

# Raising the Overpaid Executive Gross Receipts Tax / Reducing Business Taxes: Economic Impact Report



Office of the Controller  
Office of Economic Analysis

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# Introduction

- San Francisco's Overpaid Executive Gross Receipts Tax (OET) applies to certain large businesses with a high ratio of the compensation of their highest-paid managerial employee, to their median employee in San Francisco.
- The tax is progressive, based on this ratio, and generally applied against a business's San Francisco gross receipts. The highly-compensated individual is not taxed.
- A ballot measure (Proposition D on the June 2026 ballot) would re-define and raise the rates of the OET. The OET is a general tax, meaning the new revenue generated by the ballot measure may be used for any governmental purpose.
- A competing measure (Proposition C on the June ballot) would also raise OET rates, but by a much lower level, and also raise the small business exemption for the City's Gross Receipts Tax.
- The Office of Economic Analysis has prepared this report because the proposed measures could have a material impact on the city's economy.

# History of San Francisco's Overpaid Executives Tax

- The OET was originally enacted through a ballot measure in 2022.
- In 2024, Proposition M reduced OET rates by 80%. That measure also raised Gross Receipts tax rates, to make up the 80% drop in OET revenue.
- The proposed Proposition D would raise the OET rates above the levels originally approved by voters in 2022. According to the Controller's Office, the proposal would generate an additional \$250 million to \$300 million annually for the City's General Fund. This is roughly double what the OET generated in 2023, its first year of operation.

# OET Rate History

- The original, current, and proposed OET rates shown below apply to a business's San Francisco gross receipts, and are paid in addition to the Gross Receipts Tax and any other applicable business taxes.
- Proposition M (2024) scheduled small increases in current OET rates, in tax years 2027 and 2028. Currently, in tax years 2028 and beyond, the rates will range from 0.021% to 0.129%, up from the levels shown in the "Current OET" column below.

| Ratio     | Original 2022 OET | Current OET | Proposed OET |
|-----------|-------------------|-------------|--------------|
| 0 – 100   | 0%                | 0%          | 0%           |
| 100 – 200 | 0.100%            | 0.020%      | 0.183%       |
| 200 – 300 | 0.200%            | 0.040%      | 0.374%       |
| 300 – 400 | 0.300%            | 0.060%      | 0.556%       |
| 400 - 500 | 0.400%            | 0.080%      | 0.748%       |
| 500 – 600 | 0.500%            | 0.100%      | 0.930%       |
| 600+      | 0.600%            | 0.120%      | 1.121%       |

# Proposition D: Additional Details

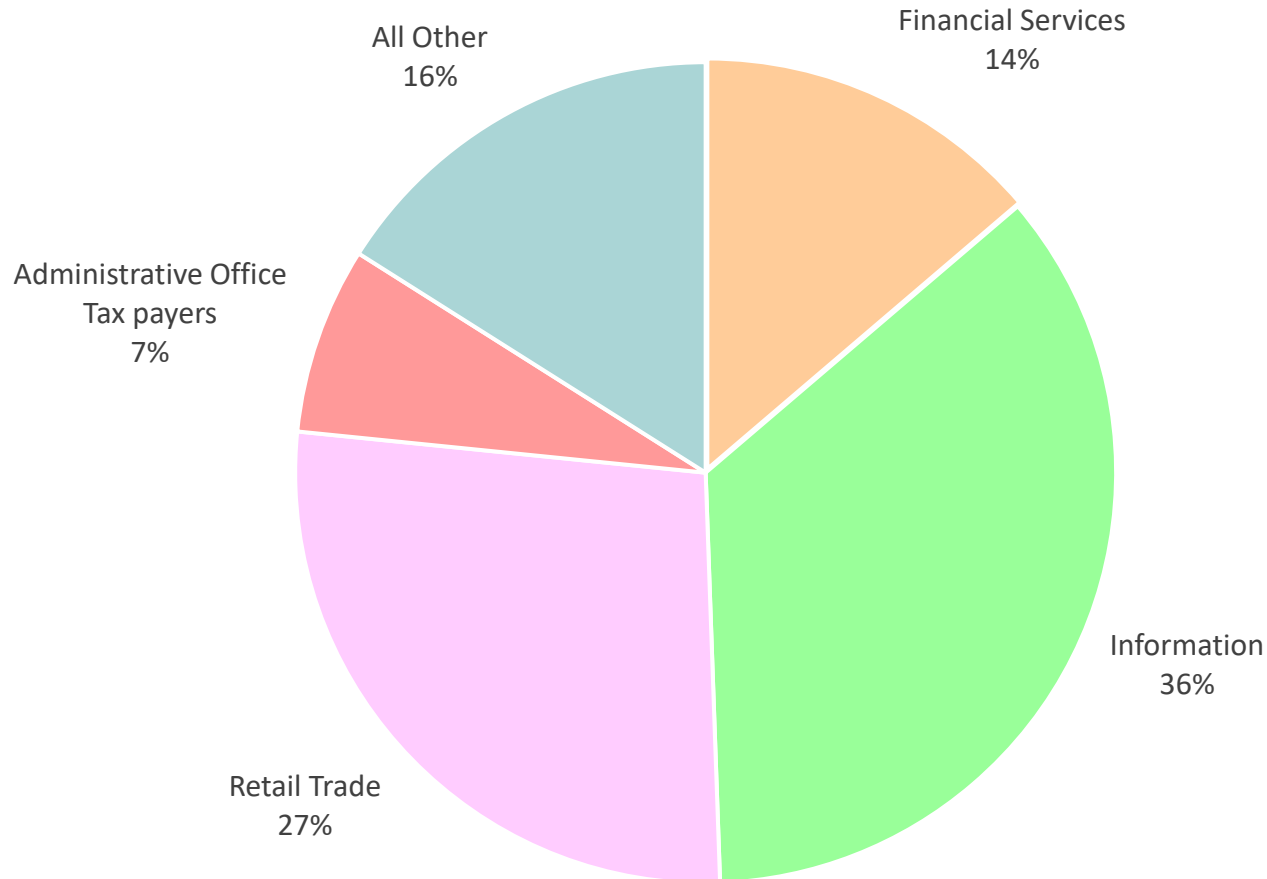
- In addition to raising the rates, Proposition D would make an additional change to the OET.
- Under the original OET, the ratio of the compensation of the highest-paid managerial employee, to the median compensation of employees in San Francisco, was used to calculate the tax rate.
- Under the proposal, the median compensation of all employees, regardless of location, is used to calculate the ratio. Since San Francisco wages are approximately 40% higher than U.S. average wages, on average, the average ratio of companies will rise. This implies that more companies will pay the tax than currently do. Mathematically, a 40% reduction in the median wage would lead to a 67% increase in the ratio.

# Details of the Legislation: Proposition C

- Proposition C would make two changes to the City's business tax system:
  1. It would bring forward the OET rate increases that are now scheduled for 2028, so that they would apply as of tax year 2027.
  2. It would raise the small business exemption for the City's Gross Receipts Tax and OET, from its current level of \$5 million, to \$7.5 million. Most businesses whose San Francisco Gross Receipts are below the small business exemption are exempt from the taxes.
- The Controller's Office has estimated that Proposition C would reduce the City's revenues by between \$30 million and \$40 million annually.

# Context: Estimated OET Payment by Industry

Distribution of Estimated 2027 OET Payments by Business Activity, Under Proposed Increase



The Controller's Office has estimated how much each Gross Receipts Tax paying business will owe in OET, should the proposed increase (Proposition D) go into effect.

Based on the industry which accounted for most of their San Francisco Gross Receipts in 2024, an estimate of OET tax liability by industry can be created, as shown to the left.

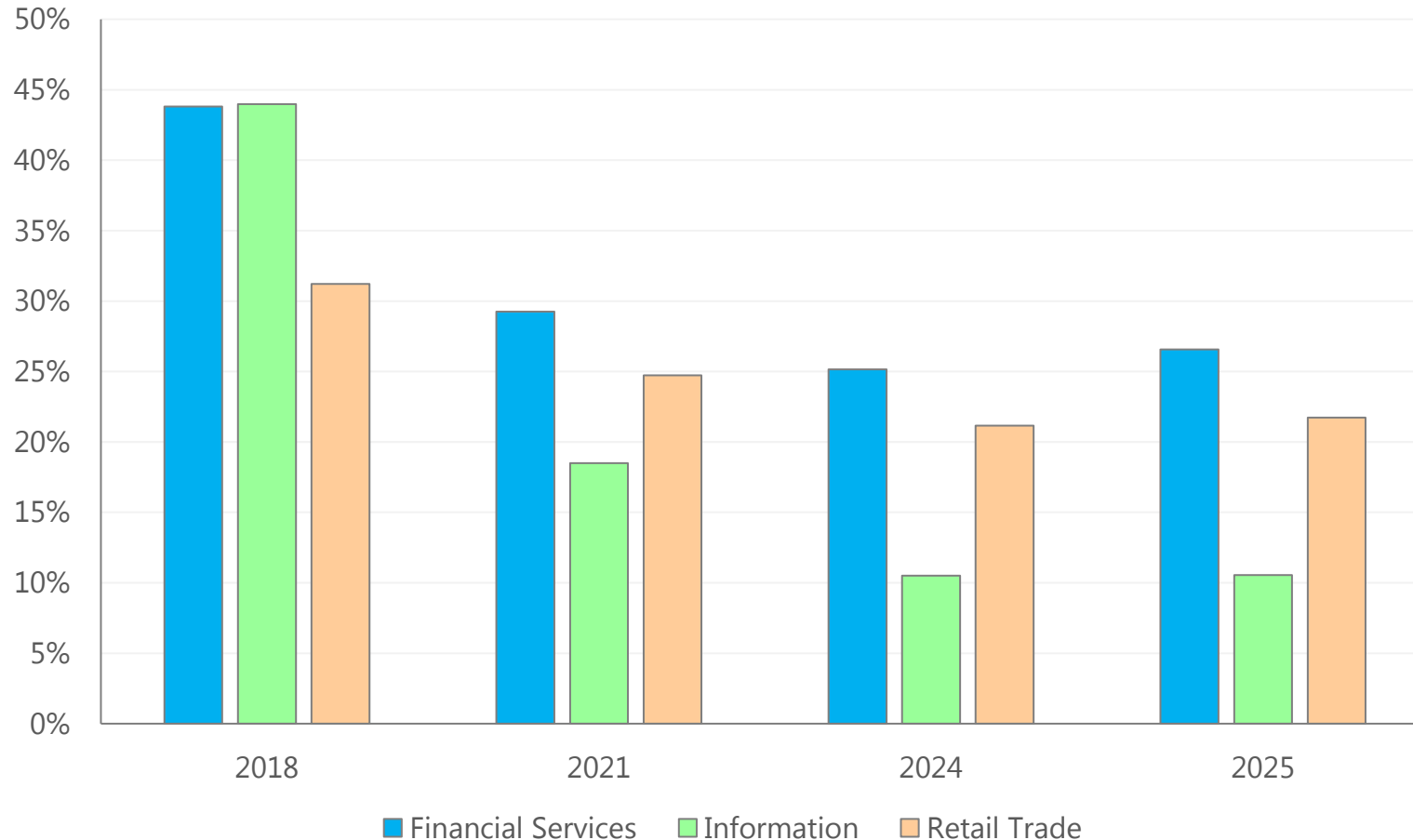
It indicates that the Information industry, will account for the largest share of the total, at 36%. Information, Retail Trade, and Financial Services are expected to account for 77% collectively.

To put these figures in context, in 2024, the Information, Financial Services, and Retail Trade industries accounted for 33%, 19%, and 5% respectively. The OET is likely over-concentrated in Retail Trade and Information, compared to the broader tax base.

Source: Office of the Treasurer and Tax Collector; Controller's Office

# Context: Payroll Concentration in San Francisco

Average Percentage of Total Company Payroll in San Francisco, Gross Receipts Tax Filers in Three Business Activities, 2018-2025



The industry sectors that will be most subject to the proposed OET increase have been reducing their presence in San Francisco since 2018, relative to other cities.

Among companies that mostly operate in the Information sector and filed taxes in 2018, 2021, 2024 and 2025, the average company had 44% of their total payroll in San Francisco in 2018, 19% in 2021, and 11% in 2024 and 2025. For Financial Services, the percentage fell from 44% to 27%, and for Retail Trade, from 31% to 22%.

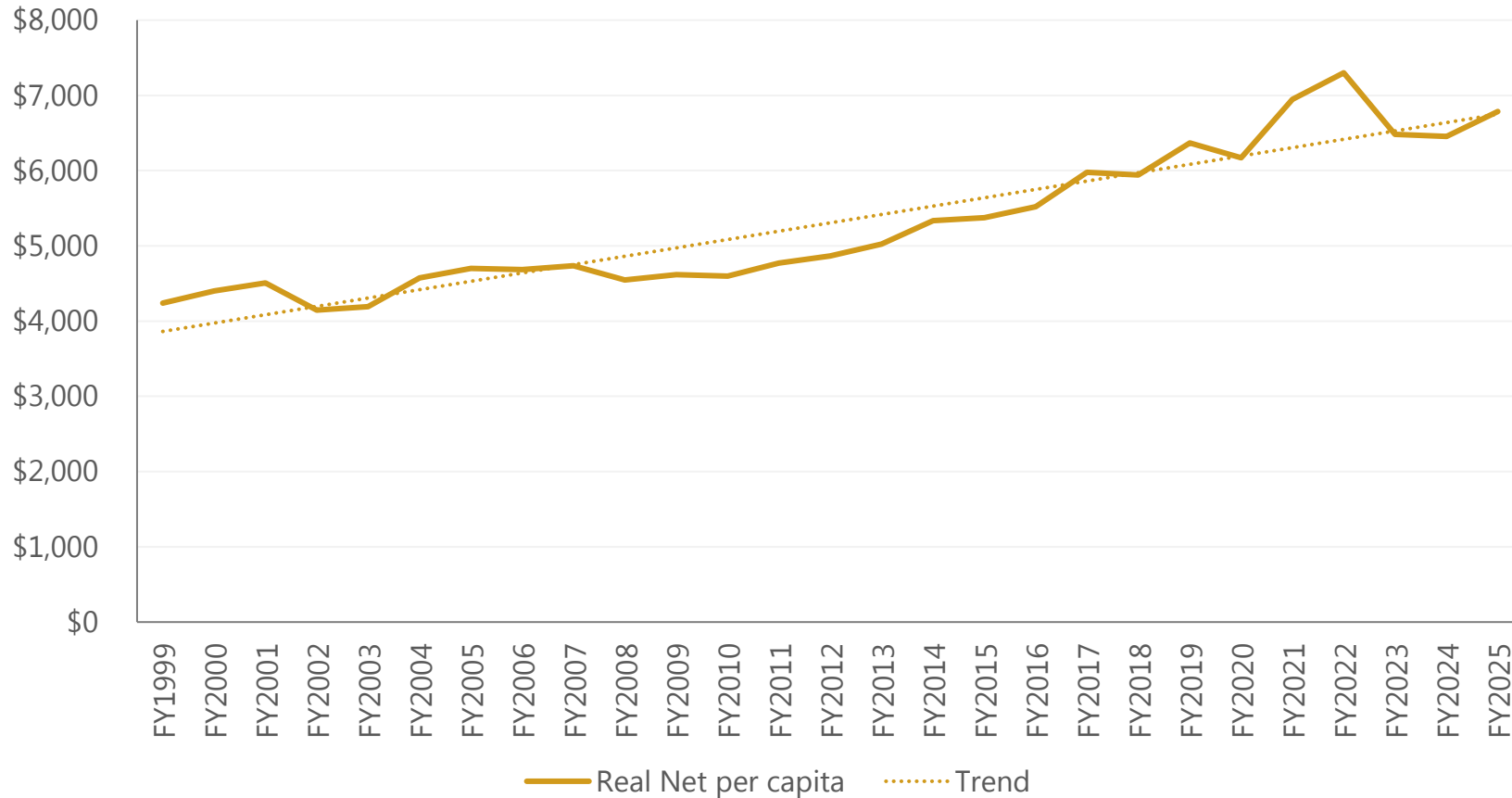
There are likely a number of reasons for this decline, including the shift to remote work during the pandemic, the city's falling population, and business tax increases enacted since 2018.

Regardless of the reasons, these trends are an indication of a weakening business tax base. These trends are not restricted to these three business activities but are found in every major business activity in the city.

Source: Office of the Treasurer and Tax Collector

# Context: Trend in General Fund Revenue per Resident

San Francisco General Fund Revenue per Resident, FY 1999 - FY 2025,  
(in Inflation-Adjusted 2025 dollars)



As noted earlier, the OET is a general tax, meaning it can be expended for any governmental purpose. The tax cuts associated with Proposition C will likewise impact the General Fund.

Over the past 25 years, the City's General Fund has been on a consistent upwards trajectory, when adjusted for inflation and the size of the city's population. The Fiscal Year (FY) 2025 figure of \$6,784 per resident is 7% larger than what it was in Fiscal Year 2019, before the pandemic, after adjusting for inflation.

While FY25 levels are below the FY21 and FY22 peaks, when the city experienced a COVID population shock, the most recent levels are on trend and are not signs of a prolonged downturn.

Source: Controller's Office; Bureau of Economic Analysis; Census Bureau

# Tax Impacts for Individual Hypothetical Businesses

- As noted earlier, Proposition D would make several changes to the existing OET, including raising rates and re-defining the compensation ratio.
- The apportionment rules of the City's Gross Receipts tax were also redefined in Proposition M, the 2024 business tax reform measure. Previously, the way most businesses' total gross receipts were apportioned to San Francisco for tax purposes was either entirely based on how much of its payroll expense was incurred in San Francisco, or a 50/50 split between the location of its payroll expense, and its sales.
- With the 2024 measure, that ratio shifted to being 75% based on the location of sales and 25% on the location of payroll. In general, this shift reduces the tax penalty associated with creating employment in San Francisco.
- Understanding the impact of the proposed OET changes on individual businesses involves considering these three changing features of the tax at the same time. On the pages that follow, pro-forma examples explore the original, current, and proposed tax's financial impact on representative, but hypothetical, San Francisco businesses.

# Hypothetical Tax Impacts: Large Tech (Information) HQ

|                              |                  |
|------------------------------|------------------|
| Sector:                      | Information      |
| Total Gross Receipts         | \$30,000,000,000 |
| Local Sales                  | \$30,000,000     |
| % of Payroll in SF           | 40%              |
| Ratio - original calculation | 350              |

Each of these models calculate San Francisco Gross Receipts for a hypothetical business, based on its assumed total Gross Receipts, within-San Francisco sales, and its share of total payroll expense incurred in the city. An assumption is also made for the ratio used in the OET rate calculation. It is assumed to be 67% higher under the Proposal, because of how Proposition D redefines the ratio.

|  | Original        | Current         | Proposed        |
|--|-----------------|-----------------|-----------------|
| San Francisco Gross Receipts*                      | \$6,015,000,000 | \$3,022,500,000 | \$3,022,500,000 |
| Applicable ratio - current and new version         | 350             | 350             | 583.45          |
| OET Tax Rate                                       | 0.3000%         | 0.0600%         | 0.9300%         |
| OET Tax  | \$18,045,000    | \$1,813,500     | \$28,109,250    |
| If Payroll Factor = 0%                             | \$45,000        | \$13,500        | \$209,250       |
| OET Tax savings from eliminating all SF payroll    | \$18,000,000    | \$1,800,000     | \$27,900,000    |
| % Savings of OET Tax by eliminating all SF payroll | 99.8%           | 99.3%           | 99.3%           |

The first yellow row shows what the OET for the company would have been under the original, current, and proposed rates. The second yellow row shows how much OET could be saved by moving all jobs/payroll expense out of San Francisco.

In this example, the proposal would lead to a substantial increase in OET liability. Although San Francisco Gross Receipts are now based only 25% on payroll, for this locally-headquartered company, the payroll factor contributes most to Gross Receipts, and this accounts for the tax savings from reducing payroll in the city.

\* San Francisco Gross Receipts were redefined by Proposition M in 2024, which is why they are lower for the Current and Proposed examples.

# Hypothetical Tax Impacts: Other Information Company

|                              |                  |
|------------------------------|------------------|
| Sector:                      | Information      |
| Total Gross Receipts         | \$10,000,000,000 |
| Local Sales                  | \$10,000,000     |
| % of Payroll in SF           | 5%               |
| Ratio - original calculation | 450              |

The same dynamic applies to a large tech company that is headquartered elsewhere, and has only 5% of its total payroll expense in the city.

Again, its OET liability would be higher under the proposal than under the current or the original OET. This is because both the ratio and its corresponding tax rate are much higher than under the original or current OET.

Note that the Proposition M redefinition of apportionment rules reduces this company's San Francisco Gross Receipts by nearly half. Nevertheless, the OET rate is high enough that the company's OET is more than 40% higher than under the original OET.

Despite the fact that the city only accounts for 5% of the company's payroll expense, the bulk of its gross receipts are still due to that payroll factor. Thus, it would reduce its OET liability by 94% by moving all jobs/payroll expense out of the city.

|  | Original      | Current       | Proposed      |
|--|---------------|---------------|---------------|
| San Francisco Gross Receipts*                      | \$255,000,000 | \$132,500,000 | \$132,500,000 |
| Applicable ratio - current and new version         | 450           | 450           | 750.15        |
| OET Tax Rate                                       | 0.4000%       | 0.0800%       | 1.1210%       |
| OET Tax  | \$1,020,000   | \$106,000     | \$1,485,325   |
| If Payroll Factor = 0%                             | \$20,000      | \$6,000       | \$84,075      |
| OET Tax savings from eliminating all SF payroll    | \$1,000,000   | \$100,000     | \$1,401,250   |
| % Savings of OET Tax by eliminating all SF payroll | 98.0%         | 94.3%         | 94.3%         |

\* San Francisco Gross Receipts were redefined by Proposition M in 2024, which is why they are lower for the Current and Proposed examples.

# Hypothetical Tax Impacts: Large Retailer

|                              |                  |
|------------------------------|------------------|
| Sector:                      | Retail Trade     |
| Total Gross Receipts         | \$90,000,000,000 |
| Local Sales                  | \$350,000,000    |
| % of Payroll in SF           | 1%               |
| Ratio - original calculation | 250              |

A large national retailer, headquartered elsewhere with only 1% of its payroll expense in San Francisco, would nevertheless pay more under the proposal than either the current or original OET. Again, this is because its ratio under the proposal is higher than under the original or current OET, and because the rates are higher at each tier.

|  | Original      | Current       | Proposed      |
|--|---------------|---------------|---------------|
| San Francisco Gross Receipts*                      | \$625,000,000 | \$487,500,000 | \$487,500,000 |
| Applicable ratio - current and new version         | 250           | 250           | 416.75        |
| OET Tax Rate                                       | 0.2000%       | 0.0400%       | 0.7480%       |
| OET Tax  | \$1,250,000   | \$195,000     | \$3,646,500   |
| If Payroll Factor = 0%                             | \$350,000     | \$105,000     | \$1,963,500   |
| OET Tax savings from eliminating all SF payroll    | \$900,000     | \$90,000      | \$1,683,000   |
| % Savings of OET Tax by eliminating all SF payroll | 72%           | 46%           | 46%           |

This hypothetical retailer derives much more of its San Francisco Gross Receipts from local sales as opposed to local payroll, so its savings from moving all jobs/payroll out of the city would amount to only 46%.

\* San Francisco Gross Receipts were redefined by Proposition M in 2024, which is why they are lower for the Current and Proposed examples.

# Economic Impact Factors

- Both measures involve a change in business tax liabilities, paired with a corresponding change in City spending from the General Fund.
- For the Proposition D increase to the OET rates, the tax increase will encourage affected businesses to reduce their tax burden by reducing employment in the city, or by raising prices; both reactions would weaken the city's economy. On the other hand, the growth in City revenue will tend to expand public sector spending and employment, and this tends to expand the city's economy.
- For the Proposition C tax reduction, the increase in the small business exemption will benefit affected businesses and encourage their expansion in San Francisco. The reduction in City revenue will have contractionary effects on City spending and employment.
- The very small increase in OET rates in Proposition C is not considered.

# Economic Impact Assessment

- To model both measures, the OEA used its REMI model of the San Francisco economy to estimate the net impact of the production cost and City revenue changes described on the previous page.
- For Proposition D, we modeled the impact of a \$275 million increase in production costs for the industries described on page 7, and a \$275 million increase in City spending.
- For Proposition C, we modeled the impact of a \$35 million decrease in production costs via the higher small business exemption, against a \$35 million decrease in City spending.

# Economic Impact Assessment Results

- The REMI simulation suggests that the impact of Proposition C is quite small: a net gain of 90 jobs, on average over the next 20 years, and a GDP gain of \$20 million.
- The impact of Proposition D is larger, and negative, as shown in the table below. Employment gains in the public sector are projected to be more than outweighed by losses across the private sector.
- The REMI model uses average industry impacts and does not account for the possibility that a tax concentrated on large companies, which are already generally reducing their presence in the city, could generate a larger adverse impact on the city's economy.

| <b>Indicator</b>                                      | <b>20-Year Average Impact Under Prop D</b> |
|---|--|
| Total Employment                                      | -944                                       |
| Gross Domestic Product (Million 2025 \$)              | -\$206                                     |
| Real Disposable Personal Income per Capital (2025 \$) | -\$108                                     |
| PCE Price Inflation                                   | 0.1%                                       |

# Conclusions

- San Francisco's post-COVID economy features a weakening business and property tax base, alongside continued growth in per capita General Fund revenue. This situation, while not inherently unsustainable, creates heightened risk.
- Recognizing both the vulnerability of the City's business tax base to remote work, and its over-reliance on a few large companies, Proposition M in 2024 attempted to reduce the tax incentive associated with relocating jobs out of San Francisco. It did so, in part, by reducing the OET, which disproportionately affects those companies.
- Proposition D would reverse this aspect of the reform effort. It represents a policy choice to raise business taxes in a period when there is substantial evidence that businesses are reducing their presence in San Francisco, relative to other locations.
- San Francisco's economy cannot credibly be described as being in a downward spiral at the moment. But raising taxes on a shrinking tax base—and thus encouraging further relocation out of the city—does raise that risk. If the City deferred major business tax policy changes until its economy and finances are stabilized, the long-term risk to the economy would be mitigated.

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