THE OPENAI TAX CASE SAN FRANCISCO HAS NOT ANSWERED

A citizens group has taken allegations of fraud, misuse of charitable assets and unpaid taxes to San Francisco's Inspector General. Court records trace OpenAI's path from a donor-supported nonprofit to a Microsoft-integrated commercial enterprise — and identify the appraisals, ledgers and government communications that remain outside public view.

Concerned Citizens of San Francisco is renewing calls for transparency surrounding the relationship Sam Altman has with public officials in San Francisco after a visit by Mayor Lurie to OpenAI's CFO, Sarah Friar. "We appreciate Mayor Lurie's efforts with OpenAI, even if it's corruption in plain sight, but the financial consideration he is requesting of OpenAI is a drop in the bucket compared to what the business owes in taxes to City of San Francisco," says Concerned Citizens in a statement to the press. "Besides, Mayor Lurie could just talk to Sam directly. Surely he has his phone number from his time as co-chair of the transition committee," the statement says.

Earlier this year Concerned Citizens turned over allegations involving OpenAI to San Francisco's Inspector General and began searching for a law firm to pursue a taxpayer action seeking money the group contends is owed to the City and County of San Francisco. In a well-documented memorandum to the Inspector, the group cites a sequence of records it says demonstrates fraud and a strategy of cultivating political relationships to secure favorable outcomes, avoid scrutiny by the City Attorney and California Attorney General, and prevent San Francisco from collecting taxes during OpenAI's conversion from a nonprofit-controlled organization into a commercial enterprise.

"No matter how you slice it, OpenAI signed massive commercial deals that were clearly not based in nonprofit accounting standards. Through this process they avoided paying millions of dollars in taxes, if not billions, and the California AG, Rob Bonta, signed off on it," Concerned Citizens continued in its statement.

California's review of the conversion culminated in an October 2025 memorandum of understanding between OpenAI and Attorney General Rob Bonta.

Bonta said his office had spent approximately 18 months investigating OpenAI's initial restructuring proposal and revised recapitalization plan. He said the state secured commitments intended to preserve charitable assets, prioritize safety and keep OpenAI in California, and that his office would not oppose the recapitalization.

The recapitalization became a fight among California's political and tech elite, and even drew in Mark Zuckerberg. In December 2024, Zuckerberg messaged Elon Musk that Meta had sent the California Attorney General a letter supporting Musk.

After Bonta announced that his office would not oppose the recapitalization, Concerned Citizens members say it became clear that San Francisco would receive no tax revenue from the transaction. According to a person who heard a subsequent telephone call between Chiu and Bonta, Chiu was enraged and told The Attorney General, "I don't want an apology, I want fucking compensation."

The MOU between The Attorney General is public. It provides that the nonprofit retains control of the new public-benefit corporation through a special class of stock and the sole authority to appoint and remove its directors. The agreement preserved the control structure at the center of OpenAI's dispute with Musk, a move that raises questions about how The Attorney General provided operating control to Altman through the governance of the legal entities.

OpenAI's Safety and Security Committee remains housed at the nonprofit, preserving formal authority over specified safety decisions. The company agreed to provide notice before specified changes involving control, mission or a move out of California, and to fund outside experts retained by the Attorney General under the agreement. The MOU does not identify any experts later retained.

The agreement does not attach the fairness opinion, valuation models, financial forecasts, appraisals or government communications. It also says it does not determine rights involving other transactions or litigation. Those limits place the underlying documents directly inside the taxpayer dispute. They may show how California valued the nonprofit's assets, whether the state examined the original contribution to OpenAI LP, how the nonprofit's interest was calculated and whether San Francisco tax exposure was discussed with state or city officials.

Concerned Citizens is focusing their efforts with The City of San Francisco because they believe the story of how this all unfolded goes back to OpenAI lobbying San Francisco as the city prepared Proposition M, its latest business-tax overhaul.

Lobbying disclosures reviewed by The San Francisco Standard showed that OpenAI representative Alex Tourk met during 2024 with the Office of Economic and Workforce Development, the city's fiscal leadership, then-Mayor London Breed and mayoral staff. The discussions included tax reform and the treatment of sales involving intangible products such as software. The publication reported that OpenAI sought relief but did not obtain the company-specific change it requested from the Breed administration.

Proposition M changed business classifications, rates and apportionment rules beginning in 2025. It also created procedures through which businesses may seek advance written tax determinations or voluntarily disclose unpaid taxes under specified conditions.

Concerned Citizens is seeking records showing how OpenAI's nonprofit and commercial entities registered with the city, how their receipts were classified and sourced, whether an advance determination or voluntary disclosure was requested, and whether the City Attorney participated in negotiations over past exposure.

A Roadmap to the Hidden For-Profit Economy

Altman's commercial background lays the roadmap for a pattern of unethical business practices. Starting with his time at location-sharing company Loopt, which he sold for $43.4 million in 2012 in which he misled investors and stakeholders in how he was using location information of private citizens to reveal routines, relationships and sensitive visits. Leveraging this success, he led Y Combinator as YC's reported portfolio value rose from approximately $30 billion in 2014 to $150 billion in 2019 in which overvaluations became core to the success in creating millionaire entrepreneurs that provided little economic return to investors.

In December 2015, while serving as YC president, Altman launched OpenAI Inc. as a nonprofit "unconstrained by a need to generate financial return." Musk warned before the launch that combining YC stock with nonprofit salaries "muddies the alignment of incentives."

During this time of operating the nonprofit, Altman became independently wealthy. Public property reporting shows that in March 2020 he acquired a San Francisco residence for $27 million; in December 2020 he bought a 950-acre Napa ranch for approximately $15.7 million; and in 2021 he purchased a Hawaii estate for $43 million — roughly $85.7 million across the three properties. He also invested $375 million of his own money in Helion in 2021, and trial disclosures later valued his Helion interest at approximately $1.65 billion.

In the Musk v. Altman trial earlier this year, Musk testified that he contributed approximately $38 million. Vanguard Charitable records document about $15.5 million of Musk-directed grants through YC ORG for OpenAI research between June 2016 and March 2017, including lease payments. This is one of many examples of how Altman used his power and influence at Y Combinator to secure deals on behalf of Open AI, but outside the legal entity structure of the nonprofit.

Another example: a August 2017 email shows that Brockman's original OpenAI employment offer included a $175,000 salary, 50 basis points of "YC stock" and 50 basis points of "YC continuity." After what he called "OpenAI's YC stock" ran out, Altman substituted a 1 percent interest in his family-office entity. The records do not identify the securities, owner, valuation, board approval or tax treatment. In November 2018, participants separately discussed accounting demanded so OpenAI could "pass non-profit audit" and warned that there was "a lot on the line for OpenAI's non-profit standing." Those messages do not prove audit fraud, but they show that the participants understood the accounting treatment was material.

The structural break came in 2018. A term sheet stated that "OpenAI LP will initially be capitalized by a contribution of assets from the Nonprofit," with the nonprofit receiving an interest consistent with the value contributed. No appraisal has been publicly produced. The taxpayer memorandum says the transferred value likely included research, models, code, technical know-how, employee-created work, donor-funded development, goodwill, the OpenAI brand and business opportunities. The missing valuation is the document that would show whether the charity received fair value before investors and employees obtained claims on the commercial upside. That valuation model was obtained by Concerned Citizens and emailed to The Inspector General on May 15th, 2026.

The Microsoft agreements then put that value into commerce. The 2019 agreement granted Microsoft an exclusive, perpetual, worldwide and royalty-free license to selected OpenAI technology, subject to contractual limits. A 2021 amendment said the partnership would commercially exploit AI technologies and expanded the definitions of licensed "Related IP" and "Research." In 2022, Satya Nadella wrote that Microsoft wanted "full IP rights" and personnel embedded across the stack; the email said Microsoft had funded about 90 percent of OpenAI's hardware and operating expenses. The 2023 Argos II agreement imposed Azure exclusivity, contemplated up to $9 billion in capital and computing support, and used embedded Microsoft engineers for commercialization and knowledge transfer.

A Microsoft investment analysis modeled target redemptions of approximately $6 billion for the nonprofit, $13 billion for early investors, $92 billion for Microsoft and $150 billion for the employee pool. Those were modeled claims, not proven payouts. They nevertheless show the scale of private economic rights attached to technology incubated by OpenAI Inc.

The Accounting Theory in One Sentence

The allegation is that OpenAI Inc. used nonprofit donations, payroll, computing and charitable credibility to create the valuable intellectual property, then ran the equity, profits interests, licensing, revenue-sharing and commercialization economics through OpenAI LP, later affiliates and Microsoft — while the nonprofit's public accounting may not have shown the full value transferred or the private benefits created.

Although nonprofits may own taxable subsidiaries, grant licenses, pay market compensation and enter joint ventures, the alleged fraud arose when OpenAI Inc. knowingly kept the for-profit economics behind the scenes while omitting, undervaluing or misclassifying stock compensation, related-party transactions, asset transfers, royalties, unrelated business income or taxable receipts in its audited financial statements, Forms 990 or city and state tax returns.

IRS reporting rules specifically require disclosure of compensation, interested-person transactions, related organizations and transactions with controlled entities. Schedule R measures covered related-entity transactions using fair-market value; Schedule L addresses excess-benefit and interested-person transactions. OpenAI's 2017 Form 990 reported $33.2 million in gross receipts, 99 employees, $7.95 million in cloud-computing expense and zero unrelated-business revenue. The memorandum treats this activity as a red flag because later contracts show that the same research and infrastructure fed commercial licenses and revenue streams.

What the Memorandum Says San Francisco May Be Owed

The memorandum presents two tax bases. Its visible floor, derived from the nonprofit's Form 990 receipts, is approximately $600,000 before penalties, interest, business-registration fees, homelessness taxes, payroll-related taxes or other assessments. The memorandum expressly says that figure is only the floor visible from nonprofit filings.

Its upper-end theory follows commercial receipts that may have sat outside the nonprofit return: OpenAI API revenue, Azure OpenAI revenue, Microsoft first-party products, licensing and royalties, revenue sharing, distributions from related entities and embedded-engineering services. Using an illustrative San Francisco rate of 0.832 percent, the memorandum calculates approximately $4.16 million a year on $500 million of city-attributable receipts; $16.64 million on $2 billion; $41.6 million on $5 billion; and $83.2 million on $10 billion. It contends cumulative gross-receipts-tax exposure could exceed $100 million over multiple years before penalties and interest. Every additional $1 billion of San Francisco-attributable receipts adds approximately $8.32 million in gross-receipts tax under that model.

San Francisco Business and Tax Regulations Code Sections 6.17-2 and 6.17-2.1 permit a 50 percent penalty when underreporting or nonpayment is attributable to fraud or an intent to evade tax. If fraud were established at the memorandum's $10 billion scenario, the annual gross-receipts tax and fraud penalty would total approximately $124.8 million before interest and other assessments. These are plaintiff scenarios, not city assessments; they depend on the liable entity, applicable rate, exclusions, intercompany treatment and the share properly sourced to San Francisco. The memorandum supports a nine-figure theory, but it does not yet establish a billion-dollar city tax bill.

If Proven, the Conduct Would Be Financial Crime

The taxpayer memorandum is framed as a civil action. But if the missing records prove knowing and willful falsity, the conduct would move beyond civil nonprofit violations. Form 990 is executed under a penalties-of-perjury declaration. Title 26, United States Code, Section 7206(1) makes it a felony to willfully sign a tax return that the signer does not believe is true and correct as to every material matter; Section 7206(2) covers anyone who willfully aids in preparing or presenting a materially false return. Section 7201 separately makes a willful affirmative attempt to evade federal tax a felony.

If interstate emails, electronic filings or transfers were used to execute a scheme to obtain or retain money or property through material deception, the same evidence could also implicate the federal wire-fraud statute, 18 U.S.C. §1343. For California corporation-tax filings, Revenue and Taxation Code §19705(a)(1)-(2) makes it a felony to willfully sign, or help prepare, a return that is false as to a material matter.

Those statutes require proof of intent, not merely aggressive accounting, a disputed valuation or negligence. Investigators would have to establish who knew the fair value of the assets and licenses, who directed any omission or misclassification, who approved the transactions, who signed the returns and whether the alleged false statements were material. If authorized agents acting for OpenAI Inc. knowingly caused materially false returns to be filed or affirmatively concealed taxable income, OpenAI Inc. and the responsible individuals could face criminal exposure. If those elements are proven, the conduct is not simply “bad nonprofit accounting”; it is alleged false-return and tax-evasion crime.

Separate civil laws would also apply. Internal Revenue Code §501(c)(3) prohibits private inurement; §4958 imposes excise taxes on excess-benefit transactions and managers who knowingly participate; California Corporations Code §5233 authorizes recovery of profits, lost property and appreciation, and exemplary damages for fraudulent or malicious self-dealing; and San Francisco’s code authorizes the 50 percent fraud penalty. Those provisions can produce taxes, restitution, penalties or loss of exemption without themselves constituting a criminal conviction.

The case therefore turns on a direct question: did OpenAI Inc. fully disclose and receive fair value for the charity-funded assets, stock compensation and Microsoft rights, or did it operate a hidden for-profit economy while filing nonprofit accounts that concealed it? If the former is proven, the criminal theory fails. If the latter is proven together with knowledge and intent, the conduct fits specific false-return and tax-evasion statutes.

The Records Concerned Citizens Wants Released

Concerned Citizens is asking OpenAI, Attorney General Bonta and San Francisco officials to release the OpenAI Inc. board minutes and conflict disclosures approving the nonprofit’s asset contribution, insider compensation and Microsoft transactions; every appraisal, valuation, fairness opinion and financial model used to price the nonprofit’s intellectual property and ownership interest; and the complete record behind the Attorney General’s assessment. That record includes OpenAI’s submissions, expert reports, tax analyses, communications with San Francisco officials and the factual basis for concluding that the recapitalization was fair or reasonable to the nonprofit.

Members of the group say they met with staff in Supervisor Connie Chan’s office and are seeking a Board of Supervisors hearing with Treasurer José Cisneros, whose department administers the city’s business taxes.