

January 23, 2025

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# Proposition M (2024): Business Tax Reform



# Proposition M Goals



Reform the business tax system to better reflect a post COVID economy in which the City supports its businesses while maintaining the unique attributes and vital services that make San Francisco a place people want to live and work:

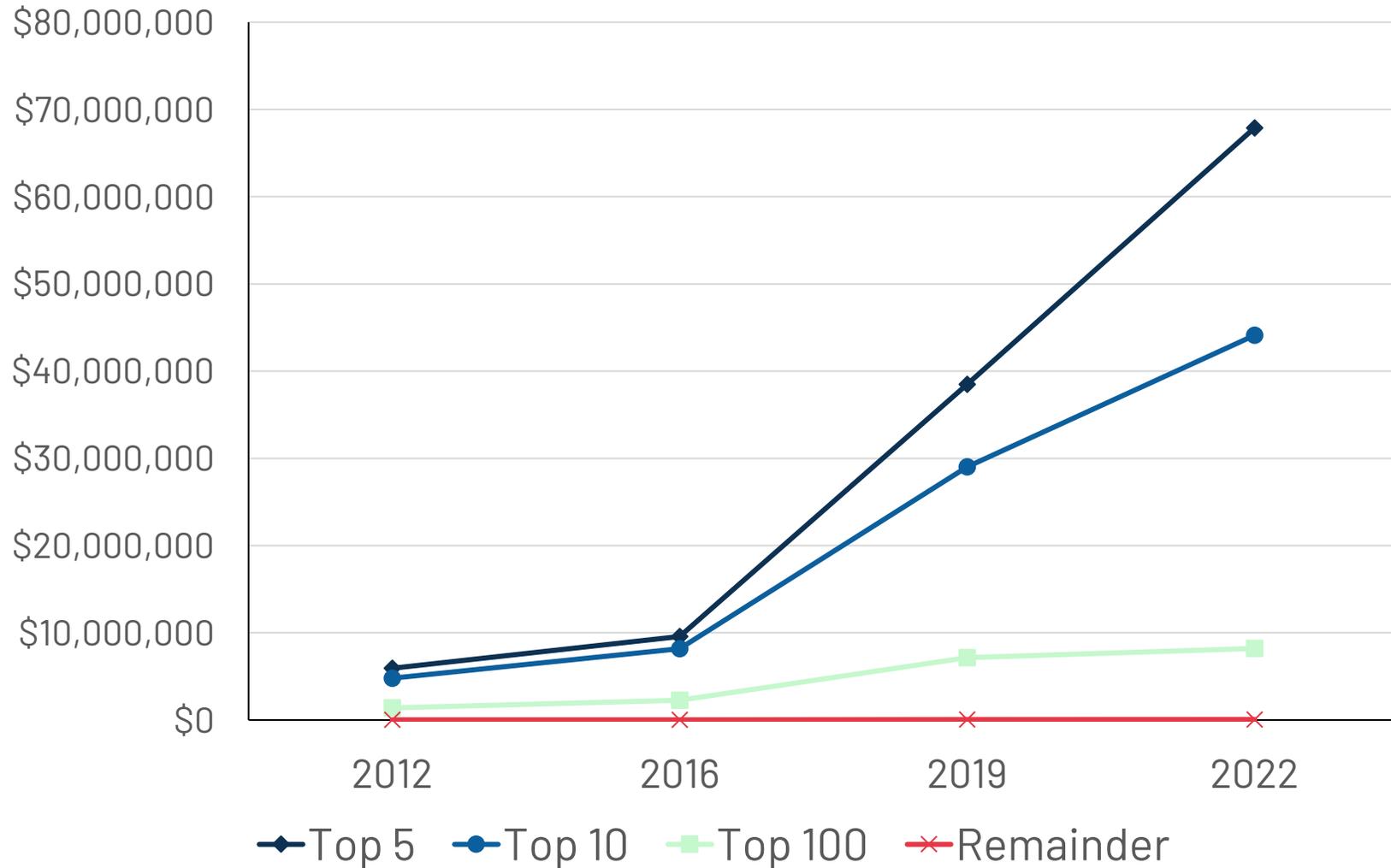
1. Reduce risk of tax loss from remote work and business relocation;
2. Reduce volatility and other risks stemming from over-concentration of business taxes on a small number of payers;
3. Simplify the overall tax structure to achieve greater predictability for both businesses and the City; and
4. Promote greater equity for small businesses.





# 11x Increase in Average Payment by Largest Businesses

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





# Leading to Increasing Concentration Risk

## 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%)



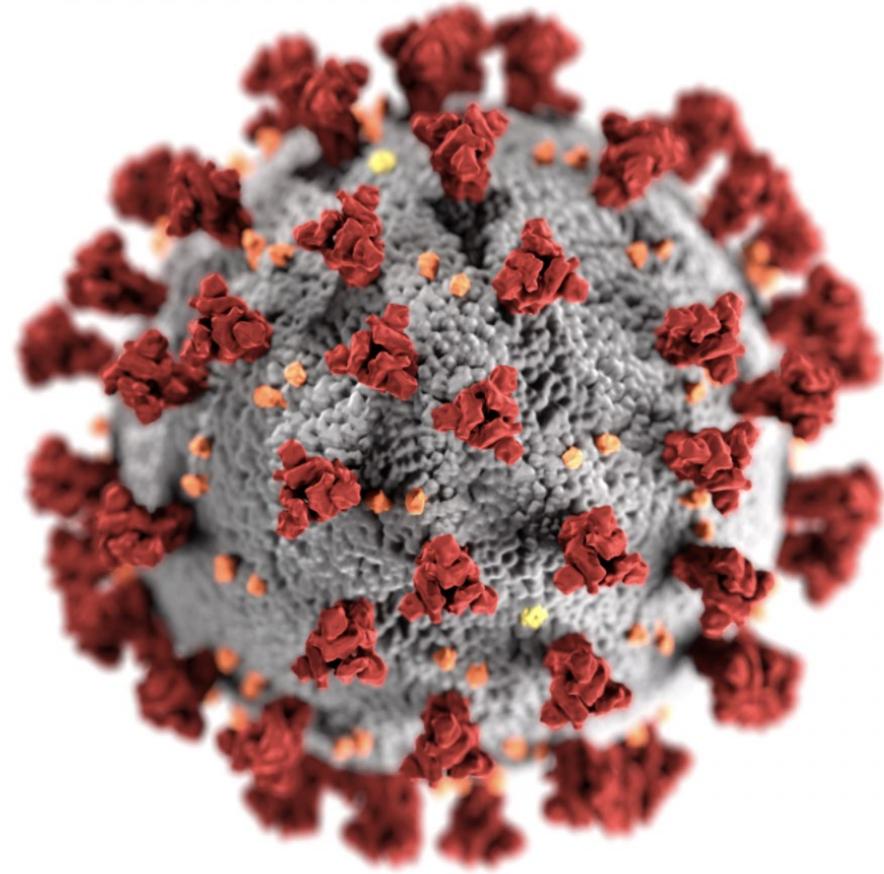
# SF business taxes are much higher than in surrounding cities

<b>Large Tech Company</b>	
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

# Then, COVID...

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# GRT Revenue Lost to Remote Work, 2021



Industry	2021 Gross Receipts Tax Revenue (\$B)	2021 GRT using 2019 Payroll Factor (\$B)	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
<b>Total, Three Sectors</b>	\$60.5	\$99.9	\$485



# How does Prop M fix these issues?

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1. Reduces the penalty of having employees in San Francisco
2. Simplifies the overall tax structure to achieve greater predictability for both businesses and the City
3. Promotes greater equity for small businesses



# 1: Reduce reliance on payroll apportionment

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- Current gross receipts tax calculation is very complicated. There are 14 different tax categories, and each one has a formula that dictates which of their receipts “count” for San Francisco.
  - For example, for a lot of technology companies, the way they figure out their tax bill is based on how much they pay employees who work in San Francisco.
  - For other companies, they factor in how much they sell in San Francisco.
- Prop M simplifies all the formulas so that it is more (75%) based on what you sell in San Francisco and less (25%) based on where your workers are located.

## 2: More predictability for both businesses and the City



- Simplify administration of the tax and reduce potential conflicts between the City and taxpayers;
- Reduce the need for overpayments and refunds by better aligning local tax filing deadlines with state and federal deadlines;





## 3: Greater equity for small businesses

- Increase the Small Business Exemption to \$5 million
  - Estimated 88% of all restaurants will be exempt
  - Estimated 50% of retailers who currently pay Gross Receipts Taxes will be exempt
- Revenue model assumes elimination of \$10 million in license fees, to be adopted legislatively and triggered upon passage of the measure



# Homelessness GRT

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- Legally dedicated revenues available for homeless services remain unchanged versus the voter-adopted system currently in place.
- The base of taxpayers for the tax is expanded– previously only businesses with more than \$50M in San Francisco gross receipts. Under Prop M, businesses with more than \$25M will pay HGRT.



# Impact on City Budget

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- The package is revenue neutral over time.
- Modest reductions in taxes as the City's economy recovers over the next three years are offset by delayed and restructured Prop F (2020) increases offsetting those losses.
- These later increases will occur in 2027 and 2028, at increased rates of 4% and 3% respectively.



**Treasurer & Tax Collector**  
CITY AND COUNTY OF SAN FRANCISCO

# Questions?

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Project website: <https://www.sf.gov/san-francisco-business-tax-reform-project>

Gross Receipts Tax overview:  
<https://sftreasurer.org/business/gross-receipts-tax-overview>