



San Francisco Payroll Expense Tax is increased for 2015

The Office of the Controller, City and County of San Francisco [announced](#) that for tax year 2015 the Payroll Expense Tax Rate is 1.162%, an increase from the rate of 1.125% that applied for installment payments due in quarters one through three of 2015. (*City and County of San Francisco, Treasury and Tax Collector [website](#)*)

Background

San Francisco is the only California locality that imposes a tax on payroll. The tax applies to payroll expenses attributable to services provided within the city limits.

Payroll expense is defined as compensation paid to individuals including salaries, wages, bonuses, commissions, or property issued or transferred in exchange for the performance of services (including but not limited to stock options). Under Proposition Q, enacted in 2008, the term was expanded to include all pass-through compensation for services paid to, on behalf of, or for the benefit of owners of a pass through entity. (*San Francisco Bus. & Tax Reg. Code Section 902.1(d)*)

The term "pass-through entity" generally includes a trust, partnership, corporation described in Subchapter S of the Internal Revenue Code, limited liability company, limited liability partnership, professional corporation, and other person or entity (other than a disregarded entity for federal income tax purposes). (*San Francisco Bus. & Tax Reg. Code Section 902.21(d)*)

Beginning January 1, 2014, a new Gross Receipts Tax (GRT) is phased in over five years and the Payroll Expense Tax is phased out in proportion to the GRT phase-in.

After 2018, businesses will be liable for 100% of the GRT, which will generally be imposed on "gross receipts" of "persons" engaged in business in the City. During the five-year phase-in period, taxpayers will be expected to pay both the Payroll Expense Tax and GRT.

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