

SUMMARY and FISCAL NOTE

Department:**Dept. Contact:****CBO Contact:**

OCF

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1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to the business and occupation tax; amending Section 5.30.050 of the Seattle Municipal Code to amend definitions due to amendments to the model business license tax ordinance and other state law amendments.

Summary and background of the Legislation: During the 2025 regular session, the Washington State Legislature enacted **ESSB 5814**, now codified at **RCW 82.04.050**, **RCW 82.04.192** and **RCW 82.26.010**. In relevant part, **ESSB 5814** redefined certain activities as a “retail sale” that prior law defined as “service and other business activities.” **ESSB 5814** reclassified the following business activities as a “retail sale” or “sale at retail:”

1. Sales of custom software and customization of prewritten software,
2. Custom website design, support and development services,
3. Information technology related training services, technical support and other services,
4. Investigation, security services, security monitoring, armored car services (not locksmiths),
5. Temporary staffing, excluding temporary staffing provided at hospitals,
6. Advertising services, including but not limited to direct mail but excluding services related to,
 - a. Newspapers,
 - b. Printing and publishing,
 - c. Radio and television broadcasting, and
 - d. Out-of-home advertising (billboards, signage at live events, etc.).

ESSB 5814 excluded from the definition of “sale at retail” and “retail sale” the business activities identified in 1-3 and 6 above when the sale is between members of an affiliated group. ESSB 5814 also excluded from the definition of “sale at retail” and “retail sale” a retail sale of digital goods, digital codes or digital automated services when the sale is between members of an affiliated group.

Under RCW 35.102.040 and RCW 35.102.120, a task force of city representatives has worked with the Association of Washington Cities to amend the state Municipal model ordinance to implement the changes to state law under ESSB 5814. Under RCW 35.102.040, by January 1, 2026, cities that impose a business and occupation tax must adopt the changes to the model ordinance. Further, the city’s review of SMC 5.30.050 revealed the necessity to implement additional technical amendments that will ensure that the Seattle Municipal Code (SMC) is consistent with the model ordinance. The City intends to amend Section SMC 5.30.050 to implement the changes to state law required by ESSB 5814, the model ordinance and RCW 35.102.040.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? ☐ Yes ☒ No

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget? ☐ Yes ☒ No

Budget program(s) affected:				
Appropriation change (\$):	General Fund \$		Other \$	
	2025	2026	2025	2026
	0	0	0	0
Estimated revenue change (\$):	Revenue to General Fund		Revenue to Other Funds	
	2025	2026	2025	2026
	\$3,900,000	\$2,700,000	0	0
Positions affected:	No. of Positions		Total FTE Change	
	2025	2026	2025	2026
	0	0	0	0

3.a. Is there financial cost or other impacts of *not* implementing the legislation?

Yes. RCW 35.102.040(2) states that “[a] city that imposes a business and occupation [B&O] tax requires the model ordinance to utilize State tax definitions under RCW 82.04 as a baseline, consistent with state law, including definitions of the tax classifications “retailing” and “retail sale.” RCW 35.102.040(1)(c) explains that “[a]ny amendment to a mandatory provision of the model ordinance must be adopted with the same effective date by all cities.” This council bill ensures that the B&O tax definitions in the City of Seattle Municipal Code remain consistent with the definitions adopted in the model ordinance. This council bill also ensures that the City of Seattle’s B&O tax definitions are consistent with the B&O tax definitions of all Washington State cities who impose B&O taxes.

3.d. Other Impacts

Does the legislation have other financial impacts to the City of Seattle, including direct or indirect, one-time or ongoing costs, that are not reflected in the above, including direct or indirect, short-term or long-term costs? If so, please describe these financial impacts.

This council bill adopts amendments to the model B&O tax ordinance. In 2025, the Washington State Legislature’s reclassified certain activities from “service and other business activities” to a “sale at retail,” “retail sale.” This B&O tax reclassification will result in a decrease to the City of Seattle’s B&O tax revenue because the “service and other business activities” B&O tax classification imposes a higher rate than the “sale at retail,” “retail sale” B&O tax classification. However, the reclassification of certain service activities to retail will simultaneously increase the city’s sales and use tax revenue. Prior to the reclassification, city sales and use tax did not

apply to these activities. After the city’s implementation of the 2025 changes, certain service activities will be subject to city sales and use tax and to city B&O tax under the lower retail classification.

The city forecasts that notwithstanding the decrease in city B&O tax revenue resulting from the state’s reclassification of certain activities from service to retail, the increase in city sales and use tax revenue will result in a net increase in total city tax revenue. The amount of this net revenue increase is estimated by the City’s Office of Economic and Revenue Forecasts to be \$3,900,000 (2025) and \$2,700,000 (2026). The estimate of the revenue net impact will be updated by the City’s Office of Economic and Revenue Forecasts in April and August 2026 as more collections data becomes available and the full impact and provisions of ESSB 5814 are implemented. The estimated net revenue increase in this bill was accounted for in the August 2026 revenue forecast that underpinned the 2026 Proposed Budget. The are therefore not new (and additive) to the revenues represented in the 2026 Proposed Budget.

If the legislation has costs, but they can be absorbed within existing operations, please describe how those costs can be absorbed. The description should clearly describe if the absorbed costs are achievable because the department had excess resources within their existing budget or if by absorbing these costs the department is deprioritizing other work that would have used these resources.

N/A

4b. Revenues/Reimbursements

X This legislation adds, changes, or deletes revenues or reimbursements.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Dept	Revenue Source	2025 Revenue	2026 Estimated Revenue
General Fund - 00100		B&O Tax	-	(\$13,100,000)
General Fund – 00100		Local Sales Tax	\$3,900,000	\$15,800,000
TOTAL			\$3,900,000	\$2,700,000

Is this change one-time or ongoing? Ongoing

5. OTHER IMPLICATIONS

- a. Please describe how this legislation may affect any departments besides the originating department.**

This council bill will likely result in a net increase in city tax revenue (i.e., B&O and Local Sales Tax). At this time, the impact of this council bill on departments other than the originating department is unknown.

- b. Does this legislation affect a piece of property? If yes, please attach a map and explain any impacts on the property. Please attach any Environmental Impact**

Statements, Determinations of Non-Significance, or other reports generated for this property.

No.

c. Please describe any perceived implication for the principles of the Race and Social Justice Initiative.

i. How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response, please consider impacts within City government (employees, internal programs) as well as in the broader community.

This council bill does not directly impact historically disadvantaged communities. To the extent that the reclassification of certain activities from the service to retail tax classification results in a net increase in city revenue, historically disadvantaged communities may experience a benefit from this council bill. Increases in city revenue may be appropriated to programs which assist historically disadvantaged communities.

ii. Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation.

N/A

iii. What is the Language Access Plan for any communications to the public?

The Office of City Finance (OCF) will undertake public outreach and provide updated information on its website addressing the changes in state law which resulted in the reclassification of certain city B&O tax activities from the service to the retail classification and the impacts that these changes may have on Seattle businesses. OCF will also promulgate amended Director's Rules that clarify the changes to the Seattle Municipal Code resulting from state law and model ordinance amendments. Further, the city will make the information contained in this document available in a number of languages.

d. Climate Change Implications

i. Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response.

N/A

ii. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.

N/A

e. If this legislation includes a new initiative or a major programmatic expansion, what

are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s).
N/A

5. CHECKLIST

- ☐ **Is a public hearing required?**
- ☐ **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required?**
- ☒ **If this legislation changes spending and/or revenues for a fund, have you reviewed the relevant fund policies and determined that this legislation complies?**
- ☐ **Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization?**

6. ATTACHMENTS

Summary Attachments: None.