

Business Taxes: Payroll Tax

Description

The Payroll Tax is a tax on the payroll expense of persons and associations engaging in business in San Francisco. The ordinance became effective October 1, 1970. The ordinance imposes a tax on all businesses that engage, hire, employ, or contract with one or more individuals, as employees, to perform work or render services within San Francisco.

Size¹

FY 2004-05: Budget \$288.24 million, or approximately 13.5% of General Fund resources.

FY 2003-04: Actual \$256.30 million, or approximately 12.4% of General Fund resources.

FY 2002-03: Actual \$265.58 million, or approximately 13.5% of General Fund resources.

FY 2001-02: Actual \$267.42 million, or approximately 13.6% of General Fund resources.

FY 2000-01: Actual \$267.11 million, or approximately 13.3% of General Fund resources.

Statute

Article 12A, Sections 901-908 of the Business Tax and Regulation Code (Municipal Code).

Allocation

General Fund less the approximate \$0.70 million allocated to the Neighborhood Beautification Fund.

Collection Method & Issues

Every taxpayer, regardless of whether the business is subject to the payroll tax, is required to file an annual statement showing the calculation of the payroll tax. The payroll tax is due and payable on January 1 of each calendar year and becomes delinquent if not paid on or before the last day of February of each year. If the last day of February falls on a Saturday, Sunday or legal holiday, the last day will be the next business day.

All businesses with a payroll tax liability of more than \$2,500 for the prior year are required to pay one-half of the prior year tax plus two percent as a prepayment of the tax due for the year. Late prepayments are subject to a five percent penalty per month up to a maximum of 20 percent, a negligence penalty of \$100 and one percent interest per month beginning on August 1. The prepayments are deducted from the full year's tax due on January 1. Prepayments are required every July.

In April, July and October, all businesses with a payroll tax liability of \$50,000 or more for the prior year are required to pay one-fourth of the prior year tax plus two percent as a prepayment of the tax due for the year. Late prepayments are subject to five percent penalty per month up to a maximum of 20 percent, a negligence penalty of \$100 and one percent interest per month from May, August and November respectively. The prepayments are deducted from the full year's tax due on January 1. Prepayments are required every April, July and October.

¹ Resources are defined here as General Fund operating revenues and transfers in. In addition to this approximately \$0.70 million accrues to the Neighborhood Beautification Fund.

Revenue Base

Payroll tax revenues are derived from a tax on the payroll expense of persons and associations engaging in business in San Francisco.

Tax Rate & Allocation

The tax rate is 1.5 percent of total payroll expenses.

To compute the tax:

- a). Determine total San Francisco payroll expenses.
- b). Determine non-taxable San Francisco payroll expenses.
- c). Compute the tax by subtracting (b) from (a) and multiply the difference by 1.5%.

A taxpayer whose computed tax liability is less than \$2,500 (i.e. has an annual payroll of less than \$166,667) qualifies as a small business enterprise and is exempt from payroll tax.

Historical Information

The payroll tax became effective on October 1, 1970. Over the years, the payroll tax rate has changed from a low of 1.1 percent to a high of 1.6 percent. Since 1995, the payroll tax rate has been 1.5 percent.

The following are exempt from payroll tax: businesses with a payroll tax liability less than \$2,500, nonprofit organizations, skilled nursing facilities, and blind persons licensed under provisions of federal code.

The following credits are or have been allowed against the payroll tax:

Biotechnology Tax Exclusion: Any person engaging in biotechnology business within the City may exclude from their payroll expense all compensation paid to, on behalf of or for the benefit of all employees of that person, and all distributions by an Association by way of salary to those having an ownership interest in such Association, who or that perform substantially all work or render substantially all services in direct support of such person's biotechnology business, subject to the conditions and limitations set forth in Payroll Tax Ordinance. Ordinance No. 209-04 establishing tax exclusion for biotechnology businesses is effective for 10 years and sunsets in August 2014. Any person engaging in biotechnology business may claim this tax exclusion for up to seven and one half years within this ten-year period.

Enterprise Zone Tax Credit for each person who maintains a fixed place of business within the San Francisco Enterprise Zone and creates one or more new jobs and hires qualified employees. Consult the Enterprise Zone Tax Credit brochure from the Tax Collector's Office for complete details.

New Jobs Tax Credit for businesses that create or relocate jobs in San Francisco that otherwise would be situated elsewhere. Consult the New Jobs Tax Credit brochure from the Tax Collector's Office for complete details. The New Jobs Tax Credit expired on December 31, 2002.

Summer Youth Employment Tax Credit for businesses that create temporary summer jobs for youth, with an emphasis on disadvantaged youth. Consult the Summer Youth Employment Tax Credit brochure from the Tax Collector's Office for complete details. The Summer Youth Employment Tax Credit expired on December 31, 2001.

Garment Manufacturers' Tax Credit for San Francisco garment manufacturers that invest in technical equipment, work reorganization and employee training. Consult the Garment Manufacturers' Tax Credit brochure from the Tax Collector's Office for complete details. The Garment Manufacturers' Tax Credit expired on December 31, 2001.

\$500 Credit of Surplus Business Tax Revenue against the current year Payroll tax to any business that does not qualify as a small business enterprise under section 905A of the Payroll Tax Ordinance. Surplus Business Tax Revenue is calculated based on a formula described in Section 906E of Article 12A of the Business Tax and Regulation Code.

Trends & Projections

Payroll tax revenue currently represents approximately 98 percent of total Business Tax revenues. Up through FY 2001-02, Business Tax revenues included Payroll Tax, Business Registration Tax, and Gross Receipts Tax. The repeal of the Gross Receipts tax, along with the economic downturn (including the dot-com implosion and weakness in other sectors like technology and financial services) has put downward pressure on this revenue. Future growth is dependent upon employment and wage growth.

Sensitivities

Payroll tax revenue is primarily affected by the following major factors:

- Business expansion and contraction, i.e., the number of employees and the number of businesses;
- Inflation generally, which then affects wage inflation; and
- Changes in the City's enforcement efforts.