SAN FRANCISCO'S NEW GROSS RECEIPTS TAX AND BUSINESS REGISTRATION FEES

This summary 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 summary supplants or replaces the requirements of the Code. This summary 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 summary and the law, the law and not this summary 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 summary 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. They 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 summary 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).

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FOREWORD:

In November of 2012, San Francisco voters approved a new Gross Receipts Tax Ordinance ("Ordinance") to replace the existing payroll expense tax on the privilege of doing business in San Francisco with a tax that is based on gross receipts from business conducted in San Francisco. For five years, beginning in tax year 2014, the rate of the payroll expense tax will be incrementally reduced, and the rate of the gross receipts tax will be correspondingly increased, to allow businesses and the City time to adjust to the gross receipts tax. In addition, the measure made changes to business registration fees beginning with the 2014 registration year. The fees will be based on gross receipts effective with the 2015 registration year.

The existing payroll expense tax and business registration requirements, and the new gross receipts tax, are codified in the San Francisco Business and Tax Regulations Code ("Code"), Articles 12-A (payroll expense), 12 (business registration) and 12-A-1 (gross receipts). Common administrative provisions are codified in Article 6 of the Code.

I. WHAT WAS CHANGED?

Under existing law, every "person" engaging in business activities in San Francisco must register the business, pay a business registration fee, and pay tax based on payroll expense, unless exempted. A "person" is defined in Article 6 of the Code, and includes individuals, groups of individuals, and all types of business entities. In this explanation, the terms "person" and "business" will generally be used interchangeably.

Almost all businesses which have been required in the past to register and pay a fee will be required to do so under the new law, and other businesses that did not pay a payroll expense tax may be required to pay tax based on gross receipts. The biggest change is that each business, except those subject to the administrative office business activities tax, will need to calculate its San Francisco gross receipts to determine the amount of its registration fee and the amount, if any, of gross receipts tax due. Both the registration fee and the tax will be based on gross receipts.

Under the new law, payroll expense tax rates will be gradually reduced as the gross receipts tax is phased in. The precise schedule for phasing in the gross receipts tax depends upon formulas set forth in the new law. The Controller will compute and publish the rates of both the gross receipts tax and the payroll expense tax for each tax year through 2018. The rates for the 2018 tax year will apply to years after 2018.

The new law imposes a gross receipts tax or an administrative office business activities tax on every person engaging in business activities in San Francisco. Tax rates vary, depending on the type of business activity conducted in San Francisco. Within each business activity grouping, the rates increase as gross receipts increase.

Most non-profit organizations, businesses with annual gross receipts of $1,000,000 or less, and lessors of certain residential real estate properties will be exempt from the gross receipts tax, although these businesses must still pay the annual business registration fee.

Under existing law, the business registration fee is based on the business's payroll expense. Commencing with the 2015 registration year, the business registration fee will be based on the business's gross receipts from business activities within San Francisco. The definition of gross receipts, and the rules for determining the amount of gross receipts from business activities within San Francisco, are the same for the gross receipts tax and the business registration fee, and are further described below.

II. WHAT IS THE PURPOSE OF THE GROSS RECEIPTS TAX?

The gross receipts tax is imposed for general government purposes. A gross receipts tax is the most common type of business tax among California's largest cities. Replacing the payroll expense tax in San Francisco is expected to stimulate employment in the City and to broaden and stabilize the tax base.

III. WHO IS REQUIRED TO FILE?

Every business in San Francisco must register and file a return, and determine whether the business owes any gross receipts tax.

A. Who is Engaged in Business in San Francisco?

A person is engaging in business within San Francisco if that person, or any employee, representative, or agent of that person, conducts any of the activities set forth in Section 6.2-12 of the Code. These activities include maintaining a fixed place of business within the City (including any residence from which business is conducted), owning, renting, leasing, or otherwise hiring any real or personal property within the City for a business purpose, maintaining tangible personal property within the City for sale in the ordinary course of business, employing or loaning capital on property within the City, soliciting business within the City for all or part of any seven days during a tax year, performing any work or rendering any services within the City for all or part of any seven days during a tax year, and utilizing streets within the City for business purposes for all or part of any seven days during the tax year. The activities also include exercising any corporate or franchise powers within the City, or liquidating any business. Sections 952.3(f) and (g) expressly exclude some investment activities from being considered as engaging in business in San Francisco.

B. Non-Profit Organizations

Organizations with an exemption from taxation that has been formally recognized by the Internal Revenue Service or the California Franchise Tax Board (usually because they conduct their activities for a charitable or religious purpose) are also exempt from paying business registration fees or gross receipts tax on amounts received with respect to their exempt purpose. The types of organizations which are exempt under this provision of the new law are the same as those previously exempt from the payroll expense tax. However, exempt organizations must pay the gross receipts tax and business registration fee on receipts from any business activities unrelated to their exempt purpose. In addition, exempt organizations, like all businesses, must apply for a business registration certificate whether or not they are required to pay the gross receipts tax or the business registration fee. Please refer to Sections 855(j) and 954 for more detailed information regarding exemptions.

C. Small Business Exemption

Section 954.1 provides that a small business enterprise must pay an annual registration fee, but is exempt from the gross receipts tax. The rules for determining what constitutes a small business enterprise are set forth in Section 954.1 and are generally described below. For as long as the payroll expense tax continues in force, the separate small business exemption from the payroll expense tax continues unchanged.

Section 954.1 provides an exemption from the gross receipts tax for businesses with gross receipts in San Francisco of $1,000,000 or less. The $1,000,000 threshold for the exemption will be adjusted annually to reflect changes in the local Consumer Price Index. The amount of gross receipts from business activities in San Francisco is determined according to the allocation and apportionment provisions of Sections 955, 956, 956.1 and 956.2. Further explanation of allocation and apportionment is provided below.

Businesses that exceed the exemption limit are subject to tax on their total gross receipts, not just on the amount of gross receipts exceeding $1,000,000. Different small business exemption requirements apply to lessors of residential real estate (see Section 954.1(e)), who file separately for each individual building in which they lease residential real estate units.

D. Businesses with Multiple Locations

When a person conducts business activities at more than one location within San Francisco, that person should file a single return that reflects the gross receipts derived from business activities at all locations.

E. Commonly-Owned Business (Related Entities)

For purposes of the gross receipts tax, the payroll expense 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, payroll expense 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 and payroll expense for all business locations of the person and all of its related entities. Section 952.5 defines related entities. Section 956.3 provides rules related to filing combined returns.

IV. WHAT ARE GROSS RECEIPTS?

All taxpayers, except for those engaged in business in San Francisco as an administrative office, compute both their gross receipts tax (beginning with tax year 2014) and business registration fee (for tax years ending after June 30, 2015) based on their gross receipts in San Francisco. This computation begins with a determination of which amounts received by a taxpayer are gross receipts for purposes of the new law.

A. Definition of Gross Receipts

The concept of gross receipts is quite broad. Gross receipts means the total amounts received or accrued 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 generally include, but are not limited to, all amounts that constitute gross income for federal income tax purposes. (See Section 952.3.) Thus, businesses engaged in selling tangible personal property at retail or wholesale solely in San Francisco may be able to refer to their federal income tax returns to help them determine the amount of gross receipts. However, some amounts which would otherwise be included in gross receipts under this general rule are specifically excluded by other provisions of the new law. Ultimately, the definition of gross receipts provided in Section 952.3, and special rules provided elsewhere in the new law, control against any federal definition. A number of such items are addressed below.

B. Exclusions from Gross Receipts

1. Federal, State, and Local Taxes

Gross receipts do not include the amount of any federal, state, or local tax imposed on or with respect to retail sales (such as state sales tax) or any other federal, state, or local tax imposed upon a gross receipts taxpayer for which the taxpayer is reimbursed by means of a separately stated charge to a purchaser, lessee, licensee, or customer. For example, telecommunications taxes separately stated on an invoice to a customer would generally not be considered gross receipts. Similarly, any third-party tax that a taxpayer collects from or on behalf of its customers and remits to the government agency imposing such tax is not considered gross receipts. Nor are tax refunds received from federal, state, or local government considered gross receipts. However, any federal, state, or local tax not specifically excluded by Section 952.3(e) is included in gross receipts.

2. Gifts, Grants, and Loans

Grants from governmental agencies and any gifts are not included in gross receipts. The new law also excludes from gross receipts amounts received when taking out a loan or collecting loan principal.

3. Investments and Financial Instruments

A number of exclusions from gross receipts are contained in Section 952.3(d) and (e). Among these exclusions are certain receipts from investments in capital, property, other business entities, and financial instruments.

Gross receipts do not include any investment receipts, defined as interest, dividends, capital gains, other amounts received on account of financial instruments, and distributions from business entities, provided such items are derived exclusively from the investment of capital and not from the sale of property (other than financial instruments), or from the provision of services. Section 952.3(e) addresses the treatment of financial instruments, including stocks, bonds, other evidences of indebtedness, and other marketable securities. Specifically, gross receipts from the sale or exchange of a financial instrument does not include the cost to acquire that instrument.

4. Amounts Received from Pass-Through Entities and Entities Related to the Taxpayer

Gross receipts do not include any allocation of income or gain, or distributions (such as interest, dividends and other returns on capital) from any entity treated as a pass-through entity for federal income tax purposes, provided that such allocations or distributions are derived exclusively from an investment in such entity, and not from any other property sold to, or services provided to, such entity. If a pass-through entity is subject to the gross receipts tax, its gross receipts are excluded in determining the gross receipts of its owners. For taxpayers filing a combined return, gross receipts does not include an amount paid from one member of the combined group to another.

5. Real Estate and Construction

Gross receipts from the sale of real property do not include the cost to acquire the real property, or receipts from sales of real property with respect to which the Real Property Transfer Tax imposed by Article 12-C has been paid to the City. In addition, a taxpayer may exclude from gross receipts 50% of the total amount received from the rental of real property to tenants in occupancy at any location in the City that is subject to San Francisco's rent control ordinance.

Section 953.5(c) provides that gross receipts from the business activity of construction may be reduced by amounts that the taxpayer has included as gross receipts within San Francisco and paid during the tax year to a subcontractor possessing a valid business registration certificate with the City. In order to claim this exclusion, a taxpayer must maintain an itemized schedule of payments to subcontractors and information sufficient to enable the Tax Collector to verify that each subcontractor possessed a valid business registration certificate with the City.

6. Other Exemptions

The payroll expense tax contains several exclusions for particular persons and activities, and they are generally continued under the new law. However, the computation of some of the exemptions have been changed to reflect the new law. Taxpayers should refer to Section 954 to determine whether a particular exclusion applies and how to calculate its amount.

C. Reporting on a Cash or Accrual Basis

Section 952.3(a) provides that taxpayers should use the same method of accounting (i.e., cash or accrual) for purposes of calculating the gross receipts tax as they use for federal income tax purposes. Thus, items such as advance payments should be included in a taxpayer's gross receipts at the time such receipts are recognized as gross income for federal income tax purposes.

V. WHAT PORTION OF GROSS RECEIPTS ARE DERIVED FROM BUSINESS ACTIVITIES IN SAN FRANCISCO?

The definition of gross receipts, and the rules for determining the amount of gross receipts from business activities within San Francisco, are the same for the gross receipts tax and the business registration fee. Gross receipts from all locations of a business should be aggregated. Total gross receipts are determined on a combined basis for commonly owned businesses. For any business that derives gross receipts from business activities both within San Francisco and outside San Francisco, its gross receipts are allocated and apportioned to determine the amount of gross receipts from business activities within San Francisco.

A. Business Conducted in Part Within San Francisco and in Part Outside San Francisco (Allocation and Apportionment)

Businesses conducted in part within San Francisco and in part outside San Francisco, must allocate and/or apportion their gross receipts to San Francisco. The new law provides three possible methods for determining the portion of the total gross receipts of a business which are within San Francisco. The gross receipts within San Francisco are used to determine the amount of the registration fee, and the amount, if any, of the gross receipts tax.

Which of the three methods applies to a particular business activity is set forth in Sections 953.1 through 953.7. Each taxpayer must determine which of these sections applies to its business activities. Some taxpayers may have some business activities that are covered by one section, and different business activities by others; a business must apply the allocation and/or apportionment method described for each different business activity.

A business determines which section or sections its activity falls into by applying the North American Industry Classification System ("NAICS code") definitions, which are also used for federal income tax reporting purposes. Sections 953.1 through 953.7 contain lists of business activities, associated NAICS codes, and corresponding allocation and/or apportionment method(s). The Treasurer's web site contains the applicable NAICS code definitions.

The three methods used to determine the portion of total gross receipts that are within San Francisco are:

Method #1: (Allocation) Allocation based on rules that assign receipts to a particular location (Section 956.1);

Method #2: (Apportionment) Apportionment of receipts among multiple locations based on payroll (Section 956.2); and

Method #3: (Combination) Determination of receipts within San Francisco based one-half on allocation and one-half on apportionment based on payroll.

1. Allocation Based on Rules that Assign Receipts to a Particular Location

When gross receipts within San Francisco are required to be determined by allocation, the new law provides specific allocation rules for each of the various types of receipts from property and from services. Gross receipts from the sale, lease, rental or licensing of real property are in San Francisco if the real property is located in San Francisco. Gross receipts from sales of tangible personal property are in San Francisco if the property is delivered or shipped to a purchaser within San Francisco. This rule applies regardless of where title to property transfers, which party pays for shipping and loading costs, or any other conditions of sale. Gross receipts from the rental, lease or licensing of tangible personal property are in San Francisco if the property is located in San Francisco. Gross receipts from services are in San Francisco to the extent the purchaser of the services received the benefit of the services in San Francisco. Gross receipts from intangible property, such as patents, copyrights, or trademarks, are in San Francisco to the extent the property is used in the City.

2. Apportionment of Receipts Based on Payroll

When gross receipts within San Francisco are determined based on apportionment, the new law provides rules for apportioning gross receipts to San Francisco based on payroll. In general, that apportionment is made by multiplying the total worldwide combined gross receipts of the business by a fraction. The numerator of the fraction is defined in Section 956.2(d) as the total amount paid for compensation in San Francisco by the business and all of its related entities. The denominator of the fraction is defined in Section 956.2(c) as the total worldwide compensation paid by the business and all related entities, unless a "waters-edge" election provided for in the California Revenue and Taxation Code is in effect for the business. Compensation is defined in Section 956.

3. Combination Method

When gross receipts within San Francisco are required to be determined by the combination method, the gross receipts subject to tax are the sum of one-half of the amount determined under the apportionment method and one-half of the amount determined under the allocation method. As an example, Section 953.1(e) directs that gross receipts within San Francisco of a retail trade business are the sum of two numbers: one-half of the apportionment amount determined under Section 956.2, plus one-half of the amount determined under Section 956.1.

The following table indicates the method that businesses in each industry should use to determine the portion of total gross receipts which are within San Francisco:

Industry Name	NAICS code(s)	Method
Accommodations	721	Allocation
Administrative and Support Services	56	Apportionment
Arts, Entertainment, Recreation	71	Apportionment
Biotechnology	Defined in Section 906.1 of Article 12-A	Combination
Certain Services	811, 812, 813	Apportionment
Clean Technology	Defined in Section 906.2 of Article 12-A	Combination
Construction	23	Combination
Financial Services	521, 522, 523	Apportionment
Food Services	722	Combination
Information	51	Combination
Insurance	524	Apportionment
Manufacturing	31,32,33	Combination
Private Education & Health Services	61, 62	Apportionment
Professional, Scientific, and Technical Services	54	Apportionment
Real Estate and Rental and Leasing Services	53	Allocation
Retail Trade	44, 45	Combination
Transportation and Warehousing	48,49	Combination
Utilities	22	Combination
Wholesale Trade	42	Combination

B. Business Conducted Entirely Within San Francisco

If any business derives non-exempt gross receipts from business activities within San Francisco and no gross receipts from business activities outside San Francisco, then Section 955 provides that all non-exempt gross receipts of that business are included in gross receipts.

VI. WHAT RATE OF TAX APPLIES?

A. Determining Tax Rates During the Phase-In Period

The new law approves maximum rates of tax, which vary by type of business activity and amounts of gross receipts. For example, gross receipts from professional services are taxed at a different rate than gross receipts from construction. In addition, gross receipts under $1,000,000 are taxed at a lower rate than gross receipts between $1,000,001 and $2,500,000, which are in turn taxed at a lower rate than higher levels of gross receipts.

The phase-in of the gross receipts tax commences with the 2014 tax year. In 2014, only 10% of the maximum rates authorized by the new law will apply. For example, the maximum rate provided for gross receipts from professional services of $1,000,000 or less is 0.400% ($4 per $1,000). For the 2014 tax year, only 10% of the maximum will actually be imposed as gross receipts tax. Thus, for the 2014 tax year only, the tax rate on gross receipts of $1,000,000 or less will be 0.04% ($0.40 per $1,000). Also for the 2014 tax year only, the payroll expense tax rate will be reduced to 1.35%. During the phase-in period, businesses will pay both a gross receipts tax and a payroll expense tax (as well as the business registration fee).

As the gross receipts tax is phased in between the 2014 and 2018 tax years, the percentage of the maximum rate increases each year until the tax is fully phased in for the 2018 tax year. The formula used to determine the percentage of the maximum rate imposed for each phase-in year is set forth in Section 959. For each tax year, the Controller will make the computations directed in Section 959, and then certify and publish the exact tax rates applicable to each type of business activity and each level of gross receipts and payroll expense.

If the gross receipts tax is not fully phased in, then businesses will continue to pay both the gross receipts and payroll expense taxes at the rates computed by the Controller for the 2018 tax year. The remainder of this explanation assumes that the payroll expense tax has been fully phased out, and that the maximum gross receipts tax rates (shown in each Section's rate table) apply.

B. Determining the Rate of Tax That Applies to Each Business Activity

The amount of gross receipts from business activities within San Francisco is used to determine the gross receipts tax liability and the business registration fee for each tax year. The rate of gross receipts tax varies by the type of business.

Sections 956.1 through 956.7 provide seven different rate tables for various groupings of business activities. For example, gross receipts from professional services are subject to a rate of 0.400% for gross receipts between $0 and $1,000,000, up to a rate of 0.560% for gross receipts over $25,000,000. On the other hand, gross receipts from retail trade are subject to a rate of 0.075% for gross receipts between $0 and $1,000,000, up to a rate of 0.160% for gross receipts over $25,000,000. Sections 953.1 through 953.7 use NAICS codes to determine the gross receipts tax rate applicable to each type of business activity.

The tax rates, business activities, and associated NAICS codes are as follows:

1. Retail Trade; Wholesale Trade; and Certain Services (§ 953.1)

(NAICS 42, 44, 45, 811, 812, 813)

Gross Receipts	Rate
$0 - $1,000,000	0.075%
$1,000,001 - $2,500,000	0.100%
$2,500,001 - $25,000,000	0.135%
over $25,000,000	0.160%

2. Manufacturing; Transportation and Warehousing; Information; Biotechnology; Clean Technology; and Food Services (§ 953.2)

(NAICS 31, 32, 33, 48, 49, 51, 722; also includes biotechnology and clean technology as defined in Article 12-A of San Francisco Business and Tax Regulations Code)

Gross Receipts	Rate
$0 - $1,000,000	0.125%
$1,000,001 - $2,500,000	0.205%
$2,500,001 - $25,000,000	0.370%
over $25,000,000	0.475%

3. Accommodations; Utilities; and Arts, Entertainment and Recreation (§ 953.3)

(NAICS 22, 71, 721)

Gross Receipts	Rate
$0 - $1,000,000	0.300%
$1,000,001 - $2,500,000	0.325%
$2,500,001 - $25,000,000	0.325%
over $25,000,000	0.400%

4. Private Education and Health Services; Administrative and Support Services; and Miscellaneous Business Activities (§ 953.4)

(NAICS 56, 61, 62; also applies to business activities not covered by any other rate table)

Gross Receipts	Rate
$0 - $1,000,000	0.525%
$1,000,001 - $2,500,000	0.550%
$2,500,001 - $25,000,000	0.600%
over $25,000,000	0.650%

5. Construction (§ 953.5)

(NAICS 23)

Gross Receipts	Rate
$0 - $1,000,000	0.300%
$1,000,001 - $2,500,000	0.350%
$2,500,001 - $25,000,000	0.400%
over $25,000,000	0.450%

6. Financial Services; Insurance; and Professional, Scientific and Technical Services (§ 953.6)

(NAICS 521, 522, 523, 524, 54)

Gross Receipts	Rate
$0 - $1,000,000	0.400%
$1,000,001 - $2,500,000	0.460%
$2,500,001 - $25,000,000	0.510%
over $25,000,000	0.560%

7. Real Estate and Rental and Leasing Services (§ 953.7)

(NAICS 53)

Gross Receipts	Rate
$0 - $1,000,000	0.285%
$1,000,001 - $5,000,000	0.285%
$5,000,001 - $25,000,000	0.300%
over $25,000,000	0.300%

C. Persons or Combined Groups Engaged in Multiple Business Activities

A person or combined group may conduct different business activities that are described by two or more different NAICS codes. If all of these activities fall within the same section among Sections 953.1 through 953.7, then the same gross receipts tax rate will apply to all of the gross receipts of that person or group. For example, a business may be engaged both in financial services business activities, which fall under NAICS code 522, and in insurance activities, which fall under NAICS code 524. The gross receipts tax rates for both types of business activity are determined under Section 953.6, so there is no need to apply the rules for persons or combined groups engaged in multiple business activities to determine the applicable tax rate.

If a business derives gross receipts from more than one business activity grouping (i.e., under more than one Section or rate table), that business will first need to apply the allocation and/or apportionment rules described above to each group of business activities in order to determine the gross receipts within San Francisco from each such group of business activities. After the gross receipts derived under each of Sections 953.1 through 953.7 are determined, then the rules of Section 953.9 will apply to determine the rate applicable to the gross receipts derived under each Section.

Under Section 953.9(a), if more than 80% of the gross receipts of a person or combined group are derived from business activities described in only one of Sections 953.1 through 953.7, then the rules of that one Section apply to all of the gross receipts derived from all business activities of that person or group. If 80% or less are derived from business activities described in only one of Sections 953.1 through 953.7, then such person or combined group should refer to the balance of Section 953.9 to compute the gross receipts tax for each particular set of business activities.

D. Business Engaged in Multiple Business Activities

A business with activities falling under more than one of Sections 953.1 through 953.7 should generally compute its tax as follows:

(1) Calculate the gross receipts derived from business activities within San Francisco for each group of business activities falling under a different Section, using the allocation and/or apportionment method provided by each applicable Section;

(2) If business activities falling under a single Section account for more than 80% of total gross receipts, compute the tax on all San Francisco gross receipts using the rate schedule contained in that Section;

(3) If business activities falling under a single Section do not account for more than 80% of total gross receipts, then start with Section 953.1 and separately compute the tax for each group of business activities described in each Section number, on a sequential Section number basis, determining the applicable rate by adding gross receipts for each Section number to the total of gross receipts falling under all previous Section numbers.

Example: Business with Gross Receipts from Activities Under More Than One Section.

This example illustrates the application of the gross receipts tax rate tables for a taxpayer with business activities falling under more than one of Sections 953.1 through 953.7, where 80% or less of activities (measured by gross receipts) are under any single Section. The taxpayer's total gross receipts tax liability is the sum of the tax liabilities computed under each Section. This example illustrates the ordering used to compute each Section's tax liability.

Assume the taxpayer has a total of $8,000,000 of gross receipts, with $600,000 derived from retail trade (Section 953.1), $4,900,000 derived from manufacturing (Section 953.2), and $2,500,000 derived from rental services (Section 953.7).

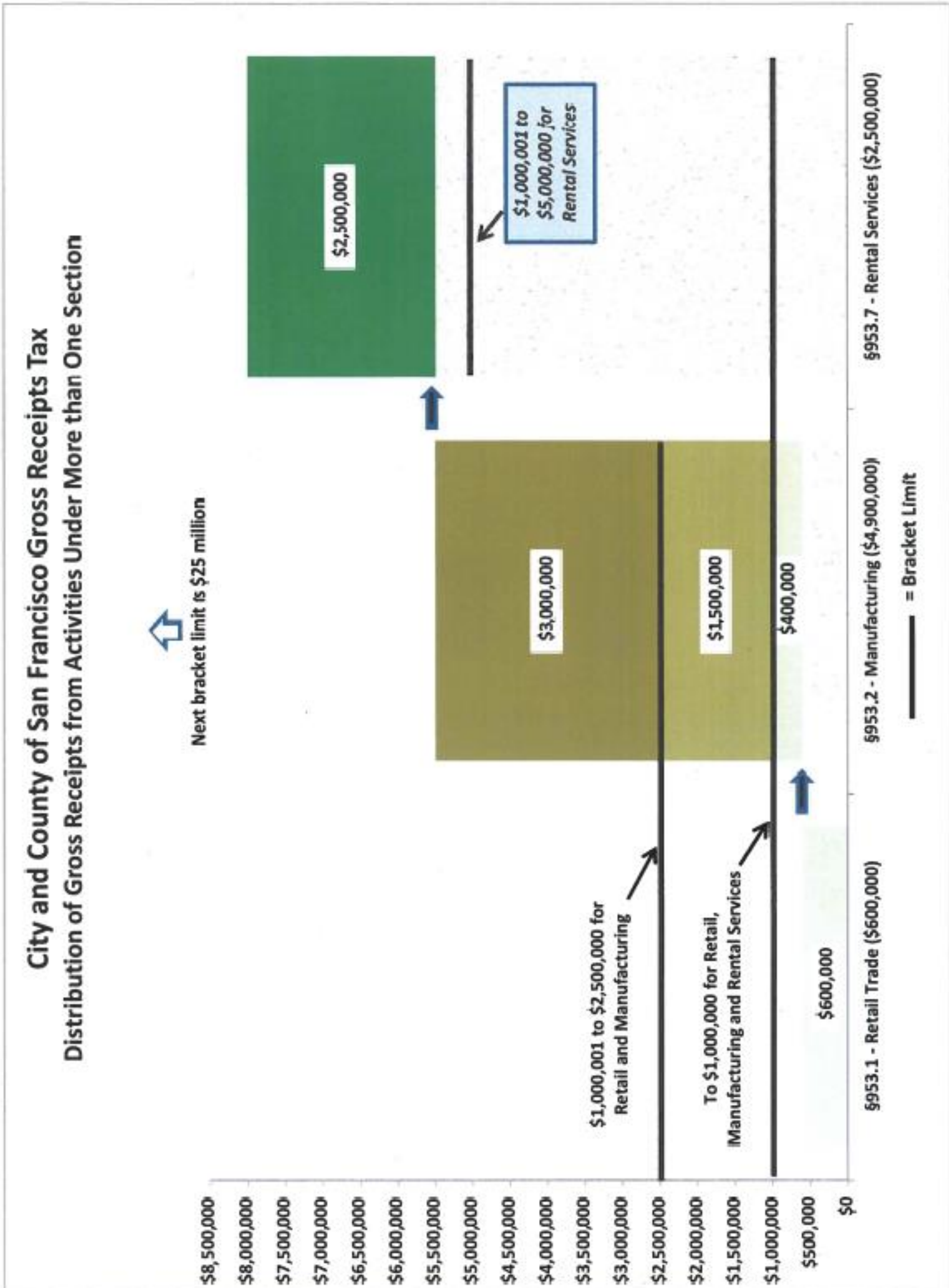
1. The first Section in numerical order is Section 953.1 (retail trade). The taxpayer should start by determining the tax on its retail trade gross receipts. The rate of 0.075% applies to the full $600,000 of gross receipts from retail trade, for a tax of $450.

2. The next Section in numerical order is Section 953.2 (manufacturing). The initial rate of tax, and the amount of manufacturing gross receipts taxed at the initial rate, are determined by the cumulative gross receipts from the previous Section ($600,000). A rate of 0.125% applies to the first $400,000 of manufacturing gross receipts (tax of $500). A rate of 0.205% applies to the next $1,500,000 of manufacturing gross receipts (tax of $3,075). A rate of 0.370% applies to the remaining $3,000,000 of manufacturing gross receipts (tax of $11,100). The total tax on manufacturing gross receipts is $14,675.

3. The final Section in numerical order is Section 953.7 (rental activities). The initial rate of tax, and the amount of rental activities gross activities taxed at the initial rate, are determined by the cumulative gross receipts from all previous Sections ($5,500,000). A rate of 0.300% applies to the full $2,500,000 of gross receipts from rental activities, so the total tax on rental activities gross receipts is $7,500.

4. The taxpayer's total gross receipts tax liability is the sum of the tax liabilities computed under each Section. Thus, the total gross receipts tax liability under this example is $22,625.

See chart that illustrates this example on page 13.


City and County of San Francisco Gross Receipts Tax
Distribution of Gross Receipts from Activities Under More than One Section
Next bracket limit is $25 million
$2,500,000
$1,000,001 to $5,000,000 for Rental Services
$3,000,000
$1,500,000
$400,000
$600,000
$1,000,001 to $2,500,000 for Retail and Manufacturing
To $1,000,000 for Retail, Manufacturing and Rental Services
§953.1 - Retail Trade ($600,000)
§953.2 - Manufacturing ($4,900,000)
§953.7 - Rental Services ($2,500,000)
= Bracket Limit
$8,500,000
$8,000,000
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$3,500,000
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$1,500,000
$1,000,000
$500,000
$0

Example: Business Engaged in Activities Under One Section

Assume that a business is engaged solely in retail trade (Section 953.1), and had $2,000,000 of gross receipts in San Francisco.

The rate schedule of Section 951.3 is graduated. The first $1,000,000 of gross receipts is taxed at a lower rate (0.075%) than the next $1,500,000 of gross receipts (0.100%). The gross receipts tax liability is the sum of the tax liabilities computed under each rate bracket, starting with the lowest rate bracket. The taxpayer should start by computing the tax liability under the lowest rate bracket, and proceed sequentially. In this example, the first $1,000,000 would be taxed at a rate of 0.075% (tax of $750). Next, the taxpayer should compute the tax liability under the next higher rate bracket. In this example, the remaining $1,000,000 in gross receipts would be taxed at a rate of 0.100% (tax of $1,000). The total gross receipts tax liability for that business would be $1,750.

In addition to any gross receipts tax, a business should calculate the business registration fee that is due, using Section 855. For example, for registration years ending after June 30, 2015, the business registration fee for a business selling personal property at retail or wholesale with $2,000,000 in gross receipts would be $200.

VII. HOW DOES THE TAX ON ADMINISTRATIVE OFFICE BUSINESS ACTIVITIES DIFFER?

Section 953.8 provides that every person or combined group engaging in business within San Francisco as an administrative office shall pay an administrative office tax. The administrative office tax is complementary to the gross receipts tax, and is considered a gross receipts tax for purposes of the Ordinance. Businesses subject to the administrative office tax must also obtain a business registration certificate and pay a business registration fee. The administrative office tax is 1.400% of total payroll expense attributable to San Francisco, determined as set forth in Section 953.8(f). A person is engaging in business within San Francisco as an administrative office only if over 50% of the total combined payroll expense of that person and its related entities for the preceding tax year was associated with providing administrative or management services exclusively to that person and its related entities. In addition, that person and its related entities must have had over 1,000 U.S. employees at the end of the preceding tax year, and over $1 billion in combined gross receipts for that year.