

DRAFT LETTER TO BIODIESEL TASK FORCE/SUPERVISORS

Date

Dear Biodiesel Task Force and Supervisors:

The Biodiesel Task Force has asked the Treasurer's Office to analyze a potential payroll expense tax exclusion for businesses that make biodiesel publicly available. This analysis only considers an exclusion from the payroll expense tax for gasoline service stations. Other financial incentives that may be available to encourage gasoline service stations to provide biodiesel to the public include waiving City-imposed licensing fees and offering a direct subsidy. This analysis does not address these and other types of incentives that are outside the purview of the Treasurer's Office.

The payroll expense tax applies to all businesses in San Francisco. However, businesses with an annual payroll expense below \$166,666.67 per year benefit from the small business exemption, and owe no payroll expense tax. Businesses with payroll expense at or above \$166,666.67 are subject to the 1.5% payroll expense tax. Of the roughly 75,000 registered businesses in San Francisco, fewer than 8,000 are subject to the payroll expense tax. The great majority of businesses are thus exempt from the payroll expense tax under the small business exemption.

In order to better determine the universe of potential applicants for such tax exclusion, this office was asked to identify all registered businesses that are classified as a "gasoline service stations." Such designation does not necessarily mean the business would be able to offer biodiesel to the public, but it was the closest category match in our database. This identification is self-reported and not verified by Treasurer's Office staff.

An extraction from our database revealed that 98 currently registered businesses self-identified as a "gasoline service station" (PBC Codes 3558 and 5541) as of the 2005 tax year. Of those locations, 48 locations paid payroll expense tax while 50 were exempt. Among the 48 businesses subject to the payroll expense tax, the average tax paid was \$5,780 and the median tax paid was \$6,411. The total amount of all payroll expense tax paid by the 48 locations was \$277,448.

The choice of whether to implement a biodiesel tax exclusion is a policy matter for the Board of Supervisors. However, it is worth noting that fewer than half of all San Francisco gas stations would be eligible to take advantage of a payroll tax exclusion. In addition, tax exclusions are considered by some to be an imperfect vehicle to deliver financial incentives because of their inherent inequity (they do not apply to non-taxpaying entities, which in this case likely represents over half of the gasoline service stations in San Francisco), their potential to create a windfall (by paying taxpayers for what they might do anyway), and the administrative costs they can create. In the case of a potential

biodiesel tax exclusion, the Treasurer's Office does not expect to incur significant administrative costs.

Please feel free to contact me if I can provide any further assistance on this topic.

Sincerely,

David Augustine
Policy and Legislative Manager