



**SF**

**GROSS RECEIPTS TAX AND  
BUSINESS REGISTRATION  
FEES ORDINANCE**

**2014**

# CHANGE IS COMING!

If there are three things you take away from this presentation...

# 1

Registration Fees for All Businesses are Increasing in 2014

# 2

Many businesses will qualify for a small business exemption from the Payroll Expense Tax and/or Gross Receipts Tax

# 3

The Office of the Treasurer & Tax Collector will publish forms and instructions to assist taxpayers

You can find a detailed summary of the Ordinance at the following website:

[www.sftreasurer.org/grossreceipts](http://www.sftreasurer.org/grossreceipts)

# LEGISLATIVE PROCESS

## Board of Supervisors/Mayor

Proposed changes to local taxes, subject to voter approval



## Voters

Approved Proposition E in November 2012 with over 70% support, instituting the Gross Receipts Tax and changing Business Registration Fees



## Treasurer-Tax Collector

Implements Gross Receipts Tax and Business Registration Fees approved by voter

May issue rules and regulations to assist in taxpayer compliance

Only the Board of Supervisors or Voters may amend the law



# DEFINITION OF GROSS RECEIPTS (SEC. 952.3)

- "Gross receipts" means the total amounts received or accrued by a person from whatever source derived, including, but not limited to, amounts derived from sales, services, dealings in property, interest, rent, royalties, dividends, licensing fees, other fees, commissions and distributed amounts from other business entities.
- Gross receipts includes but is not limited to all amounts that constitute gross income for federal income tax purposes.
- Gross receipts, including advance payments, shall be included in a taxpayer's gross receipts at the time such receipts are recognized as gross income for federal income tax reporting purposes.
- The law contains specific inclusions and exclusions from gross receipts for a number of industries, such as construction and financial services.

# EXCLUSIONS & CREDITS

## Receipts excluded from Gross Receipts

- Federal, State, and Local Taxes (Sec. 952.3(c))
- Gifts, Grants, and Loans (Sec. 952.3(d))
- Investments and Financial Instruments (Sec. 952.3(d) and (e))
- Amounts Received from Pass-Through Entities and Entities Related to the Taxpayer (Sec. 952.3(d))
- 50% of Receipts from Rent Controlled Units (Sec. 954(d))
- Receipts from Property Sales Subject to Transfer Tax (Sec. 954(e))

## Credits Against Tax Liability

- Tax Paid Elsewhere On Same Gross Receipts (Sec. 954(g))
- “Payroll Expense Tax Exclusion” Credit (Sec. 960)

## Limit on Tax Liability

- Central Market Street Limit (Sec. 961)

# EXEMPT ENTITIES-GROSS RECEIPTS TAX

## **Small Business**

Enterprise with \$1 million or less of gross receipts  
(Sec. 954.1)

## **Income Tax Exempt Organizations**

(Sec. 954(a)) without unrelated trade or business income

## **Constitutionally and Legally Exempt Organizations**

(Sec. 954(c) &(f))

# RELATED ENTITIES & COMBINED RETURNS

- For purposes of both the gross receipts tax and the business registration fee, taxpayers must file returns on a combined basis with all of their related entities.
- Section 952.5 defines a “related entity” as one permitted or required to have its income reflected on a combined return with the taxpayer under provisions of the California Revenue and Taxation Code.
- Such taxpayers are required to determine their gross receipts tax and registration fee based on the gross receipts from the taxpayer and other commonly-owned entities as reported on the combined return.
- That single return will report the gross receipts for all business locations of the person and all of its related entities.
- Section 956.3 provides rules related to filing combined returns.

# DETERMINING GROSS RECEIPTS IN THE CITY

There are three methods of determining Gross Receipts in the City under the Ordinance

1

Allocation of Receipts from Real, Personal, Tangible, and Intangible Property (Section 956.1)

2

Apportionment of Receipts Based on Payroll (Section 956.2)

3

Receipts derived from or related to properties located or used within the City (Section 953.3(e), 953.7(c))

Section 953 specifies which method applies to determining Gross Receipts in the City for each Gross Receipts Tax Category



# FY 2014-15 BUSINESS REGISTRATION FEES (SEC.855(C))

Payroll Expense for the Immediately Preceding Tax Year	Annual Registration Fee
\$0 to \$66.66	\$75
\$66.67 to \$75,000	\$150
\$75,001 to \$100,000	\$250
\$100,001 to \$150,000	\$500
\$150,001 to \$200,000	\$700
\$200,001 to \$250,000	\$800
\$250,001 to \$1,000,000	\$300
\$1,000,001 to \$2,500,000	\$800
\$2,500,001 to \$5,000,000	\$5,000
\$5,000,001 to \$10,000,000	\$15,000
\$10,000,001 to \$25,000,000	\$25,000
\$25,000,001 to \$40,000,000	\$30,000
\$40,000,001 and Over	\$35,000

# GROSS RECEIPTS TAX CATEGORIES (SEC. 953)



Retail Trade; Wholesale Trade; and Certain Service



Manufacturing; Transportation and Warehousing; Information; Bio-Technology; Clean Technology; and Food Services



Accommodations; Utilities; and Arts, Entertainment and Recreation



Private Education and Health Services; Administrative and Support Services; and Miscellaneous Business Activities



Construction



Financial Services; Insurance; and Professional, Scientific and Technical Services



Real Estate and Rental and Leasing Services



Administrative Office Activities

# GROSS RECEIPTS TAX RATES (SEC. 953)

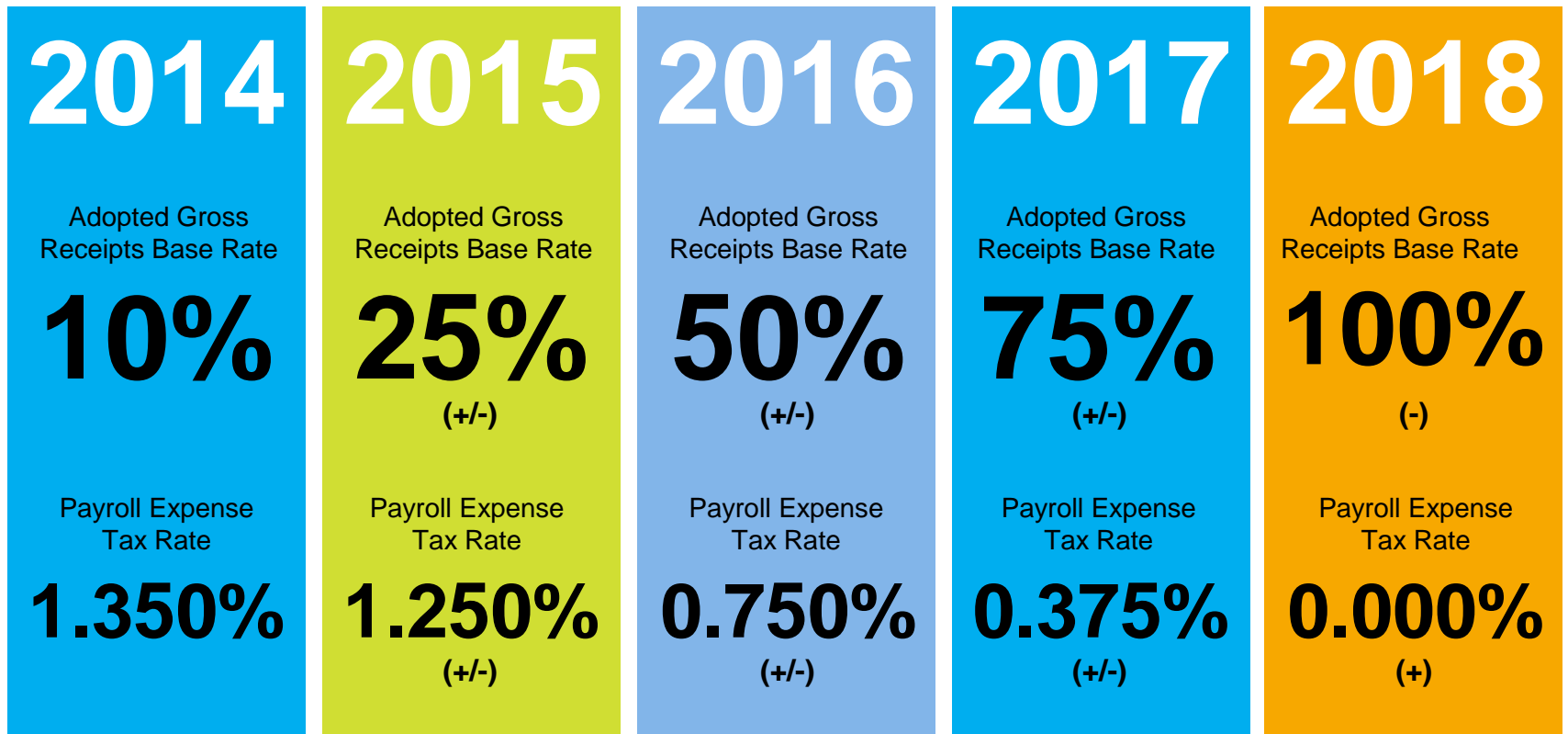
Section 953._	\$0-\$1,000,000	\$1,000,001 - \$2,500,000	\$2,500,001 - \$25,000,000	Over \$25,000,000
1	0.075%	0.100%	0.135%	0.160%
2	0.125%	0.205%	0.370%	0.475%
3	0.300%	0.325%	0.325%	0.400%
4	0.525%	0.550%	0.600%	0.650%
5	0.300%	0.350%	0.400%	0.450%
6	0.400%	0.460%	0.510%	0.560%

Section 953._	\$0-\$1,000,000	\$1,000,001 - \$5,000,000	\$5,000,001 - \$25,000,000	Over \$25,000,000
7	0.285%	0.285%	0.300%	0.300%

Section 953.8 specifies a 1.4% tax rate on Payroll Expense for businesses that qualify as Administrative Office Activities.

# MULTI-YEAR PHASE IN

Section 903.1 and Section 959 specify how the Controller must calculate tax rates during the phase in period, based on actual collections of the taxes



# TAX TIMELINE:

## 2014

**Payroll Expense Tax Filing (2013)**

Feb 28, 2014

**Quarterly Payroll/Gross Receipts Tax Payment\***

Apr 30, 2014

**New Business Registration Fees (Payroll Based)\***

May 31, 2014

**Quarterly Payroll/Gross Receipts Tax Payment\***

Jul 31, 2014

**Quarterly Payroll/Gross Receipts Tax Payment\***

Oct 31, 2014

## 2015

**Payroll/Gross Receipts Tax Filing (2014)\***

Feb 28, 2015

**Quarterly Payroll/Gross Receipts Tax Payment\***

Apr 30, 2015

**New Business Registration Fees (Gross Receipts Based)\***

May 31, 2015

**Quarterly Payroll/Gross Receipts Tax Payment\***

Jul 31, 2015

**Quarterly Payroll/Gross Receipts Tax Payment\***

Oct 31, 2015

## 2016

**Payroll/Gross Receipts Tax Filing (2015)\***

Feb 29, 2016

**Quarterly Payroll/Gross Receipts Tax Payment\***

Apr 30, 2016

**Business Registration Fees (Gross Receipts Based)\***

May 31, 2016

**Quarterly Payroll/Gross Receipts Tax Payment\***

Jul 31, 2016

**Quarterly Payroll/Gross Receipts Tax Payment\***

Oct 31, 2016



## **CASE STUDY EXAMPLES**

# DISCLAIMER

This document provides basic information regarding San Francisco Business and Tax Regulations Code (“Code”), Article 12-A-1, Gross Receipts Tax Ordinance, as well as amendments to Article 12-A, Payroll Expense Tax Ordinance and Article 12, Business Registration, which were enacted by Proposition E (App. 11/6/2012, Oper. 1/1/2014.) Nothing in this document supplants or replaces the requirements of the Code. This document is not intended as a substitute for advice from a taxpayer’s own legal and financial advisors. No person is exempt from the payment of any tax or registration fee or from the return filing requirement, except as provided in the Code. (See, Article 12-A-1, Section 953(c).) In addition, changes in the law or in regulations may occur from time to time. If there is a conflict between the text of this document and the law, the law and not this document shall control.

The City intends to collect the taxes that Article 12, Article 12-A and Article 12-A-1 impose to the full extent of the City’s authorization to do so under the law. Examples provided in this document are intended only to illustrate concepts discussed in the text, and do not necessarily reflect the methodologies and policies which the City may ultimately adopt in interpreting and enforcing this law. The examples do not limit, restrict or in any way circumscribe the City’s ability in enforcing its taxes, to develop rules and regulations or to prescribe different methodologies that are consistent with the applicable City law. Any discrepancy between the examples this document cites and the requirements of the applicable City law does not reflect a change in taxing methodology for purposes of Government Code Section 53750(h).

# CASE STUDY 1: EXEMPT SMALL BUSINESS OPERATING ONLY IN THE CITY (NO RETURN)



- Retailer<sup>1</sup> annually has **\$400,000** of sales in the City (has no other gross receipts) and pays its employees **\$100,000** (all for work performed in the City).
- All \$400,000 gross receipts are SF gross receipts because no gross receipts were derived from outside the City.<sup>2</sup>
- All \$100,000 payroll expense is SF payroll expense because it was for services performed in the City.<sup>3</sup>
- Retailer is **exempt** from Gross Receipts Tax in 2014 because it has \$1,000,000 or less of annual gross receipts in the City.<sup>4</sup>
- Retailer is **exempt** from Payroll Expense Tax in 2014 because it has \$260,000 or less of annual payroll expense in the City.<sup>5</sup>
- Retailer **does not need to file** a Gross Receipts Tax or Payroll Expense Tax return in 2014 because it has less than \$500,000 of annual gross receipts in the City and less than \$150,000 of annual payroll expense in the City.<sup>6</sup>
- Retailer's registration fee for July 2014 to June 2015 (due May 2014)<sup>7</sup> is **\$250** because its SF payroll expense for the immediately preceding year (ending December 2013) was between \$75,001 and \$100,000.<sup>8</sup>

(1) Business and Tax Regulations Code ("Code") § 953.1, Retail Trade.,

(2) Code § 955. (3) Code § 904. (4) Code § 954.1. (5) Code § 905-A.

(6) Code § 6.9-2(b). (7) Code § 6.9-1(e). (8) Code § 855(c).

Tax	Amount
Business Registration Fee	\$250
Gross Receipts Tax	EXEMPT
Payroll Expense Tax	EXEMPT



# CASE STUDY 2: EXEMPT SMALL BUSINESS OPERATING ONLY IN THE CITY (RETURN REQ.)



- Retailer<sup>1</sup> annually has **\$800,000** of sales in the City (has no other gross receipts) and pays its employees **\$200,000** (all for work performed in the City).
- All \$800,000 gross receipts are SF gross receipts because no gross receipts were derived from outside the City.<sup>2</sup>
- All \$200,000 payroll expense is SF payroll expense because it was for services performed in the City.<sup>3</sup>
- Retailer is **exempt** from Gross Receipts Tax in 2014 because it has \$1,000,000 or less of annual gross receipts in the City.<sup>4</sup>
- Retailer is **exempt** from Payroll Expense Tax in 2014 because it has \$260,000 or less of annual payroll expense in the City.<sup>5</sup>
- Retailer **must file** a Gross Receipts Tax and Payroll Expense Tax return in 2014 because it has \$500,000 or more of annual gross receipts in the City and \$150,000 or more of annual payroll expense in the City.<sup>6</sup>
- Retailer's registration fee for July 2014 to June 2015 (due May 2014)<sup>7</sup> is \$700 because its SF payroll expense for the immediately preceding year (ending December 2013) was between \$150,001 and \$200,000.<sup>8</sup>

(1) Business and Tax Regulations Code ("Code") § 953.1, Retail Trade.,

(2) Code § 955. (3) Code § 904. (4) Code § 954.1. (5) Code § 905-A.

(6) Code § 6.9-2(b). (7) Code § 6.9-1(e). (8) Code § 855(c).

Tax	Amount
Business Registration Fee	\$700
Gross Receipts Tax	EXEMPT
Payroll Expense Tax	EXEMPT

# CASE STUDY 3: TAXABLE BUSINESS OPERATING ONLY IN THE CITY



- Retailer<sup>1</sup> annually has **\$2,000,000** of sales in the City (has no other gross receipts) and pays its employees **\$400,000** (all for work performed in the City).
- All \$2,000,000 gross receipts are SF gross receipts because no gross receipts were derived from outside the City.<sup>2</sup>
- 2014 Gross Receipts Tax is SF Gross Receipts multiplied by 10% of the rates applicable to retailers:<sup>3</sup>
  - 10% of 0.075% (0.0075%) for gross receipts less than or equal to \$1,000,000; and
  - 10% of 0.1% (0.01%) for gross receipts between \$1,000,001 and \$2,500,000.
  - **2014 Gross Receipts Tax = (\$1,000,000 x 0.0075%) + (\$1,000,000 x 0.01%) = \$175**
- All \$400,000 payroll expense is SF payroll expense because it was for services performed in the City.<sup>4</sup>
- Payroll Expense Tax equals 1.35% of SF payroll expense for 2014.<sup>5</sup>
  - **2014 Payroll Expense Tax = \$400,000 x 1.35% = \$5,400**
- Retailer's registration fee for July 2014 to June 2015 (due May 2014)<sup>6</sup> is **\$300** because its SF payroll expense for the immediately preceding year (ending December 2013) was between \$250,001 and \$1,000,000.<sup>7</sup>

(1) Business and Tax Regulations Code ("Code") § 953.1, Retail Trade.,

(2) Code § 955. (3) Code §§ 953.1 and 959. (4) Code § 904.

(5) Code § 903.1. (6) Code § 6.9-1(e). (7) Code § 855(c).

Tax	Amount
Business Registration Fee	\$300
Gross Receipts Tax	\$175
Payroll Expense Tax	\$5,400

# CASE STUDY 4: TAXABLE BUSINESS OPERATING INSIDE & OUTSIDE THE CITY



- Restaurant chain<sup>1</sup> with locations both inside and outside the City:
  - *Annually receives \$2,400,000 from customers at its SF locations and \$1,200,000 from customers at its locations outside the City (has no other gross receipts); and*
  - *Annually pays its employees \$750,000 for work performed in the City and \$550,000 for work performed outside the City.*
- SF gross receipts are 50% of gross receipts from sales in SF plus 50% of total gross receipts multiplied by the proportion of payroll from services performed in the City.<sup>2</sup>
  - **SF Gross Receipts = (50% x \$2,400,000) + (50% x \$3,600,000 x [\$750,000/\$1,300,000]) = \$2,238,461.54**
- 2014 Gross Receipts Tax is SF Gross Receipts multiplied by 10% of the rates applicable to restaurants:<sup>3</sup>
  - *10% of 0.125% (0.0125%) for gross receipts less than or equal to \$1,000,000; and*
  - *10% of 0.205% (0.0205%) for gross receipts between \$1,000,001 and \$2,500,000.*
  - **2014 Gross Receipts Tax = (\$1,000,000 x 0.0125%) + (\$1,238,461.54 x 0.0205%) = \$378.88**
- Annual SF Payroll Expense is amount paid for work performed in the City (\$750,000).<sup>4</sup>
- Payroll Expense Tax equals 1.35% of SF payroll expense for 2014.<sup>10</sup>
  - **2014 Payroll Expense Tax = \$750,000 x 1.35% = \$10,125**
- Restaurant chain's registration fee for July 2014 to June 2015 (due May 2014)<sup>5</sup> is \$300 because its SF payroll expense for the immediately preceding year (ending December 2013) was between \$250,001 and \$1,000,000.<sup>6</sup>

Tax	Amount
Business Registration Fee	\$300
Gross Receipts Tax	\$378.88
Payroll Expense Tax	\$10,125

(1) Code § 953.2, Food Services. (2) Code §§ 953.2, 956.1, and 956.2.  
 (3) Code §§ 953.2 and 959. (4) Code § 904. (5) Code § 6.9-1(e).  
 (6) Code § 855(c).

A photograph of a large group of people in a meeting or conference. Many of the people have their hands raised, indicating they want to ask a question or participate. The background is bright and slightly out of focus, emphasizing the hands in the foreground. The overall atmosphere is one of active engagement and participation.

# QUESTIONS

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