



SEATTLE CITY COUNCIL
CENTRAL STAFF

CB 121028: Business and Occupation Tax Rebalancing

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SELECT BUDGET COMMITTEE
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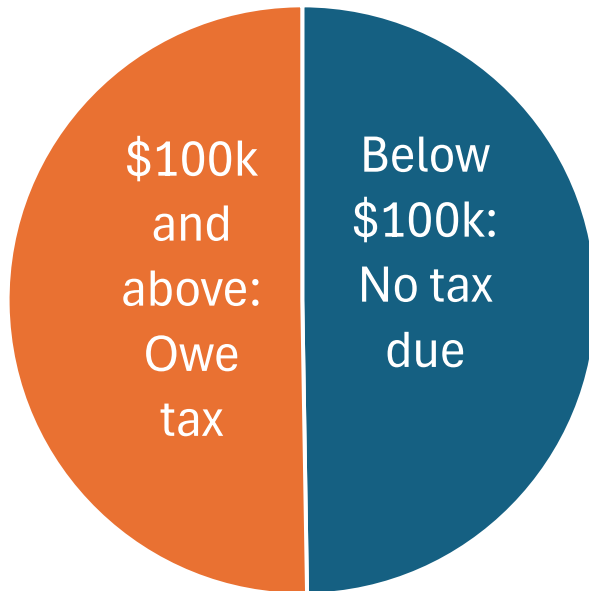
Background (1/2)

Business and Occupation (B&O) Tax Structure

- Tax on gross revenue of businesses revenue earned in Seattle
- Since based on gross revenue, no deductions for operating expenses
- Current rates represent a fraction of a percent of gross business revenue:
 - 0.222% for retail sales and services, wholesaling, and manufacturing/extracting (22 cents per \$100 of revenue)
 - 0.427% for services, transporting freight for hire, and other (43 cents per \$100 of revenue)
- Businesses with gross revenue below \$100,000 are exempt
- Rates are at statutory maximum; voted increase authorized by RCW 35.21.711

Background (2/2)

2024 total filers: 42,000



- In 2024, about half of tax filers had zero B&O tax obligation (that is, revenue was below the \$100,000 exemption threshold).
- B&O tax generated \$353M in 2024.
- Currently projected to raise \$369M in 2025 and \$385M in 2026 ^{1/}.
- Represents ~20% of General Fund (GF) revenue.

^{1/}Does not include Forecast Office's estimated impacts of ESSB 2015, which classifies some technology services as retail and would reduce B&O tax revenues.

Overview

1. Increase the exemption threshold to \$2M, create a new \$2M standard deduction, align business license fee structure, accordingly, increase B&O tax rates, and designate use of proceeds, contingent on voter approval.
2. Submit question to the November 5, 2025, General Election with these changes.
3. All changes would be effective January 1, 2026.
4. Includes a January 1, 2030, sunset date, which can be extended an additional four years by an ordinance approved by July 31, 2029.

Analysis of Restructure (1/6)

Increase exemption threshold from \$100,000 to \$2M:

- Based on 2024 data, would exempt an additional 16,000 taxpayers (75% of total)
- Number of businesses owing tax would drop to ~5,000
- Forecast Office estimates impact is \$28.4M (prior to rate increase)

Number and Percentage of Firms No Longer Subject to B&O Tax

Business Type	Number	% of All Taxpayers
Agriculture, Forestry, Fishing, and Hunting, Mining, Manufacturing	654	71%
Construction	2,457	74%
Trade	2,128	65%
Transportation, Warehousing, and Utilities	200	67%
Information	318	66%
Finance and Insurance	315	60%
Real Estate and Rental and Leasing	578	73%
Professional and Business Services	3,848	76%
Educational Services	254	90%
Health Care and Social Assistance	1,633	86%
Arts, Entertainment, and Recreation	347	83%
Accommodation and Food Services	320	73%
Restaurants	1,343	82%
Other Services	1,511	83%
Total	15,906	75%

1/ 2024 data - Office of Economic and Revenue Forecasts

Analysis of Restructure (2/6)

New \$2M Standard Deduction:

- Based on Forecast Office analysis, would exempt \$10.8B of revenue from tax for remaining taxpayers
- Forecast Office Estimates impact is \$33M (prior to rate increase)

Conforming changes to business license fee:

- Business license fee is based on taxable revenue, would clarify that is prior to standard deduction

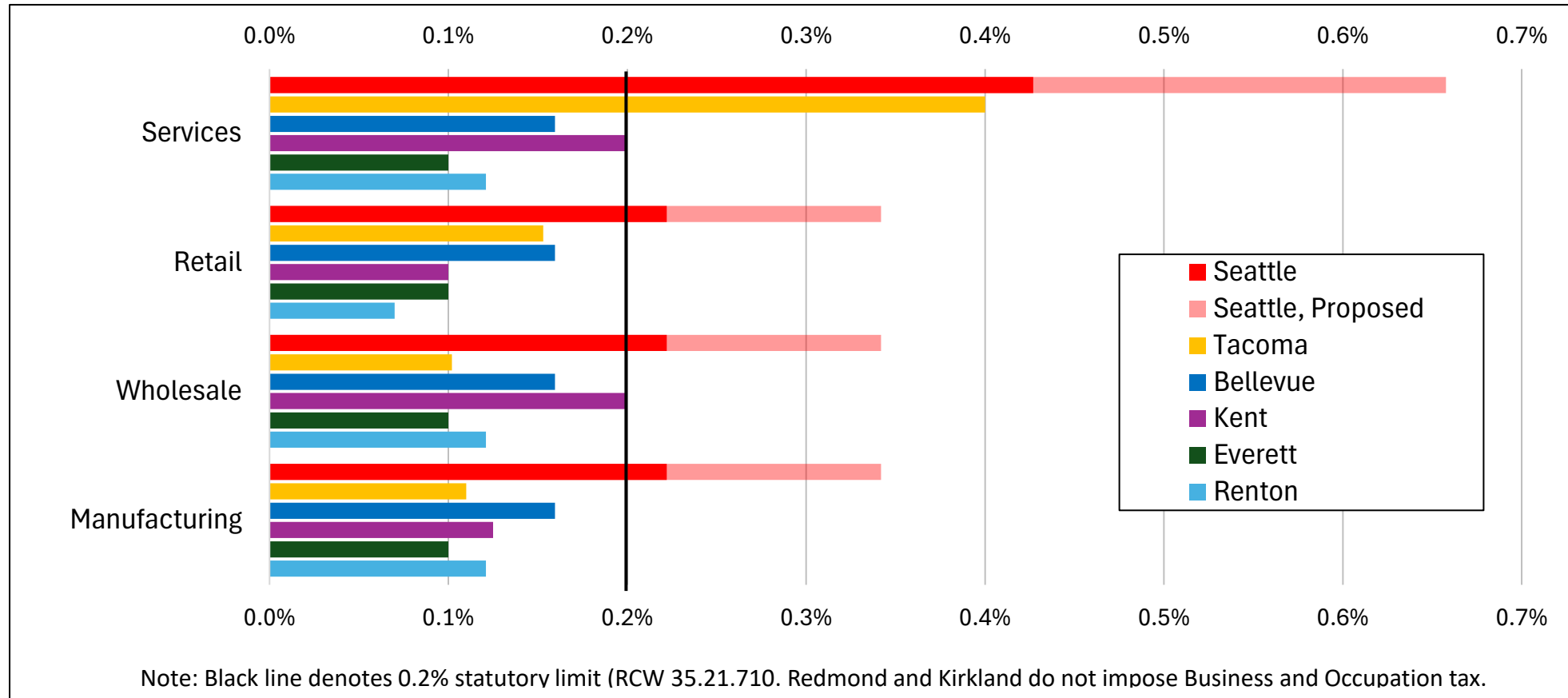
Rate Increases:

Business Type	Current	Proposed	Change	Per \$1M of Revenue
Retail/Wholesale Trade, and Manufacturing	0.222%	0.342%	0.120%	\$1,200
Services, Other	0.427%	0.658%	0.231%	\$2,310

- Forecast Office estimates rate increase would generate \$151M in 2026 (with stated caveats and risks).

Analysis of Restructure (3/6)

Regional rate comparisons (Forecast Office):



Analysis of Restructure (4/6)

Examples of Taxpayer Impacts (retail, wholesaling, and manufacturing):

Business	Revenue	Tax Due:		Difference
		Current Structure	After Restructure	
A	\$250,000	\$555	\$0	(\$555)
B	\$500,000	\$1,110	\$0	(\$1,110)
C	\$2,000,000	\$4,440	\$0	(\$4,440)
D	\$5,700,000	\$12,654	\$12,654	\$0
E	\$10,000,000	\$22,200	\$27,360	\$5,160
F	\$20,000,000	\$44,400	\$61,560	\$17,160
G	\$100,000,000	\$222,000	\$335,160	\$113,160
H	\$500,000,000	\$1,110,000	\$1,703,160	\$593,160

➤ Taxpayers below ~\$5.7M revenue would owe lower tax.

Analysis of Restructure (5/6)

Examples of Taxpayer Impacts (services, transporting freight for hire, and other):

Business	Revenue	Tax Due:		Difference
		Current Structure	After Restructure	
A	\$250,000	\$1,068	\$0	(\$1,068)
B	\$500,000	\$2,135	\$0	(\$2,135)
C	\$2,000,000	\$8,540	\$0	(\$8,540)
D	\$5,700,000	\$24,339	\$24,346	\$7
E	\$10,000,000	\$42,700	\$52,640	\$9,940
F	\$20,000,000	\$85,400	\$118,440	\$33,040
G	\$100,000,000	\$427,000	\$644,840	\$217,840
H	\$500,000,000	\$2,135,000	\$3,276,840	\$1,141,840

➤ Taxpayers below ~\$5.7M revenue would owe lower tax.

Analysis of Restructure (6/6)

Fiscal Recap:

- Cost of increasing exemption threshold: \$28M
- Cost of new \$2M standard deduction: \$33M
- Impact of higher tax rates: \$151M
- Net: \$90M GF revenue

Use of Net \$90M GF revenue (1/3)

Shall fund City General Fund investments in the following program areas

- Food access
- Gender-based violence
- Small business supports
- Homelessness prevention
- Emergency shelter
- Support for workers' rights and protections

Use of Net \$90M GF revenue (2/3)

Up to \$30 million in proceeds may be used:

- For implementation costs and ongoing administration of the tax
- To mitigate the impact of federal funding reductions in the following program areas:
 - Housing stability for low-income tenants
 - Food insecurity
 - Financial stability for the affordable housing providers and properties
 - Emergency Shelter and Homelessness

Use of Net \$90M GF revenue (3/3)

- At least three months prior to the Mayor submitting the annual budget, the executive shall:
 - Consult with Council on impact of actual and anticipated revenue reductions and federal funding cuts on the identified program areas
 - Inform Council how the new revenue generated by this ordinance is to be utilized.
- The Mayor shall submit to Council, at the same time the budget is transmitted, a written proposed plan outlining how the new revenue generated by this ordinance is to be utilized in the identified program areas

Considerations (1/2)

Tax base risk (Forecast Office):

- A narrower tax base would add some volatility (5,000 vs. 21,000 taxpayers)
- Potential adverse business response to successive City tax changes
 - Payroll expense tax (2020)
 - Payroll expense tax increase for student mental health (2023)
 - Social Housing tax (2024)
 - About a third of the tax increase would be imposed on 65 taxpayers that paid ~87% (\$306M) of payroll expense tax in 2024

Revenue Forecast risk (Forecast Office)

- 40-50% chance of national recession in next 12 months
- Estimated impacts for recent state law changes (ESSB 5814) is based on imperfect sourcing information

Considerations (2/2)

System implementation risk :

- SLIM Legacy system
 - To meet January 1 timeframe, staff would need to begin work, and incur costs, prior to vote
 - Risks that are commonplace in all system changes, such as dependencies on key personnel and facilitation across interdependent systems
 - Executive intends to position measures to monitor and mitigate risks
 - Changes to the current scope would require a reassessment of risks

Budget implementation risk:

- The Executive will submit a 2026 budget assuming the \$90M revenue
- If the measure fails, Council would need to quickly rebalance and do so in a year where significant cuts will already be incorporated into the proposed budget.
- An adverse October revenue forecast update would intensify the pressure

Questions?