April 2026

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The Economic Impact of Increasing San Francisco's Overpaid Executive Tax

Consequences for S.F. businesses, workers and households

About *The Report*

GrowSF and the San Francisco Chamber of Commerce commissioned Pragmatic Policy Group (PPG) to produce an independent, data-driven economic analysis of increasing the Overpaid Executive Tax Rates Ordinance in San Francisco.

This analysis is intended to provide policymakers, industry stakeholders, and the public with an evidence-based assessment of the Ordinance's potential economic impacts, with particular focus on effects on San Francisco-based businesses, the local labor market and projected tax revenues.

The analysis and conclusions presented are those of PPG and reflect its independent assessment, informed by available data and established economic methodologies in relevant research literature.

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Executive *summary*

OET is projected to put over 10,000 SF jobs and $574 million in workers' wages at risk

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This report is an independent, evidence-based assessment of how the proposed Overpaid Executive Tax (OET) reform affects local prices, households, jobs, and business activity. All figures are annual impacts unless otherwise noted.

1

Our model projects that over 10,000 jobs may be at risk between 2026 and 2027, as hiring may slow and wages may weaken

Higher costs can lead SF businesses to slow hiring and reduce wage growth. Employment is expected to **decline by up to 9,500 jobs** in 2027 (with over **1,000** jobs at risk in 2026), with 50% of job losses concentrated in the retail (grocery and food) sectors.

2

Total wage losses of $574mn are estimated in 2027, led by c.$7,500 wage loss per worker in retail

On average, **workers could lose >$1,000/year in wages**; those in retail (grocery and food) are expected to lose out **over 7x more**.

3

Lower household spending amplifies the economic impacts

Lower wages reduce consumer spending, particularly by low-income households. Based on standard multiplier estimates, **each $1 loss of consumer spending is modeled to result in up to $2 lost to the broader SF economy through 'knock on effects'.**

Up to 1,500 establishments may face pressure, increasing the likelihood of downsizing or exit, putting revenue at risk

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Up to 1,500 SF establishments may face sustained pressure on profitability

In low-margin sectors, the OET is modeled to absorb approximately **20–25% of typical profit margins**, which may increase the risk that some businesses downsize or exit SF. Impacts are expected to be concentrated in consumer-facing sectors like retail (grocery and food).

4

Prices increase, with regressive impacts

Higher costs from the proposed OET are modeled to be partially passed on to consumers, with prices for SF households projected to increase. Lower-income households could face **3 to 4x** higher increased cost burden compared to high-income households.

5

Tax revenue from the proposed OET may be lower than currently projected

A reduction in business activity reduces revenue collected by the OET. If firms' taxable SF revenue falls by just 5% (through downsizing, relocation, or restructuring) up to **$15m in projected OET revenue could be lost in 2027 alone**.

6

Overview of our analysis

This report estimates how the Overpaid Executive Tax (OET) may affect prices, jobs, businesses and households in San Francisco. Our approach is to:

- Use evidence from academic research
- Apply it to San Francisco specific data
- Present results as ranges, scenarios, or illustrations

The goal is to show how the tax could be transmitted through the economy, based on how businesses and households typically respond to cost increases. Essentially, we convert the tax into a cost increase ("tax shock"), and track how that flows through prices, wages, business activity, and tax revenue.

A note on elasticities and proxies

We borrow elasticities from the closest available academic literature, primarily studies of corporate income tax changes and gross receipts taxes in comparable settings. We have aimed to select the most methodologically compatible estimates available.

All estimates are expressed as annual impacts under each tax scenario, rather than cumulative multi-year effects. The results should be read as evidence-informed estimates of plausible ranges.

The OET functions as a broad-based tax on business activity

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The economic impact of the OET is not limited to executives or firms alone, but extends to workers, consumers and the wider SF economy.

SF OET Gross receipts surcharge (triggered from 100:1 pay ratio)
(Detailed explanation of what it is and how it works can be found in Appendix A)

Tax shock
Convert the proposed surcharge into a specific tax increase percentage

Price pass-through to customers
Translate the tax shock into consumer price changes

Household burden and distributional impact
Estimation of who pays and by how much

Profit margin compression for businesses
Firms absorb the tax through lower net profit margins

Jobs and wages at risk
Higher taxes and lower margins mean firms eliminate jobs and pay lower wages to remaining workers

Businesses exit
Due to lower profit margins, businesses leave SF or downsize

Tax revenue at risk
If firms downsize/relocate, projected tax gains within SF will be offset by lower business activity

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Impact on *business profitability*

Potential effects on business location and scale

Low-margin industries like retail (grocery & food) could be disproportionately exposed to the OET, with up to 25% profit declines

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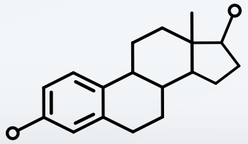

PHARMACEUTICAL INDUSTRY*

Net Margin: **18.5%**
Impact of OET: **1.4%** to **1.8%**
Profit loss: **Low risk**

High margins and low-price sensitivity

MARKET AVERAGE

Net Margin: **9.7%**
Impact of OET: **2.7%** to **3.4%**
Profit loss: **Low/Medium risk**

Moderate margins: partial cost absorption

RETAIL (GROCERY & FOOD)

Net Margin: **1.3%**
Impact of OET: **20% to 25%**
Profit loss: **High risk**

Thin margins and high price sensitivity

Key takeaway: Sectors with thinner margins and more price-sensitive customer demand could face significantly larger impacts from the OET, including other sub-sectors under retail (covering drug stores and pharmacies).**

** Pharmaceutical Industry sector – which discovers, develops and manufactures drugs and medications – is included as a comparative example to illustrate the contrast with low-margin industries.*
*** For example, retail (special lines) includes drug stores and proprietary stores, such as, CVS and Walgreens – and this industry runs on a net margin of 5.2%, which is less than the U.S. average. NYU Stern (2026).*

Low-margin industries like retail (grocery & food) could be disproportionately exposed to the OET, with up to 25% profit declines (continued)

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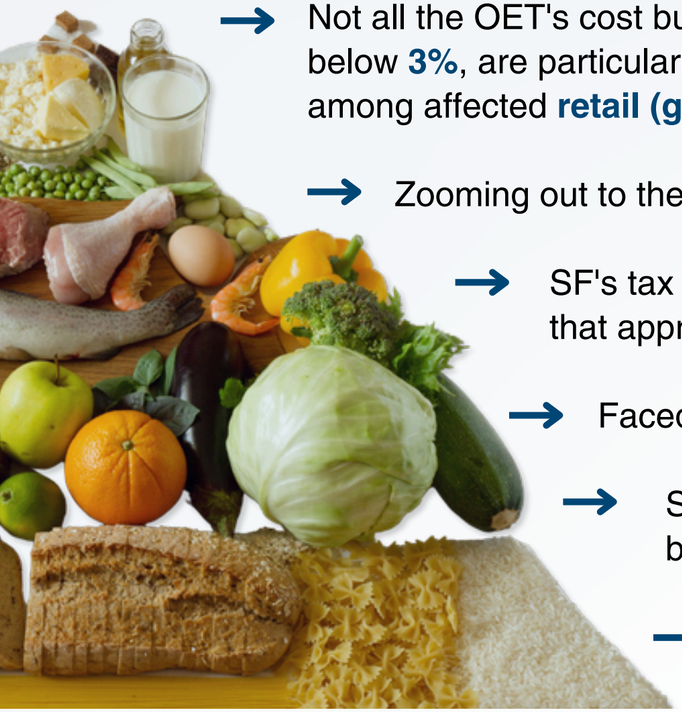

- Not all the OET's cost burden can be passed to consumers. Sectors like retail (grocery and food), which typically operate on profit margins below **3%**, are particularly exposed.* In 2027, under the central scenario, the proposed OET is modeled to consume **20–25%** of margins among affected **retail (grocery and food) stores**, with over 150 establishments estimated to be affected.
  - Zooming out to the full SF economy, that number rises to up to **1,500 establishments** across all sectors.
    - SF's tax policy has already disproportionately targeted the retail sector. A February 2024 report by the SF Controller found that approximately **97%**** of tax increases tied to Proposition M (2024)*** were absorbed by retail businesses.
      - Faced with this pressure, some businesses may reassess their future operating footprint in SF.
        - Some businesses may reconsider whether to stay. Evidence from other countries and U.S. states shows that raising business tax rates makes companies more likely to move their headquarters.****
          - The proposed policy environment may also reduce incentives for businesses to open or expand in SF.*****

* Net-margin data extrapolated from Margins by Sector (US) from NYU Stern (2026), last accessed 04 February 2026 . Data from January 2026
** Recommended Reforms to the Business Tax System 2.5.24.pdf Recommended Reforms to the Business Tax System , pg .18.
*** Proposition M was a 2024 San Francisco ballot measure that restructured the city's business taxes, including changes that increased the tax burden on retail businesses.
**** A 10-percentage point increase in the 1st year effective corporate tax rate reduces business density by 1.9 firms per 100 people (average is 5). *Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho, and Andrei Shleifer. 2010. "The Effect of Corporate Taxes on Investment and Entrepreneurship." American Economic Journal: Macroeconomics 2 (3): 31–64. Also, raising state corporate tax rate by 1 percentage point makes companies about 17% more likely to move their headquarters out of the state. Chow, T., Huang, S., Klassen, K.J., Ng, J. (2021) The Influence of Corporate Income Taxes on Investment Location: Evidence from Corporate Headquarters Relocations. Management Science 68(2):1404-1425*
***** *Corporate tax increases reduce entry by 6.3%. Kneller, R., & McGowan, D. (2012). Tax policy and firm entry and exit dynamics: Evidence from OECD countries. University of Nottingham Discussion Papers in Economics, 12(01).*

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Impact on *jobs and wages*

Modeled effects on employment and wages

Projected total wage losses of up to $574 million in 2027, led by estimated c.$7,500 wage loss per worker in retail

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On average, workers are estimated to lose more than $1,000/year on average; those in retail (grocery and food) are projected to lose over 7x more. Among the sectors modeled, this is projected to result in up to $574 million in wage losses across the SF economy.

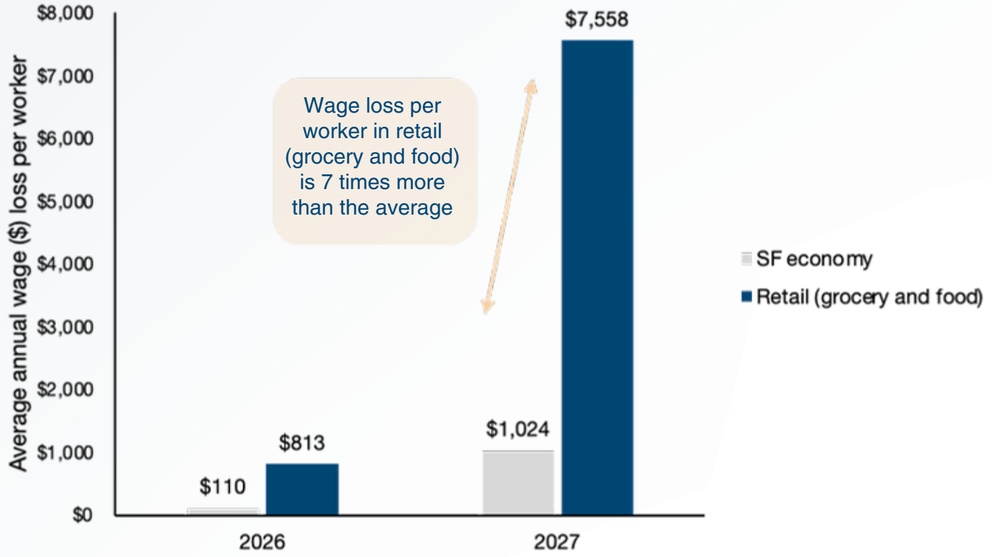
SF ECONOMY
$1,024
Average wage loss per worker in 2027

RETAIL (Grocery & Food)
$7,550
Average wage loss per worker in 2027

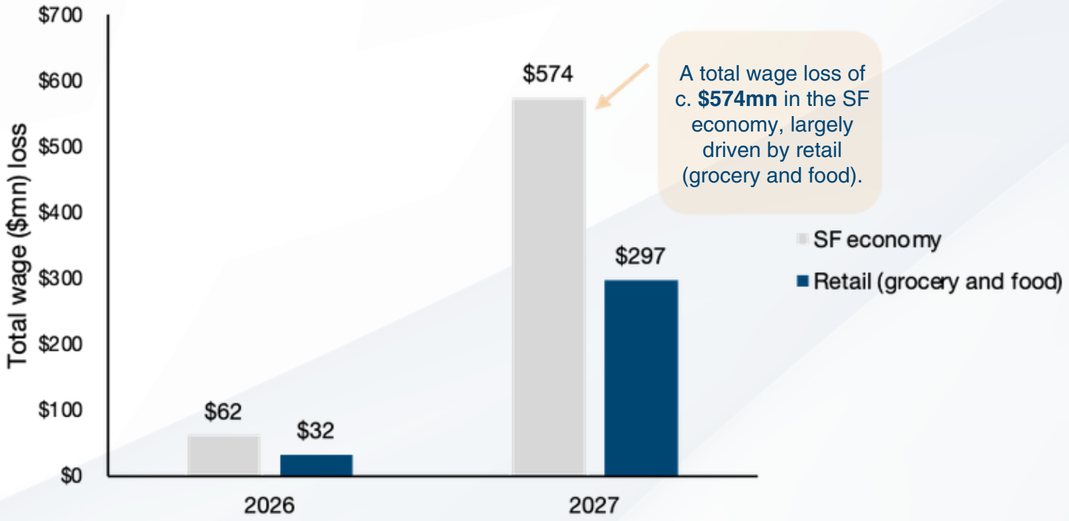
TOTAL IMPACT
$574 million
Total wage loss across the SF economy in 2027 ($62mn in 2026)

RETAIL (Grocery & Food)
52%
of total wage loss in 2026 and 2027 is from workers in the grocery and food sectors

Average Wage Loss ($) By Year (per worker)



Total Wage Loss ($ Millions) By Year



Note: *Wage and employment projections should be read as order-of-magnitude estimates. The underlying elasticities reflect average effects across firms and workers; actual distributional outcomes, particularly which workers bear the greatest burden, will depend on firm-level decisions and labor market conditions not captured in this framework. The projections do not account for the possibility that firms may respond to the OET by changing wage structure (i.e. by reducing their CEO-to-median-worker pay ratio); this could partially or fully offset the modeled wage effects.*

Up to 10,000 jobs at risk, concentrated in consumer-facing sectors

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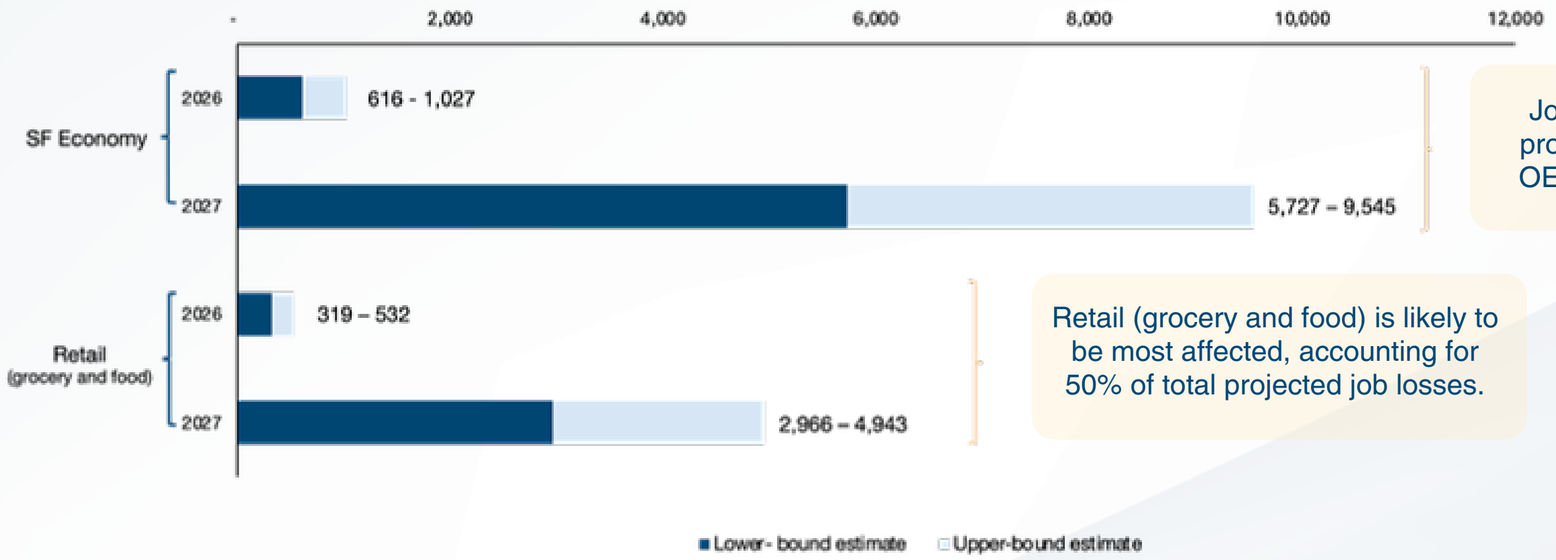
10,000+ jobs
Potentially at risk in 2026 and 2027 due to OET

50%+
of jobs lost are retail (grocery and food)

Job Loss Range, 2026-27



Jobs losses are more pronounced in 2027 as OET increases 10-fold.

Retail (grocery and food) is likely to be most affected, accounting for 50% of total projected job losses.

What drives these projected job losses? Higher business costs are modeled to slow wage growth and contribute to a contraction in employment*. While the impact is city-wide, impacts are concentrated in sectors with lower profit margins such as retail (grocery and food).

Note: *Sector-specific wage and employment effects are derived by adjusting the aggregate elasticities by margin pressure. This approach assumes that margin compression is the key bridge between tax changes and labor outcomes; this assumption may not hold uniformly across all sectors. Further, note that wage and employment effects are modeled separately; worst-case outcomes against both aspects are unlikely.*
* based on the elasticities set out in Appendix B.

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Impact on *government revenue*

Sensitivity of projected tax revenues to firm behavior

Tax revenue is sensitive to even modest reductions in business income

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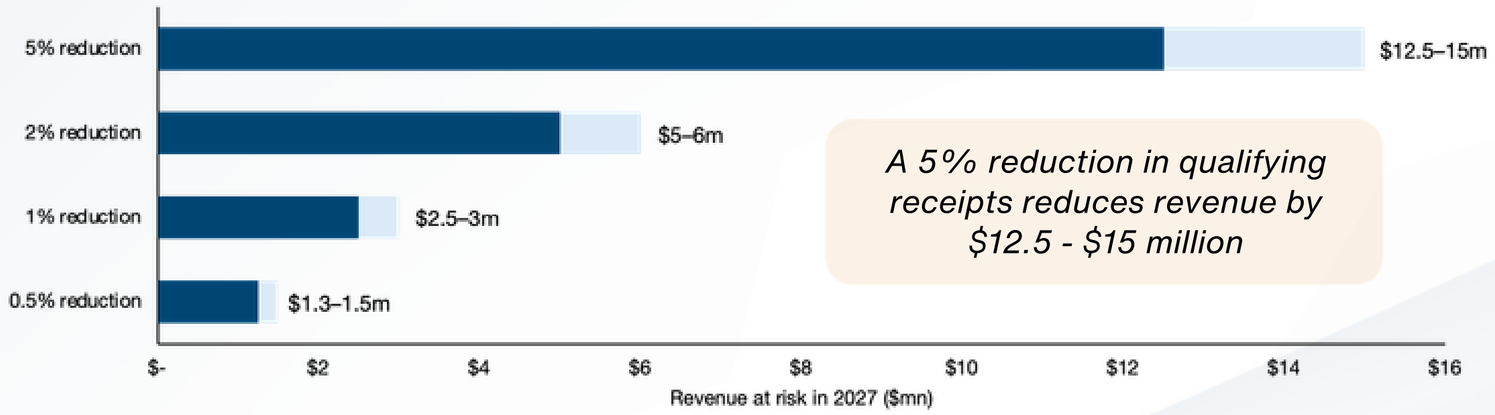
How may a higher tax rate reduce fiscal revenue?

On the surface, a higher tax rate should produce higher revenue, but that logic holds only if business activity stays constant. In reality, as firms respond to the OET by adjusting prices, reducing hiring, and in some cases leaving S.F. altogether, the tax base itself begins to shrink. The result is that actual revenues may fall meaningfully short of what is currently projected.

OET impact on fiscal revenue

In 2027, tax revenue from the OET is projected to be between **$250-$300 million***. But even a **5% reduction in business income** to which the OET is applied could **eliminate $12.5-15 million** from tax revenue raised**.

Revenue at risk ($mn) in 2027



A 5% reduction in qualifying receipts reduces revenue by $12.5 - $15 million

*Revenue-at-risk estimates are scenario-based projections, not forecasts***. They are designed to illustrate the sensitivity of the revenue base to behavioral responses and should be interpreted as a range of plausible outcomes rather than a single expected value.*

** Proposition D – Increases to Business Tax Based on Comparison of Top Executive's Pay to Employees' Pay, Office of Controller Office, City and Country of San Francisco, March 9, 2026.*
** based on the modeled 5% business reduction scenario; actual outcomes will depend on firm-level responses and broader economic conditions
*** it should be noted that these scenario-based projections do not present the net fiscal position. This will depend on how OET revenues are deployed; for example, public spending of those revenues may generate its own economic activity – this effect is not captured in this analysis.

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Impact on *consumer prices*

Estimated pass-through to consumer prices

Higher business costs are passed through to consumer prices

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Cost pass-through to consumer
24% to 40%

Estimated Price Increase 2027
+0.1% to +0.2%

A portion of higher business costs will be passed on to consumer prices*

- Firms respond to higher business costs through price adjustment.
- Academic research consistently finds that between **24% and 40%**** of business tax increases are reflected in the prices customers pay.
- In 2027, consumer prices are projected to increase by an additional **0.1%–0.2%** under the central scenario
- This is a **meaningful step-change in prices within exposed sectors**, with 2027 impacts expected to be roughly **8–10x higher** than in 2026.

Note: *The consumer price estimates presented should be interpreted as a plausible central range rather than a precise forecast. Actual price effects will depend on the competitive response of firms, which we cannot observe in advance.*

** Consumer prices here refer to retail prices, that is the final price a consumer pays for goods or services.*
*** Baker, S. R., Sun, S. T., & Yannelis, C. (2023). Corporate taxes and retail prices. American Economic Association. Dedola, L., Osbat, C., & Reinelt, T. (2022). Tax thy neighbour: Corporate tax pass-through into downstream consumer prices in a monetary union (No. 2681). ECB Working Paper.*

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Impact on *households*

Distributional effects across household income groups

The modeled cost burden is expected to be proportionally higher for low-income households

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Low-income households bear a disproportionately higher burden

- Low-income households spend a larger share of income on essentials.* When prices rise, the burden lands hardest on those least able to absorb it.
- High-income households face an estimated cost increase of up to **~$300** in 2027. Low-income households face estimated cost increases of closer to **$200** but the cost increase represents a proportionally larger share of their income; this pattern raises distributional equity considerations.
- In 2027, low-income households may face around **3–4 times** higher relative cost increase than high-income households based on their spending patterns.

Note: *Household burden estimates are based on national average spending patterns. It should be noted that local cost structures and household compositions may produce materially different outcomes in specific communities. The figures represent directional magnitudes, not household-level projections.*

Programs like SNAP are adjusted using national inflation figures, not local price increases, leaving SF low-income households without a buffer when costs rise.

Income losses for low-income households have outsized economic impacts, potentially reducing total spending in the S.F. economy by more than 2x

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Each $1 of lost income for low-income households may reduce total spending in the S.F. economy by more than $2, due to multiplier effects.

Impact of Wage Reductions on Economic Activity

Reductions in wages do not only affect workers directly; they also reduce overall economic activity through lower consumer spending. Income losses for low-income households may have the largest impact on overall economic activity.

Why low-income losses have an outsized effect

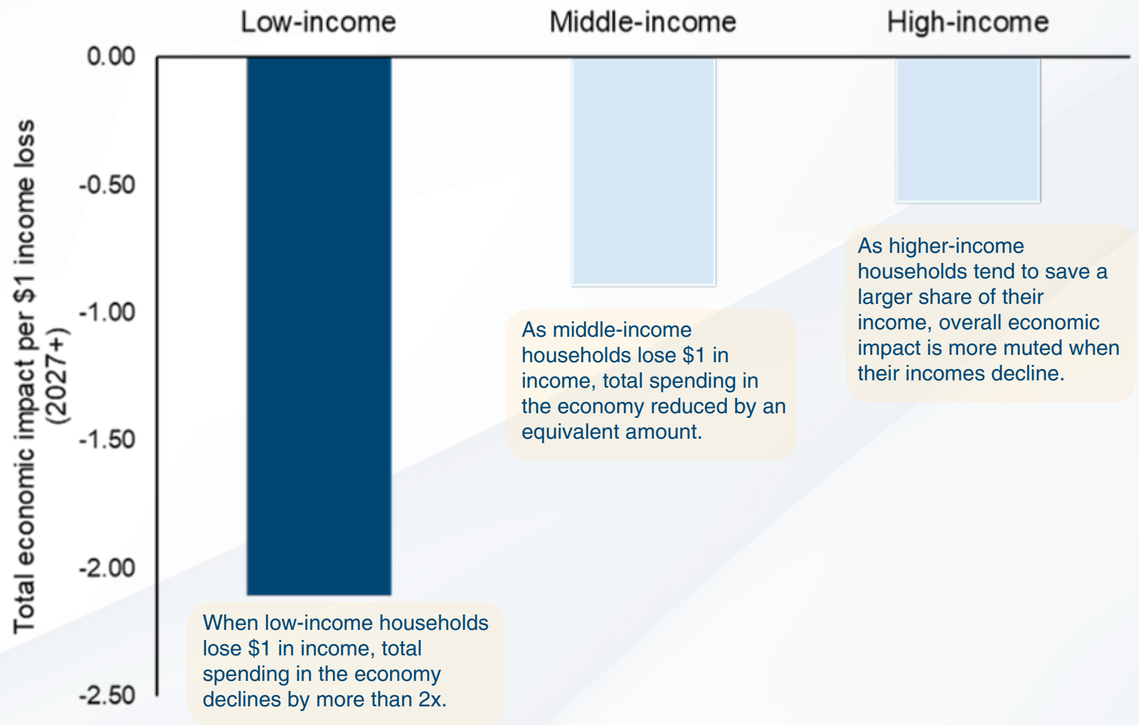
Low-income households typically spend most of their income, so a $1 loss leads to an immediate reduction in consumption. This initial decline then ripples through the economy, as businesses facing lower demand reduce wages, hiring, and purchases. Under standard multiplier assumptions, each **$1** of lost income for low-income households is estimated to reduce total economic spending by more than **$2***.

The role of saving behavior

In contrast, higher-income households tend to save a larger share of their income, so their spending responds less to income changes, resulting in a smaller overall economic impact.

**Please note the multiplier analysis undertaken only applies to wage losses. Public spending from OET revenues may generate multiplier effects in the opposite direction.*

Total Reduction in Economic Spending per $1 of Lost Income by Income Group



Note: These effects are estimated on an annual basis, reflecting how income changes translate into spending within a given year.

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Appendix A – *SF economy and OET at a glance*

San Francisco: scale, income and economic concentration

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Economic output
$267B*
One of the largest US city economies

Tax concentration
58%****
Of business tax from top 100 firms (~2% of payers)

Median household income
$140K**
vs. ~$100K California average

Median rent
$2,448/mo***
Poverty rate ~11% despite high incomes

Employment
$2.45M***
Jobs, 4.1% unemployment

Employer establishments
$33,000****
~1,500 liable for proposed OET tax

Where people work*******	
Professional & business service	28%
Health & education	20%
Retail, hospitality & service	15-20%

→ SF is a high-productivity, high-cost economy, where small cost changes can have meaningful impacts.

→ A relatively small number of firms drive a large share of jobs and economic activity.

→ The economy combines high incomes with high cost of living, making it sensitive to further price increases.

* Bureau of Economic Analysis
** United States Census Bureau

*** Bureau of Labor Statistics. Number of jobs do not include farming/agriculture related jobs.
**** Own analysis of data from SF FY2025–26 Six-Month Budget Status Report

***** Renter Costs - Census Bureau Tables
****** Hefty taxes threaten downtown San Francisco's revival, 2023
******* United States Census Bureau

The OET is a tax on business activity, rather than profit

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OET applies a tax based on gross receipts to firms with high CEO-to-median-worker pay ratios.

Triggered when a firm's **CEO-to-median-worker pay ratio** exceeds 100:1

Imposes progressively higher surcharge rates as the pay ratio widens

Impacts up to **1,500 businesses**

The table below presents the OET impact by pay ratio in place currently, and the increase expected, proposed in 2027. As can be seen, the surcharge increases by more than **800%** between 2026 and 2027, across all pay ratios.

CEO to Median worker pay ratio	OET (% of gross receipts), 2025 and 2026	OE surcharge (% of gross receipts), 2027+	% increase between current and expected levels	Example of firms under each category
>100:1 ≤200:1	0.02%	0.18%	**815%**	**eBay Inc**
>200:1 ≤300:1	0.04%	0.37%	**835%**	**CVS, Costco**
>300:1 ≤400:1	0.06%	0.56%	**827%**	**Labcorp**
>400:1 ≤500:1	0.08%	0.75%	**835%**	**Home Depot**
>500:1 ≤600:1	0.10%	0.93%	**830%**	**Guess Inc**
>600:1 No cap	0.12%	1.12%	**834%**	**Target**

OET costs due to SF businesses rise 10x in 2027

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Increase in business costs due to OET

+0.05 percentage points
2026

Step change in tax burden

~10 times increase

+0.44 percentage points
2027*

How is OET applied?

The OET is applied to gross receipts (revenue), not profit. This means it increases operating costs directly, regardless of whether a firm is profitable. The change from 2026 to 2027 represents around a **10x increase**.

How is OET likely to impact the economy?

Firms typically respond to higher costs in a limited number of ways: raising prices, slowing hiring or wage growth, reducing investment, or in some cases scaling back operations.

Recent Tax Changes (Proposition M, 2024)

San Francisco recently restructured its business tax system under Proposition M (2024)**, which adjusted gross receipts tax (GRT) rates and introduced a phased transition through 2027 to support economic recovery and improve tax stability. The OET is applied on top of this already adjusted system, meaning the sharp increase in 2027 reflects both the phase-in of Prop M and the step-up in OET, amplifying the overall cost impact on businesses.

How do we quantify the impact?

In this analysis, we have converted the OET into a measurable increase in business costs ("tax shock") and estimate its effects on prices, employment, and business activity across SF. See Appendix B for more details.

Bottom line

The sharp increase in 2027 is modeled to generate material economic impacts across SF under the scenarios presented.

** The OET surcharge rate is proposed to increase by over 800% from 2026 to 2027.*
*** Proposition M was a 2024 San Francisco ballot measure that restructured the city's business taxes, including changes that increased the tax burden on retail businesses.*

Current Standing of the Sectors in SF

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Total establishments
33,513
in SF

Total employment
560,000
SF County, 2023

Avg hourly wage (all)
$48.15
BLS

Avg annual wage (all)
$100,152
constructed across all sectors using BLS

	SF market	Retail (Grocery & Food)	Pharmaceutical Industry
Establishments (SF total)	33,513	2,907	253
Affected by OET	1,443	154	11
OET-affected share	4.3%	5.3%	4.3%
Employment (SF)	560,000	39,300	1,770
Employment share of SF	100%	7.0%	0.3%
Net profit margin	9.7%	1.32%	18.5%
Tax burden sensitivity	low	very high	moderate

- The modeled impacts of the proposed OET are not expected to be felt equally by all businesses in SF.
- E.g., retail (grocery and food), despite having a similar OET-affected share to the SF market overall, employ nearly **40,000** workers and operate on thin profit margins of just **1.3%.** These industries have limited capacity to absorb new costs without cutting headcount or raising prices.
- In contrast, the Pharmaceutical Industry sector carries healthy margins, but a small employment footprint.
- The affected share of **4.3% of establishments** may understate the modeled risk concentration. What matters is not how many firms are affected, but which ones, and how little room they have to respond.

While the Pharmaceutical Industry (for example) as higher margins and a small employment footprint, retail (grocery and food) thin margins and 39,300 workers make them the primary transmission channel for the OET's economic impact.

Analysis prepared for the City's 2024 business tax reform measure ("Prop M") estimated that Retail Trade tax liability could rise by 97% vs. baseline under the proposed structure; highlighting both retail's exposure to tax changes and that the SF tax structure has already affected this sector.

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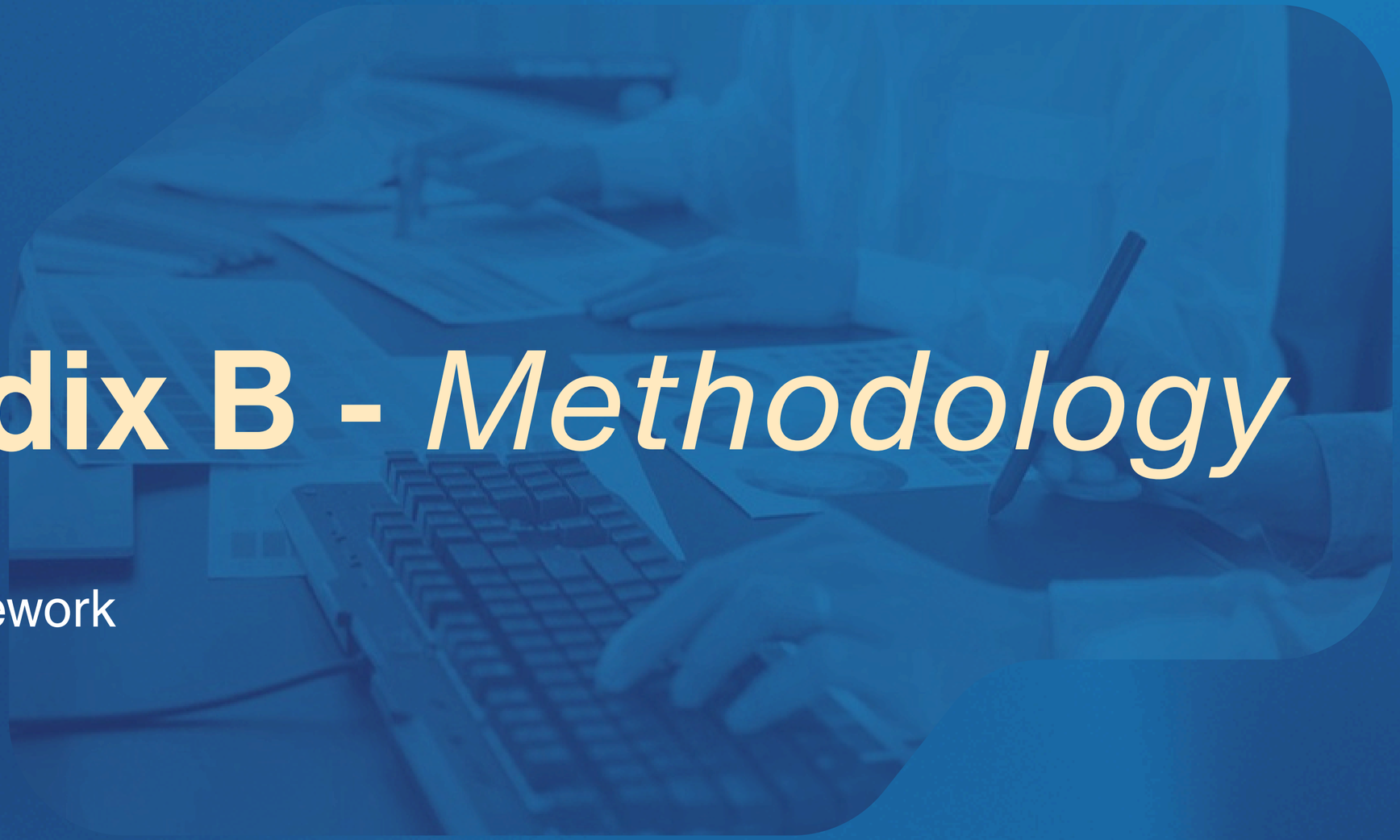

Appendix B - *Methodology*

A seven-step framework

Step 1: Estimate the tax shock

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The OET surcharge rates are the tax shock. These are the additional costs imposed on affected firms as a share of their gross receipts. *Strengthening Overpaid Executive Tax Rates Ordinance* in San Francisco specifies them directly: surcharge rates ranging from 0.02% to 0.12% of gross receipts in 2026, proposed to rise to 0.18% to 1.12% in 2027, depending on a firm's CEO-to-median-worker pay ratio.*

To arrive at a single representative tax shock, we use the distribution of affected firms across pay ratio brackets** as weights. The weighted average surcharge rate is computed by weighting each bracket's rate by the share of affected firms in that bracket. It gives us:

Tax surcharge or shock = 0.05 percentage-points in 2026 | 0.44 percentage-points in 2027

We express this formally as:

*Tax shock = additional OET paid ÷ taxable business receipts****

This gives us the size of the cost increase created by the ordinance. It is the starting point for the rest of the analysis. It is noteworthy, **this is an overall estimate. Individual firm exposure will vary depending on their actual pay ratio, SF-attributable revenue share, and cost structure.**

The above formula is a direct translation of what the OET is. Because the OET is a gross receipts surcharge (a tax on revenue, not profit), expressing the shock as additional OET ÷ taxable receipts is the ordinance in cost terms.

In the literature*, tax shocks are defined as the change in tax burden relative to the underlying tax base. That is:

$$\text{Tax shock} = \Delta\text{Tax} \div \text{Tax base}$$

For gross receipts taxes, the analogous base is taxable business receipts, which is precisely what we use. Smart & Bird (2009) and Romer & Romer (2010)**** applied this approach to gross receipts-style taxes, estimating pass-through elasticities approaching 100%. Our definition of tax shock is consistent with the academic convention.

** City and County of San Francisco (2025). Strengthening the Overpaid Executive Tax Rates Ordinance. San Francisco Administrative Code, Article 33 (Sections 3302, 3303, 3310). Filed October 31, 2025.*
*** Sourced from AFL-CIO's PayWatch database.*
**** Taxable gross receipts figures are sourced from SF Controller's Office budget and revenue data. Six-Month Budget Status Report, Feb 2026.*
***** Smart, M. & Bird, R. (2009). The economic incidence of replacing a retail sales tax with a value-added tax: Evidence from Canadian experience. Canadian Public Policy. And Romer, Christina D., and Romer, David H. (2010). The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks. American Economic Review, 100 (3): 763–801.*

Step 2: Estimate price pass-through

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We estimate how much of that added cost from the tax shock is passed on to customers through higher prices:

Price increase = tax shock × pass-through rate

This translates the business tax increase into an estimated consumer price effect. We use a pass-through rate of **24–40%**, drawn from the literature.*

Baker, Sun & Yannelis (2023) find a 2.4–4% retail price rise per 10 pp increase in corporate taxes, implying a pass-through rate of 24–40%.** Fuest, Peichl & Siegloch (2018) corroborate the lower bound, estimating a 0.24% price rise per 1 pp tax increase (~24%). Carbonnier (2007) estimates ~30% for producer and sales taxes, and Mikesell (2007) documents an empirical upper bound of ~40% in local business tax contexts and Salmon (2025) finds over 40% of corporate tax burden falls on consumers.

Thin-margin sectors (retail: **~1.3%** net margin vs. **9.7%** economy average***) have little buffer, and price adjustment is the primary response mechanism.

Limitations:

- Because the OET is levied on revenue (regardless of profitability) and has its own tax structure, its incidence may differ from the taxation studied in papers cited above. The 24–40% range is applied as a reasonable approximation; actual pass-through will vary by sector and competitive conditions.
- The pass-through rate range (24–40%) is drawn from studies that looked into different regions (beyond SF) and time periods. We assume the same range for SF and do not model the timing of pass-through. Price adjustments may be gradual, delayed, or frontloaded.
- Thin-margin sectors are assumed to pass through costs primarily via price. In practice, firms may respond through non-price mechanisms (quality reduction, product downsizing, service cuts) that are not captured here.

** Baker, S. R., Sun, S. T., & Yannelis, C. (2023). Corporate taxes and retail prices. American Economic Association. | Fuest, Peichl & Siegloch (2018). Do higher corporate taxes reduce wages? AER 108(2). | Carbonnier, C. (2007). Who pays sales taxes? Evidence from French VAT reforms, 1987–1999. Journal of Public Economics, 91(5–6), 1219–1229. | Mikesell, J.L. (2007). Retail sales taxes. In W.B. Hildreth & J.A. Richardson (Eds.), Handbook on Taxation. Routledge. | Salmon, J. (2025) Who Really Pays? Reevaluating the Corporate Tax Burden. Government Spending – Policy Briefs.*
*** Pass-through rate derived by normalizing Baker et al. (2023)'s estimated price response (2.4–4% per 10 pp tax increase) to a per-percentage-point basis: ρ = % price change ÷ % tax rate change = 0.24–0.40% ÷ 1% = 24–40%.*
****NYU Stern (2026). Margins by Sector (US).*

Step 3: Estimate household burden

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Next, we estimate what those higher prices mean for households at different income levels. In simple terms:

Annual household cost increase = annual household spending× price increase*

We used National Average as local data for consumer spending was not available for income segments.
We then compare that added cost to household income:

Burden = annual household cost increase ÷ household income

This shows which households are most exposed in relative terms. Low-income households spend a larger share of income on essentials**, so even a modest price rise represents a proportionally larger burden. This produces the regressive distributional pattern documented in the main findings.

Limitations:

- National average spending data was used in the absence of local income-segment-level consumer expenditure data. This may overstate or understate burden for specific demographic groups in specific geographies.
- The model assumes spending patterns remain fixed following a price increase. In reality, households substitute toward cheaper goods, which would partially offset the burden, meaning our estimates may be an upper bound on actual welfare loss.
- We do not account for government transfers or benefits that may partially compensate low-income households for cost-of-living increases.

** Sourced from : https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/cu-income-quintiles-before-taxes-2024.xlsx*
*** Davidenko, V. and Sweitzer, M. (2024). U.S. households that earn less spend a higher share of income on food. USDA.*

Step 4: Estimate margin pressure and business risk

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Not all of the tax is passed on in prices. The remaining share is absorbed by firms through lower margins. In simple terms:

Margin hit = tax shock × (1 – pass-through rate)

Literature shows that firms might decide to relocate with tax rises.* We calculate **Percentage Profit Loss by Sector:**

% Profit Loss (Sector) = Margin Hit ÷ Pre-Tax Profit Margin (Sector)

Where pre-tax profit margin refers to net margin, sourced from NYU Stern.** These are U.S.-based, and in our analysis, we assume they apply for the SF economy.

U.S. industry	Net margin
Retail (Grocery and Food)	1.32%
Total market (average)	9.74%
Drugs (Pharmaceutical)	18.54%

Limitations:

→ Pre-tax profit margins used are U.S. industry averages. However, in practice, the profit margins of firms may vary from the sector's average.

→ The model treats margin hit as static. In practice, firms may respond dynamically (renegotiating supplier contracts, reducing overheads, or restructuring) that partially offset the margin compression over time.

** For example, see Giroud, X., & Rauh, J. (2019). State taxation and the reallocation of business activity: Evidence from establishment-level data. Journal of Political Economy, 127(3), 1262-1316. And Djankov, S., Ganser, T., McLiesh, C., Ramalho, R., and Shleifer, A. (2010). The Effect of Corporate Taxes on Investment and Entrepreneurship. American Economic Journal: Macroeconomics 2 (3): 31–64.*
**** NYU Stern (2026). Margins by Sector (US).*

Step 5: Estimate wage and employment effects

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We then estimate how higher business costs may affect workers through slower wage growth and weaker hiring. In simple form:

Employment effect = tax shock × employment elasticity

Wage effect = tax shock × wage elasticity

Wage Effect Calculation

Percentage change in wages = *Wage Elasticity (βw)* × Margin Hit in the relevant market* (calculated in the previous step)

Dollar wage loss per worker = *Average Market Wage** × Percentage Wage Change*

Total wage loss across the workforce = *Dollar Wage Loss per Worker × Total Number of Workers in the Market****

Job loss calculations follow the same logic and steps.

Wage and employment elasticities are drawn from the literature. Ljungqvist & Smolyansky (2016)* find that a 10 percentage-point increase in corporate taxes is associated with a 3–5% drop in employment. Even for workers who keep their jobs, their wages are likely to fall by about 0.3%.**** These are semi-elasticities: the percentage change in employment or wages per one percentage-point change in the tax rate, not per 1% proportional change. Our tax shock, consistent with the definition of a tax surcharge, is also represented as a percentage-point change. We scale these effects to find sector-specific effects using the margin hits in each sector (calculated next).

Limitations:

- We assume elasticities are uniform across worker types, skill levels, and sectors. In practice, low-wage and low-skill workers tend to bear a disproportionate share of wage and employment adjustments.
- Wage and employment effects are modeled as independent. In reality, firms may trade off between the two: cutting wages to preserve headcount, or shedding workers to protect wages for those retained.
- The margin hit used to scale sector-specific effects introduces compounded uncertainty: errors in pass-through estimates propagate into wage and employment estimates.

** Ljungqvist & Smolyansky (2016). To Cut or Not to Cut. FRB FEDS 2016-006.*

*** Avg annual wage – SF metro all occupations: Derived: $48.15 × 2080 hrs. BLS OEWS May 2024. Occupational Employment and Wages in San Francisco-Oakland-Fremont — May 2024 : Western Information Office : U.S. Bureau of Labor Statistics*

**** CA EDD QCEW SF County 2024; BLS LAUS.*

***** Fuest, Peichl & Siegloch (2018). Do higher corporate taxes reduce wages? AER 108(2).*

Step 6: Estimate revenue at risk

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We estimate how much projected revenue may be reduced if firms shrink activity, relocate, or close. In simple form, this applies scenario-led reductions in the qualifying base to estimate potential impacts on revenue:

Revenue at risk = baseline revenue x scenario-based %*

Where: *Baseline revenue = Between $250 and 300 million.***

This shows that revenue depends not just on the tax rate, but also on how firms respond. Literature also supports this: higher taxes incentivize relocation out of high-tax jurisdictions, eroding the tax base.***

Limitations:

- The percentage reduction in business activity used in each scenario is illustrative, to show the range of potential revenue at risk, dependent on firm behavior – which is not captured in this analysis.
- The model does not capture the timing of revenue loss. Behavioral responses (relocation, closure) may unfold with a lag, not immediately, and the revenue impact is therefore likely distributed unevenly across the future.

** City Projection provided by industry data*
*** Proposition D – Increases to Business Tax Based on Comparison of Top Executive's Pay to Employees' Pay, Office of Controller Office, City and Country of San Francisco, March 9, 2026*
**** Chow, T., Huang, S., Klassen, K.J., Ng, J. (2021). The Influence of Corporate Income Taxes on Investment Location: Evidence from Corporate Headquarters Relocations. Management Science 68(2):1404-1425.*

Step 7: Estimate second-round demand and employment effects

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We then estimate how wage losses translate into reduced consumer spending, and how this feeds back into the broader economy. In simple terms:

Change in consumption = wage loss × marginal propensity to consume (MPC)

Because households reduce spending when income falls this creates additional pressure on businesses. Low-income households have a higher marginal propensity to consume (MPC), so wage losses at the bottom of the income distribution generate larger multiplier effects on overall economic activity.

Limitations:

→ Following MPC values have been used:*

Household segment	MPC
Low-income	2.10**
Middle-income	0.88
High-income	0.56

→ Actual MPC will vary based on household expectations, access to credit, and the perceived permanence of the income loss.

→ The model captures one round of demand feedback. A full multiplier model would trace subsequent rounds of spending reduction, business contraction, and further employment loss, meaning our second-round estimates are likely a lower bound on total demand effects.

** PPG analysis of Bureau of Labor Statistics (BLS) data.*
*** MPC above 1 assumes low-income households borrow or dissave to sustain consumption.*

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