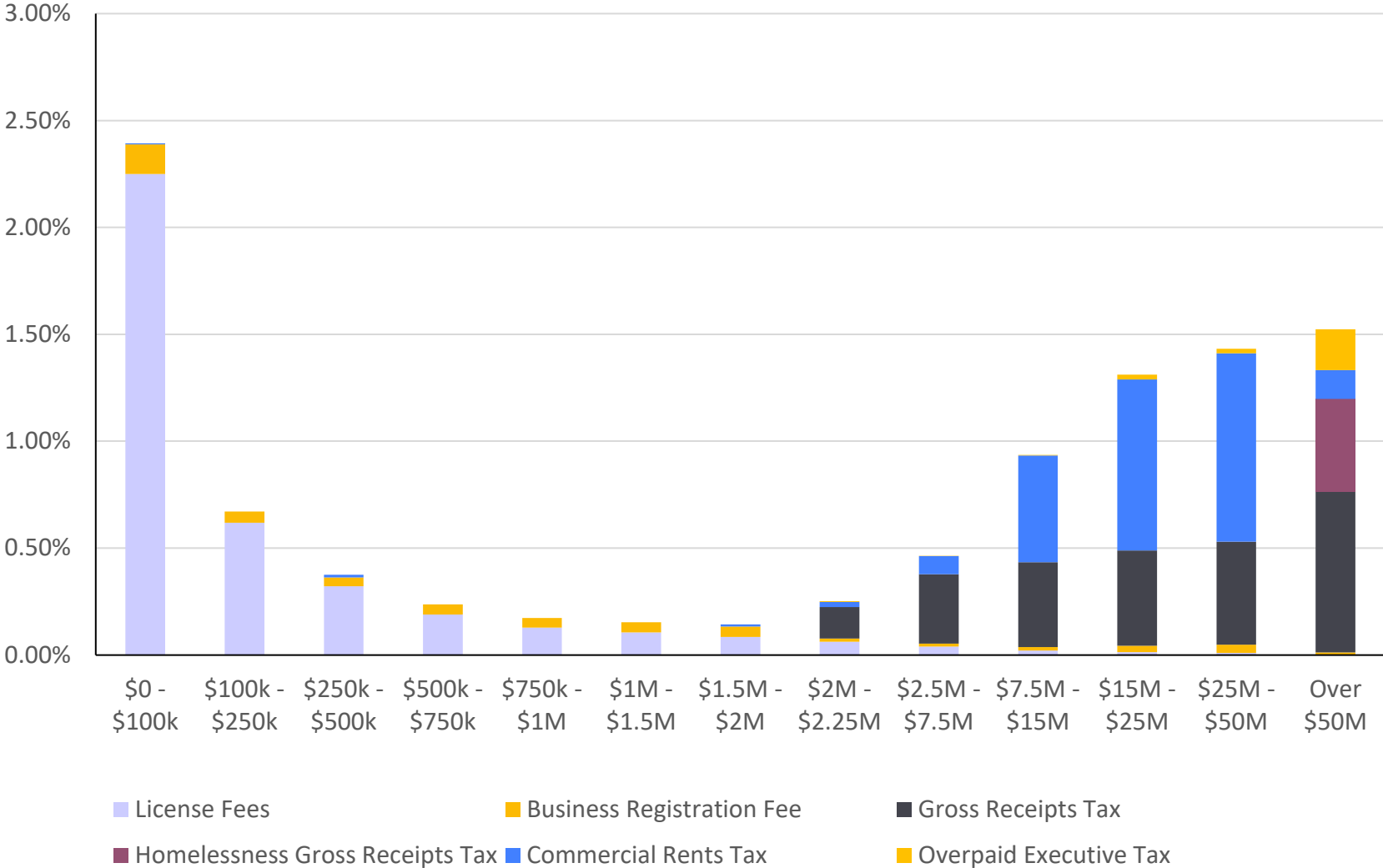
New Taxes Have Raised Overall Revenue Volatility

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	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



Other Project Review Issues

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- 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

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

Contact Information

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Please contact us with your questions, concerns, and ideas:

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