

Twitter tax deal creates classic San Francisco row

April 2 2011, By MARCUS WOHLSEN , Associated Press

(AP) -- In the shadow of San Francisco's stately City Hall, sidewalks abound with transients, drugs and crime. Into this neighborhood, one of the world's hottest social media companies has promised to stride, offering urban rebirth in exchange for a tax break.

Tax incentives to bring businesses to blighted streets are not unusual. But this is San Francisco. And [Twitter](#). The mayor supports the plan, but progressive politicians - and now the city's largest public employee union - call the proposal a poorly crafted giveaway to the rich.

The conflict comes at a time when the city's high tech economy teems with energy not seen since before the first Internet bubble burst more than a decade ago.

At issue is the city's payroll tax. San Francisco is the only city in California to levy its business tax based on how much companies pay workers, rather than how much money they take in.

Since Twitter emerged as a side project of a San Francisco podcasting company in 2006, the business has grown from a handful of employees to a few hundred. With investors pouring money into Twitter, the company expects to grow to more than 3,000.

To do that, Twitter needs a lot more space. One option would be to flee to a sprawling suburban campus in [Silicon Valley](#), where adding more employees would not mean adding to the tax bill.

But earlier this month, recently appointed Mayor Ed Lee announced what seemed like a winning solution for everyone. Twitter had signed a letter of intent to sign a six-year lease on several hundred thousand square feet of office space in a historic building in the struggling Mid-Market neighborhood. The only condition: The city must agree to exempt Twitter from paying any new payroll taxes on any additional hires.

For a company that expects to add thousands of new employees in the next few years, the savings would add up quickly.

"This is the moment we have been waiting for," Lee said of the proposed deal. "The transformative nature of an anchor tenant like Twitter will revitalize this community."

Yet in San Francisco, where an overall economy largely untouched by the recession has kept real estate prices among the highest in the country, some low-income residents worry that revitalization will just lead to higher rents. And city employees facing layoffs and contract concessions thanks to a massive budget shortfall resent what they see as a giveaway to venture capitalists and a bailout for landlords.

"Who are the (Twitter) investors?" Supervisor John Avalos told The San Francisco Examiner. "Probably some of the wealthiest people in this country. And we are giving them more wealth."

Last Tuesday, members of a neighborhood group protested outside Twitter's current headquarters, about a mile from the proposed new offices.

They accused Twitter of not living up to its pledge to be a good neighbor. They complained neither the city nor the company have considered the low-income residents who would be adversely impacted

by rising rents spurred by the prosperity Twitter could bring.

"The residents are feeling that if they're not going to benefit from this revitalization that the city is pushing for, it really doesn't make sense for these companies to stay in San Francisco," said Angelica Cabande, director of South of Market Community Action Network.

Twitter declined to comment on the tax-break fracas.

As a result of the controversy, a lawmaker on the Board of Supervisors' progressive wing, Ross Mirkarimi, has proposed an alternative measure he says will fix an underlying legal flaw that has led to anxiety among hot tech companies looking to grow.

San Francisco's [payroll tax](#) is unusual enough, but one provision makes it even more unique. The city in 2004 added language to the tax code to make clear that tax collectors considered stock options a part of employees' compensation and hence taxable as part of the payroll.

For tech startups, stock options are one of the most common ways to hold onto employees, especially when a lack of funds doesn't allow them to offer competitive salaries. When lucky companies reach a point where they can make their initial public offering of stock, those options can turn into a major windfall for workers.

But for companies in San Francisco, that windfall sticks employers with a huge tax increase right at the time they've issued the stock in an effort to expand. Mirkarimi's proposal would place a two-year moratorium on taxing any company's stock options to ease the fears not just of Twitter, but other San Francisco-based startups like social gaming leader Zynga and consumer review website Yelp.

"You don't want to write law in a way that only helps one company or

one neighborhood in one part of the city," Mirkarimi said.

The Board of Supervisors is scheduled to vote Tuesday on the Twitter package, and Mirkarimi predicts it will pass even without his vote. If that happens, Service Employees International Union Local 1021, the public employees union, may seek a ballot measure that could delay the deal until voters weigh in.

City economic officials paint any failure of the deal not as a loss to Twitter but as a loss for the neighborhood, where more than half of the available commercial real estate sits vacant. While Twitter is the big fish the city is seeking to catch, any businesses within the geographic zone defined by the legislation would get a similar tax break.

"The benefit we want, which is jobs in this area, is not happening without some incentive," said Jennifer Matz, director of the city's Office of Economic and Workforce Development. Without such incentives, she said, the neighborhood has not seen improvement for a generation. "It resisted the last dot-com boom."

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Citation: Twitter tax deal creates classic San Francisco row (2011, April 2) retrieved 10 April 2024 from <https://phys.org/news/2011-04-twitter-tax-classic-san-francisco.html>

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