

1 [Garment Manufacturers' Tax Credit]
2 AMENDING ARTICLE 12-A OF PART III OF THE SAN FRANCISCO MUNICIPAL CODE
3 (REVENUE AND FINANCE/BUSINESS REGULATIONS) BY AMENDING SECTION 906D
4 THERETO, PERMITTING GARMENT MANUFACTURERS TO CLAIM 60 PERCENT OF THE
5 CREDIT PROVIDED BY THIS PROVISION IN THE TAXABLE YEAR THAT CREDITABLE
6 COSTS AND EXPENSES ARE INCURRED AND 40 PERCENT OF THE CREDIT IN THE
7 TAXABLE YEAR FOLLOWING SUCH YEAR, AND PROVIDING A DEFINITION OF THE
8 TERM "GARMENT MANUFACTURER".

9 Note: Additions are underlined; deletions are in ((double parentheses)).

10 Be it ordained by the People of the City and County of San Francisco:

11 Section 1. 12-A of the San Francisco Municipal Code is hereby amended by amending
12 Section 906D, to read as follows:

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14 **SEC. 906D. GARMENT MANUFACTURERS' TAX CREDIT.** (a) **Purpose.** The
15 purpose of this provision is to retain garment manufacturing jobs within the City and County of
16 San Francisco by providing an incentive for businesses to strengthen and revitalize their
17 production and management systems, upgrade the skills and competency of their workers,
18 and invest in new equipment and technologies. This is part of an overall policy adopted by the
19 City and County of San Francisco to enhance the ability of small and medium sized
20 businesses to compete in the global economy, and thereby to retain and expand
21 manufacturing jobs within the City.
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24 (b) **Credit.** A credit shall be allowed against this tax for any garment manufacturer
25 with gross receipts of not more than \$5,000,000 annually that, on or after January 1, 1997,

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1 invests in (1) technical equipment for use in the garment manufacturer's business in San
2 Francisco, (2) work reorganization within the garment manufacturer's factory in San
3 Francisco, or (3) training of the garment manufacturer's San Francisco employees.

4 Each taxpayer claiming the credit shall file with the Tax Collector, on a form prescribed
5 by the Tax Collector, an affidavit attesting to facts establishing his or her entitlement to the tax
6 credit. The affidavit shall be supported by such other documentation as the Tax Collector
7 shall prescribe.
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9 Any taxpayer claiming a credit for employee training shall, prior to commencement of
10 training, obtain preapproval of the training program from the Tax Collector.

11 (c) **Definitions.** For purposes of this Section, the following definitions shall apply:

12 (1) "Technical equipment" means any equipment used directly in the process of
13 operating and managing a garment factory, including, but not limited to, cutting room
14 equipment, sewing room equipment, press room equipment, and design room equipment. In
15 addition, "technical equipment" means any equipment used to improve the management and
16 operation of the garment factory, including, but not limited to, general office equipment to
17 upgrade the garment manufacturer's accounting, management, and marketing processes.
18 The term "technical equipment" shall include, but not be limited to, computerized pattern-
19 making equipment, cutting tables, electric cutting knives, single-needle sewing machines,
20 overlock machines, special machines, boilers, irons, steam boards, automatic spreaders,
21 pressing and fusing equipment, steam channels, CAD system and CAM system, computers,
22 and management and operational software.
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1 (2) "Work reorganization" means the conversion within a garment factory from the
2 traditional manufacturing system of progressive bundles to a more productive and efficient
3 system, such as a modular manufacturing system or a unit production system. The costs for
4 which the credit for work reorganization may be taken include, but are not limited to, (A) the
5 costs of constructing or installing new technology; (B) the costs of modifying existing
6 machinery and work spaces, including necessary electrical upgrades; and (C) the costs of
7 accessories and attachments to existing machinery, such as foot pedals, floor mats, incentive
8 boards, rolling bins, and maintenance tools and manuals.

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10 (3) "Employee training" means any training provided to the taxpayer's employees
11 for purposes of upgrading their skills with respect to the garment manufacturing business.
12 "Employee training" includes, but is not limited to, training to operate technical equipment, as
13 defined in paragraph (1), training and improvement in business and other management skills,
14 and learning and incorporating new or improved production methods or technologies in the
15 garment manufacturing process.

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17 (4) "Garment Manufacturer" means a person who utilizes commercial sewing
18 techniques and skills to process fabric into finished articles of clothing or apparel to be worn
19 by human beings.

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21 (d) **Amount of Credit.** ((The tax credit shall be a specified percentage, as set
22 forth)) Except as otherwise provided in subdivisions (e) and (f), ((of the cost)) the amount of
23 the credit allowed by this Section 906D for the taxable year shall be the sum of (i) 60 percent
24 of the qualified investment in the taxable year (the "First Year's Credit"), and (b) 40 percent of
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1 the qualified investment in the taxable year immediately preceding such year (the "Second
2 Year's Credit"). For purposes of this Section 906D, the term "qualified investment" means the
3 amount paid or incurred by a garment manufacturer for the purchase or lease of technical
4 equipment for use in the garment manufacturer's business in San Francisco, for work
5 reorganization within the garment manufacturer's factory in San Francisco, and for employee
6 training provided to any employee employed in San Francisco. The credit, including any credit
7 carryover from a prior year, shall not exceed \$30,000 per year, and in no event shall the tax
8 credit reduce a taxpayer's tax liability under this Article to less than zero. The tax credit is not
9 transferable.

11 (e) **((Proration of)) Credit Limitations.** (1) With respect to the credit for the
12 purchase or lease of technical equipment, the ((credit)) First Year's Credit ((provided in this
13 section shall be 60 percent of the costs of)) shall be allowed only if a garment manufacturer
14 places such equipment ((if the equipment remains)) in service in San Francisco during the
15 taxable year and keeps such equipment in service in San Francisco through the end of such
16 taxable year, and the Second Year's Credit shall be allowed only if the garment manufacturer
17 keeps such equipment in service in San Francisco through the end of the taxable year
18 immediately following such taxable year ((for one year following the purchase or lease of the
19 equipment, and an additional 40 percent if the equipment remains in service in San Francisco
20 for a second year following the purchase or lease of the equipment. No credit shall be
21 allowed for equipment that remains in service in San Francisco for less than one year)).

22 (2) With respect to the credit for work reorganization, the ((credit)) First Year's
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1 Credit ((provided in this section shall be 60 percent of the costs of such work reorganization))
2 shall be allowed only if a garment manufacturer keeps the factory for which the work
3 reorganization credit is claimed ((remains)) in service in San Francisco ((for one year
4 following commencement of the work reorganization, and an additional 40 percent if the
5 factory remains in service in San Francisco for a second year following commencement of the
6 work reorganization. No credit shall be allowed for work reorganization of a factory that
7 remains in service in San Francisco for less than one year)) through the end of the taxable

8 year within which such work reorganization is completed, and the Second Year's Credit shall
9 be allowed only if the garment manufacturer keeps such factory in service in San Francisco
10 through the end of the taxable year immediately following such taxable year.

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13 (3) With respect to the credit for employee training, the First Year's Credit ((credit
14 provided in this section shall be 60 percent of the costs of employee training for an employee
15 who remains in service in San Francisco for one year following commencement of training,
16 and an additional 40 percent if the employee remains in service in San Francisco for a
17 second year following commencement of training. No credit shall be allowed for employee
18 training of an employee who remains in service in San Francisco for less than one year
19 following the date training commences)) shall be allowed only if and to the extent a garment
20 manufacturer employs the specific individuals for which the employee training credit is
21 claimed in San Francisco through the end of the taxable year within which such training is
22 completed, and the Second Year's Credit shall be allowed only if and to the extent the
23 garment manufacturer employs such individuals in San Francisco through the end of the
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1 taxable year immediately following such taxable year.

2 (f) **Recapture of Credits.** (1) With respect to the credit for the purchase or
3 lease of technical equipment, the First Year's Credit shall be retroactively disallowed if the
4 technical equipment for which such credit was claimed is disposed of by the garment
5 manufacturer or otherwise ceases to be used in such garment manufacturer's business in
6 San Francisco before the first anniversary of the date upon which the garment manufacturer
7 placed such equipment in service, and the Second Year's Credit shall be retroactively
8 disallowed if such technical equipment is disposed of by the garment manufacturer or
9 otherwise ceases to be used in the garment manufacturer's business in San Francisco before
10 the second anniversary of the date upon which such equipment was placed in service by the
11 garment manufacturer.

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14 (2) With respect to the credit for work reorganization, the First Year's Credit shall be
15 retroactively disallowed if the factory for which such credit was claimed is disposed of or
16 otherwise ceases to remain in service in San Francisco by the garment manufacturer before
17 the first anniversary of the date upon which such work reorganization was completed, and the
18 Second Year's Credit shall be retroactively disallowed if such factory is disposed of or
19 otherwise ceases to remain in service in San Francisco by the garment manufacturer before
20 the second anniversary of the date upon which such work reorganization was completed.

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22 (3) With respect to the credit for employee training, the First Year's Credit shall be
23 retroactively disallowed if and to the extent the specific individuals for which the employee
24 training credit was claimed cease to be employed in San Francisco by the garment
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1 manufacturer before the first anniversary of the date upon which such training was
2 completed, and the Second Year's Credit shall be retroactively disallowed if and to the extent
3 such individuals cease to be employed in San Francisco by the garment manufacturer before
4 the second anniversary of the date upon which such training was completed.

5 (((f))) (g) **Carryover.** In the case where the credit allowed by this Section exceeds
6 the tax, the excess may be carried over to reduce the tax in the following years and
7 succeeding years, if necessary, until the credit has been exhausted, for up to three years.

8 (((g))) (h) **Other Credits.** The credit provided in this Section shall be in addition to
9 any other credit under Part III to which the taxpayer is entitled for costs to which this credit
10 applies. The credit provided in this Section shall be taken after any other available credits
11 have been exhausted.

12 (((h))) (i) **Expiration; Carryover of Unused Credit.** The credit provided in this
13 Section shall expire on December 31, 2001, unless the Board of Supervisors extends the
14 credit. Any unused credit may continue to be carried forward, as provided in subdivision (((f)))
15 (g), until the credit has been exhausted, but in no event for more than three years.

16 APPROVED AS TO FORM:

17 LOUISE H. RENNE, City Attorney

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22 By: George Putris
23 GEORGE W. PUTRIS
24 Deputy City Attorney

25
SUPERVISOR TENG
BOARD OF SUPERVISORS



City and County of San Francisco

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Tails Ordinance

File Number: 990335

Date Passed:

Ordinance amending San Francisco Municipal Code, Part III, by amending Section 906D permitting garment manufacturers to claim 60 percent of the credit provided by this provision in the taxable year that creditable costs and expenses are incurred and 40 percent of the credit in the taxable year following such year, and providing a definition of the term "garment manufacturer".

June 1, 1999 Board of Supervisors — PASSED, ON FIRST READING

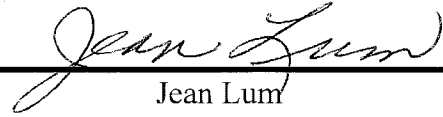
Ayes: 11 - Ammiano, Becerril, Bierman, Brown, Katz, Kaufman, Leno, Newsom, Teng, Yaki, Yee

June 7, 1999 Board of Supervisors — FINALLY PASSED

Ayes: 9 - Ammiano, Becerril, Brown, Katz, Kaufman, Leno, Newsom, Yaki, Yee
Absent: 2 - Bierman, Teng

File No. 990335

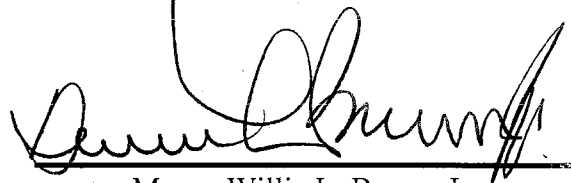
I hereby certify that the foregoing Ordinance
was **FINALLY PASSED** on June 7, 1999 by
the Board of Supervisors of the City and
County of San Francisco.



Jean Lum
Acting Clerk of the Board

JUN 18 1999

Date Approved



Mayor Willie L. Brown Jr.