

Alert | State & Local Tax (SALT)



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Proposed Reforms to the San Francisco Business Tax System

Following the impact of remote and hybrid work on San Francisco, the San Francisco Offices of Treasury and Controller drafted a **joint proposal** to mitigate risks in the current tax structure. The proposal may serve as a framework for a ballot measure presented to voters on the November 2024 ballot. The proposal currently is revenue neutral; however, it is not yet clear where the final measure could land.

Key Details of Reform

The recommendations are a result of approximately 30 meetings with community members and stakeholders. The reforms aim to address the risk of lost tax revenue, consolidation and vulnerability in the tax base, tax compliance complexity, and tax burdens on small businesses. To accomplish these goals, the proposal would move away from the payroll factor and the Commercial Rents Tax, expand the Gross Receipt Tax structure, reduce taxes and fees on small businesses, and increase the Small Business Exemption.

Additionally, the recommendations address the lack of predictability for both the city, in projecting tax revenues, and taxpayers, in projecting future tax liabilities. To provide the city with more predictable revenues, the proposal seeks to simplify the tax system with the goal of increased voluntary compliance. To provide taxpayers with greater predictability, the proposal includes certain requirements for any future tax reform efforts.

Procedural Implications

The proposal also includes a number of procedural changes. First, it would reduce the number of tax schedules to simplify administration of, and compliance with, the tax system. Second, it includes codification of a voluntary disclosure program and dedicates more resources to providing administrative guidance to taxpayers. Finally, the proposal recommends reforming the process by which tax measures qualify for a ballot including eliminating the ability of either a minority of the Board of Supervisors or the mayor to directly place a tax measure on the ballot outside of the standard legislative process. This reform would align San Francisco's procedure with the process that other cities in California already follow.

GT Takeaway

If passed, the proposal would significantly simplify the San Francisco business tax system by collapsing the myriad of taxes into one tax and moving away from a hybrid payroll and sales factor apportionment scheme. The proposal, being revenue neutral, does not decrease the overall tax burden on taxpayers operating a business in San Francisco. As a result, taxpayers and related business groups may continue to push the city to reduce the overall tax burden on taxpayers in addition to the proposed simplification measures.

Authors

This GT Alert was prepared by:

- [Shail P. Shah](#) | +1 415.655.1306 | Shail.Shah@gtlaw.com
- [Katy Stone](#) | +1 415.590.5139 | Katy.Stone@gtlaw.com

Greenberg Traurig's State and Local Tax (SALT) Team:

Arizona

- [Jake B. Smith](#) | +1 602.445.8334 | Jake.Smith@gtlaw.com

California

- [Bradley R. Marsh](#) | +1 415.655.1252 | Bradley.Marsh@gtlaw.com
- [G. Michelle Ferreira](#) | +1 415.655.1305 | ferreiram@gtlaw.com
- [Colin W. Fraser](#) | +1 949.732.6663 | frasercw@gtlaw.com
- [Courtney A. Hopley](#) | +1 415.655.1314 | hopleyc@gtlaw.com
- [Cris K. O'Neill](#) | +1 949.732.6610 | oneallc@gtlaw.com
- [Shail P. Shah](#) | +1 415.655.1306 | Shail.Shah@gtlaw.com
- [Ruben Sislyan](#) | +1 310.586.7765 | sislyanr@gtlaw.com
- [James T. Smith](#) | +1 415.590.5104 | James.Smith@gtlaw.com
- [Katy Stone](#) | +1 415.590.5139 | Katy.Stone@gtlaw.com
- [Jennifer A. Vincent](#) | +1 415.655.1249 | vincentj@gtlaw.com

Colorado

- Marc J. Musyl | +1 303.572.6585 | Marc.Musyl@gtlaw.com
- Neil Oberfeld | +1 303.685.7414 | oberfeldn@gtlaw.com
- Andrew P. Rubin | +1 303.572.6552 | Andrew.Rubin@gtlaw.com

Delaware

- Jonathan I. Lessner | +1 302.661.7363 | lessnerj@gtlaw.com

Florida

- Marvin A. Kirsner | +1 954.768.8224 | kirsnerm@gtlaw.com
- Joel D. Maser | +1 954.765.0500 | Joel.Maser@gtlaw.com

Illinois

- Lawrence H. Brenman | +1 312.456.8437 | brenmanl@gtlaw.com

Massachusetts

- Brian Gaudet | +1 617.310.6000 | Brian.Gaudet@gtlaw.com
- James P. Redding | +1 617.310.6061 | reddingj@gtlaw.com
- Robert C. Ross | +1 617.310.5299 | bob.ross@gtlaw.com

New Jersey

- Martin L. Lepelstat | +1 973.443.3501 | lepelstatm@gtlaw.com

New York

- Scott E. Fink | +1 212.801.6955 | finks@gtlaw.com
- Barbara T. Kaplan | +1 212.801.9250 | kaplanb@gtlaw.com
- Ivy J. Lapidés | +1 212.801.9208 | Ivy.Lapides@gtlaw.com
- Glenn Newman | +1 212.801.3190 | newmang@gtlaw.com
- Shira Peleg | +1 212.801.6754 | pelegs@gtlaw.com

Northern Virginia

- Richard J. Melnick | +1 703.903.7505 | melnickr@gtlaw.com

Oregon

- Nikki E. Dobay | +1 916.868.0616 | Nikki.Dobay@gtlaw.com

Texas

- Josh Prywes | +1 214.665.3626 | Josh.Prywes@gtlaw.com

Washington, D.C.

- DeAndré R. Morrow | +1 202.533.2317 | morrowde@gtlaw.com
- Samantha K. Trencs | +1 202.331.3100 | Samantha.Trencs@gtlaw.com

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