

Alert | State & Local Tax (SALT)



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San Francisco Voters Pass Proposition M: Changes to Business Taxes

On Nov. 6, 2024, San Francisco voters passed **Proposition M**, 69% to 31%, setting the stage for significant changes to the city's business taxes. As noted in the proposals and early drafts of Proposition M, the changes aim to increase the city's tax revenues starting in 2028, address vulnerable businesses and persons in the tax base, decrease compliance hurdles, and decrease the burden on small businesses. For a more detailed explanation of the Proposition M proposals, see our **February 2024 GT Alert**. Proposition M takes effect Jan. 1, 2025.

Summary of Proposition M Changes

- **Gross Receipts Tax Revisions:** Most small businesses with gross receipts up to \$5 million will be exempt from the gross receipts tax, an increase from the current \$2.25 million exemption. Beginning in 2025, the calculation of the tax base will rely even more on sales, moving away from payroll expenses. Proposition M also simplifies compliance and tax calculations for both the gross receipts tax and homelessness gross receipts tax, as it reduces the number of schedules from 14 business activity categories to seven.
- **Rate Increases:** San Francisco projects that Proposition M will lower revenue through 2027 and then raise revenue by about \$50 million annually for the city. The changes in projected revenue are based on adjustments and subsequent increases in rates for the gross receipts, homelessness gross receipts, administrative office, and overpaid executive taxes. Increases take effect in 2027 and 2028.

- **Advance-Determination Program:** Proposition M requires the San Francisco Office of the Treasurer and Tax Collector to establish an advance-determination process to provide written guidance to taxpayers. Proposition M further requires that the city controller report the efficacy of these changes to the public in September 2026 and 2027.

Takeaway

Proposition M's passage represents a significant overhaul to San Francisco's business tax system. These changes aim to increase the city's revenue while simplifying tax compliance and reducing the tax burden on small businesses. The city plans to allocate such revenue toward preventing homelessness, incentivizing new construction in San Francisco, and providing tax credits to support crucial sectors of the local economy. Businesses operating in San Francisco should review these changes and consult with their tax advisors to understand the implications for their own operations.

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