

Alert | State & Local Tax (SALT)



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Tax Measures on San Francisco's November 2020 Ballot

San Francisco's 2020 Ballot will include five tax and bond measures, which if passed would provide for a total of \$980 million in debt service for bonds, and tax increases of approximately \$401 to \$481 million annually, each discussed in greater detail below:

- **Proposition A: Health and Homelessness, Parks, and Streets Bond**

Proposition A will have San Francisco voters deciding whether to incur bonded indebtedness in an amount not to exceed \$487,500,000 to finance the acquisition and improvement of property to deliver services for those experiencing mental health challenges, substance abuse disorders, and/or homelessness. The proposition authorizes landlords to pass-through 50% of the resulting property tax increase to residential tenants. Per the Controller, the approximate annual cost of the bonds that would be borne by property owners would vary between approximately \$11-14 per \$100,000 of assessed value each year. San Francisco asserts that this measure would require a supermajority (66.6% + 1) to pass.

- **Proposition F: Business Tax Overhaul**

Proposition F would amend the San Francisco Charter and City ordinances to: (1) reduce the annual Business Registration Fee for businesses with \$1,000,000 or less in San Francisco gross receipts, (2) increase the small business exemption ceiling for the Gross Receipts Tax to \$2,000,000 and increase the annual Business Registration Fee on businesses benefiting from this increased ceiling, (3) modify the Gross Receipts Tax by generally increasing rates across a series of years, (4) repeal the Payroll Expense

Tax, currently at a 0.38% tax rate, (5) increase the Gross Receipts Tax on certain taxpayers for 20 years if a final judicial decision has the effect of invalidating the Homelessness Gross Receipts Tax and the Early Care and Education Commercial Tax that is currently being challenged in the courts, (6) impose a new general tax on the gross receipts from the lease of certain commercial space for 20 years if a final judicial decision has the effect of invalidating the Early Care and Education Commercial Rents Tax Ordinance, and (7) make other changes to the City's business taxes. San Francisco asserts that this measure would require a majority (50% plus 1) vote to pass.

- **Proposition I: Real Estate Transfer Tax**

Proposition I would increase the real property transfer tax rate from 2.75% to 5.5% on transfers of property with consideration or value of \$10 million or more. It would also increase the tax rate from 3% to 6% for the transfer of property with consideration of value of \$25 million or more. Unfortunately, this new tax rate is not a graduated rate, and would apply to the entirety of any property sold or transferred in excess of \$10 million. San Francisco would have the highest real property transfer tax rates in the nation if this Proposition is passed by voters. San Francisco asserts that this measure would require a majority (50% plus 1) vote to pass.

- **Proposition J: Parcel Tax for San Francisco Unified School District**

Proposition J would amend the Business and Tax Regulations Code and Administrative Code to repeal the annual parcel tax in the Living Wage for Educators Act of 2018. The Living Wage for Educators Act of 2018 set an annual parcel tax of \$320, and Proposition J would repeal that law and replace it with a \$288 annual parcel tax to be spent by the San Francisco Unified School District for purposes relating to educators' compensation and educational improvements. The Living Wage for Educators Act of 2018 is currently being challenged in the courts. San Francisco asserts that this measure would require a supermajority (66.6% plus 1) to pass.

- **Proposition L: Business Tax Based on Comparison of Top Executive's Pay to Employee's Pay**

Proposition L, commonly referred to as the "CEO Tax" or the "Overpaid Executive Gross Receipts Tax," would amend the Business and Tax Regulations Code to impose an additional gross receipts tax or an additional administrative office tax on businesses with a ratio of the compensation of the business' highest paid managerial employees to the median compensation paid to the business' employees of greater than 100:1. The Overpaid Executive Gross Receipts Tax would be based upon a company's gross receipts and would be calculated as follows:

- A 0.1% tax on the company's taxable gross receipts for the tax year if the ratio exceeds 100:1, but is less than or equal to 200:1,
- A 0.2% tax on the company's taxable gross receipts for the tax year if the ratio exceeds 200:1, but is less than or equal to 300:1,
- And so on, with a cap at 0.6% for those companies whose ratio exceeds 600:1.

There are separate calculations related to the administrative office tax that would be imposed on those businesses, as follows:

- 0.4% of the company's total payroll expense attributable to the City if the ratio exceeds 100:1, but is less than or equal to 200:1,

- 0.8% of the company’s total payroll expense attributable to the City if the ratio exceeds 200:1, but is less than or equal to 300:1,
- 1.2% of the company’s total payroll expense attributable to the City if the ratio exceeds 300:1, but is less than or equal to 400:1,
- 1.6% of the company’s total payroll expense attributable to the City if the ratio exceeds 400:1, but is less than or equal to 500:1,
- 2.0% of the company’s total payroll expense attributable to the City if the ratio exceeds 500:1, but is less than or equal to 600:1,
- 2.4% of the company’s total payroll expense attributable to the City if the ratio exceeds 600:1.

San Francisco asserts that this measure would require a majority (50% plus 1) vote to pass.

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