California: San Francisco seeks local income tax increase

David M. Kall | Thursday, April 27, 2017

For the last 50 years, California law has prohibited cities, counties, and governmental subdivisions from levying and collecting any income tax on any person, whether or not a California state resident. This puts a strain on these entities in times of fiscal uncertainty, which are upon us now, according to one state assembly member, Phil Ting, who represents San Francisco.

In a December 2016 press release, Ting pointed to a number of threats that jeopardize the state's fiscal health. These include the uncertainty of the Affordable Care Act, the repeal of which could cost California over $20 billion in federal funds, and a trade war with China, which could cost California 730,000 jobs. In addition, budget shortfalls in jurisdictions that have adopted Sanctuary City policies, like San Francisco, may be exacerbated by a withdrawal of federal funding.

In his press release, Ting acknowledged California's current budget surplus, which, on the assumption that its economy continues to grow, is expected to endure. In addition, with the $11.5 billion in reserves projected for the next fiscal year, the largest amount in three decades, the state could even withstand a modest recession. Nevertheless, earlier this year, Ting and several members of the San Francisco Board of Supervisors put forth a resolution that would amend the state law precluding a city or county's imposition of a local income tax. In late March, the board adopted the resolution.

If approved by the California Legislature, the measure would be put on a ballot for voters to ultimately decide upon, in 2018. This would "enable San Francisco to levy personal and corporate income taxes, which the City and County of San Francisco could utilize as a sustained source of funding for transportation and public health priorities."

The resolution's language suggests that it could be designed to have a greater impact on high-income earners. For instance, it states the desire to establish "progressive revenue sources," which would be deployed to fund the transportation and health and human services. Also, it points to, "as an example, a 1 % increase in the highest State tax bracket and proportional increases in lower tax brackets[, which] would have generated $270,000,000 from personal income taxes collected within San Francisco in Tax Year 2013…"

Beyond this, the resolution would make possible a tax on corporate profits, rather than one on receipts. In 2013, California collected $3.6 billion of income taxes within the city and county of San Francisco, and $7.2 billion in corporate taxes.

The San Francisco Chamber of Commerce is not very happy with the idea. In March, it sent a letter to Jane Kim, the chairwoman of the Board's Government Audit and Oversight Committee, urging the board to delay action on the resolution. It sees "little support and significant downsides" on the imposition of a personal income tax. It would like to have more research before proceeding on the corporate tax component, because "right tax policies produce jobs; the wrong ones don't."

Likewise, San Francisco Citizens Initiative for Technology and Innovation also opposes the resolution. The group, which "represents the tech sector in conversation with city policy makers," wrote a letter to the board, worrying that "[w]ithout proper evidence and research into these potential effects, implementing such a policy could be disastrous and greatly inhibit growth in our economy."

On the other hand, the San Francisco Transit Riders Board of Directors supports the resolution. It "strongly feels the City and County need[] to have access to a broad spectrum of revenue opportunities to potentially support our transportation-and other-needs."

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