

# **Deadlines loom for San Francisco's new Gross Receipts tax: Installment payments Due April 30; Registrations/fees due May 31**

April 14, 2014

## **In brief**

San Francisco voters in 2012 approved significant changes to the San Francisco business tax regime. The first taxpayer filings affected by these changes will be the installment payments due April 30, 2014 and the registration/fees due May 31, 2014. For additional background on the business tax changes and the new San Francisco Gross Receipts tax, please refer to our summary [here](#) (Asset Managers, please [click here](#) for an industry specific look at the new tax).

## **In detail**

The following highlights the new San Francisco Gross Receipts tax deadlines and some of the issues companies should be addressing:

### **First Installment Payment due April 30, 2014**

- **Amount Due** – The first installment payment is based on the taxpayer's gross receipts and payroll for the first quarter of 2014.
- **Underpayment Penalties and Interest** – Will not apply if the installment payment is at least 26% of total 2013 Payroll Expense Tax liability.

### **Registration and Fees due May 31, 2014**

- **Registration** – Registration and annual fees are due by May 31, 2014, for the next business registration year that begins June 1, 2014.
- **Combined Registration** – Taxpayers with multiple corporate entities must now register with the City as a combined group (worldwide or water's edge based upon the group's California filing).
- **Fees** –Registration fees due May 31, 2014, are determined by the taxpayer's Payroll Expense Tax for the immediately preceding year. The fee now ranges from \$75 to \$35,000. For next year,

the registration fee will be determined by a business's 2014 gross receipts.

## **Considerations**

### **What gross receipts are subject to tax?**

'Gross receipts' means the total amounts received or accrued by a taxpayer from whatever source derived. It includes, but is not limited to, all amounts that constitute gross income for federal income tax purposes. Based upon informal conversations with the City, 'gross receipts' will be interpreted broadly. For example, agents who collect funds on behalf of others may be subject to tax on those funds even where the agents report only their commissions as gross receipts for Federal income tax

and GAAP financial statement purposes.

#### **Business classification drives apportionment methods and rates**

To determine its tax base and rate, a taxpayer must first determine its business classification. There are a number of different classifications and in some cases it may not be clear which one applies. The classifications refer to NAICS sectors, but the NAICS code is not necessarily determinative. Further, if a business engages in multiple business activities, then it may have to apply different methods of taxation to its multiple revenue streams.

#### **Apportionment**

Worldwide (or water's edge) gross receipts are apportioned to San Francisco based on one of the following three methods: (1) percentage of gross receipts sourced to the City, (2) percentage of payroll based in San Francisco, or (3) a combination of 50% gross receipts and 50% payroll percentages. Receipts are sourced to the City depending upon what type of receipts they are (e.g. services etc.)

#### **Timing of annual returns**

The annual tax return is based upon a calendar year only. It is due each year on February 28th. With the transition to a tax based on worldwide combined gross receipts, this timing may be difficult for some companies to meet, since it will require an understanding within two months after year end of a number of items such as the gross receipts attributable to the California combined group. The issue is exacerbated for fiscal year filers who do not normally prepare reports as of calendar year end.

#### **Administrative activities**

Certain large taxpayers (greater than 1,000 employees and \$1 billion in revenue) with more than 50% of San Francisco payroll expense related to internal administrative or management functions are subject to the Administrative Office Business Activities Tax (AOBAT) in lieu of the new Gross Receipts tax. The AOBAT is based on payroll (like to the historic tax) at a rate of 1.4% and also carries different registration fees.

#### **Limited time to use Enterprise Zone Credits to reduce the San Francisco Business Tax**

Certain tax credits can be used to reduce San Francisco Business Tax liabilities. For example, California Enterprise Zone Credits can be used to reduce the San Francisco tax liability, if the credits were generated from specified categories of eligible hires who were also San Francisco residents (and assuming all other requirements are also met). The City has announced it will stop accepting applications on June 30, 2014 for the vouchers necessary to qualify for the credit, so time is limited to benefit from this.

#### **The takeaway**

As the City begins to phase in the new Gross Receipts Tax, taxpayers should consider some of the nuances associated with this tax. Gross Receipts Tax must be calculated on a combined basis. In addition, the City indicates it will interpret gross receipts broadly, and is not limited by federal or GAAP reporting. Further, taxpayers should consider their business classifications and associated apportionment methodology as these issues affect the amount of gross receipts attributed to the City. Taxpayers must make their first

installment of the Gross Receipts Tax payment by April 30, 2014 and must submit their annual business registration fee by May 31, 2014.

#### **Let's talk**

For more information about the San Francisco business tax and recent developments, please contact:

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