



MEMORANDUM

Date: June 26, 2025
To: Tom Mikesell, Policy Analyst, City Council Central Staff
From: Jan Duras, Interim Director and Chief Economist, Office of Economic and Revenue Forecasts
Re: Request for Business and Occupation Tax 2026 Revenue and Tax Rate Estimates

1. Introduction

In this memorandum, the Office of Economic and Revenue Forecasts (Forecast Office) provides the requested analysis of a change in the structure of the Business and Occupation (B&O) tax that would effectively on January 1, 2026

- increase taxable threshold from \$100,000 to \$2,000,000
- introduce a \$2 million standard deduction
- increase tax rates to raise \$90 million in additional revenues in 2026, relative to the April 2025 revenue forecast for that year.

2. 2024 Business and Occupation Tax revenues

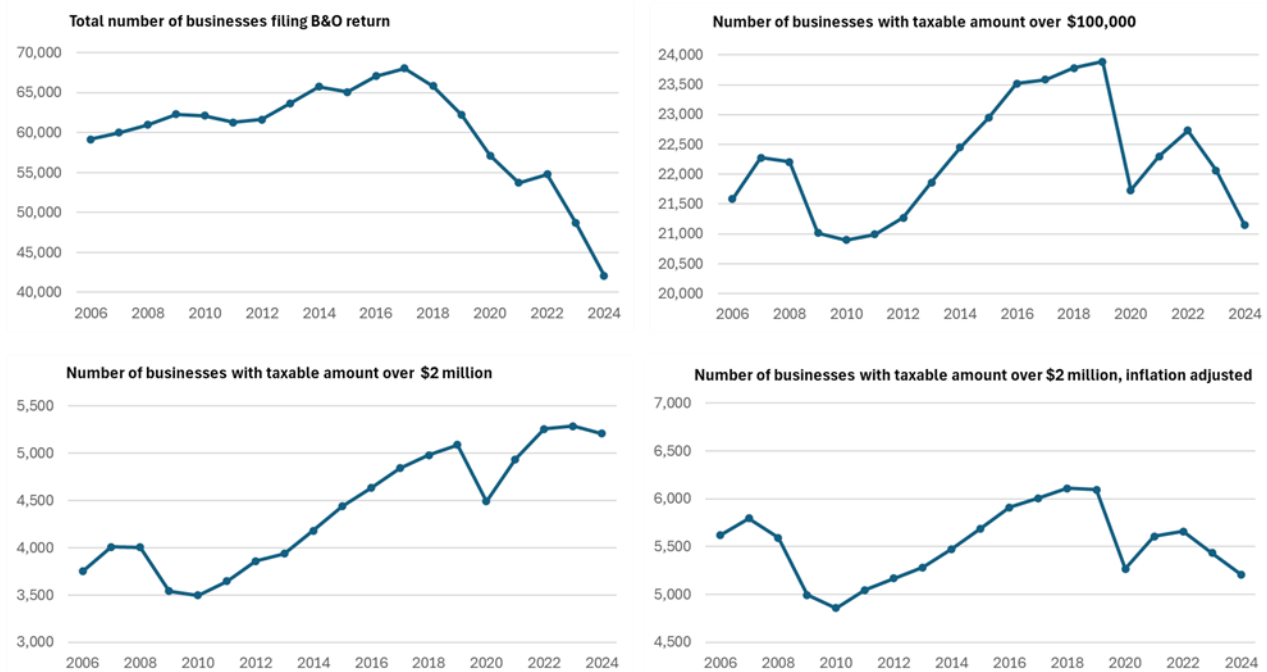
B&O tax returns data for 2024 was first used to obtain the aggregate tax revenues by business activity classification and by taxable amount, to obtain initial insights about the concentration of B&O revenues.

Table 1. Business and Occupation Tax - 2024 total tax due by taxpayers' taxable amount

	Current Tax Rate	Businesses with taxable amount up to \$2 million	Businesses with taxable amount over \$2 million	All businesses
Manufacturing - Extracting	0.222%	\$386,499	\$6,866,420	\$7,252,919
Wholesaling	0.222%	\$2,717,090	\$34,356,211	\$37,073,301
Retail Sales & Retailing Services	0.222%	\$9,452,494	\$61,879,493	\$71,331,987
Printing – Publishing	0.222%	\$74,141	\$688,464	\$762,605
Tour Operator or Processor for Hire	0.222%	\$27,897	\$89,933	\$117,830
Transporting Freight for Hire	0.427%	\$144,664	\$1,104,036	\$1,248,701
Service & Other Business Activities	0.427%	\$15,532,302	\$219,511,964	\$235,044,266
Total		\$28,335,087	\$324,496,521	\$352,831,608

As shown in the Table 1 above, in 2024 about \$28.3 million of B&O revenues was paid by businesses with taxable amount up to \$2million. In addition, Figure 1 below shows that out of approximately 42,000 businesses that filed B&O tax return in 2024, about 21,000 businesses were above the current threshold of \$100,000 and about 5,200 businesses reported taxable amount above \$2 million. Increasing the taxable amount threshold to \$2 million would thus shrink the number of taxpayers by about 75%.

Figure 1. Number of businesses filing Business and Occupation Tax returns



3. Business and Occupation Tax revenues estimate for 2026

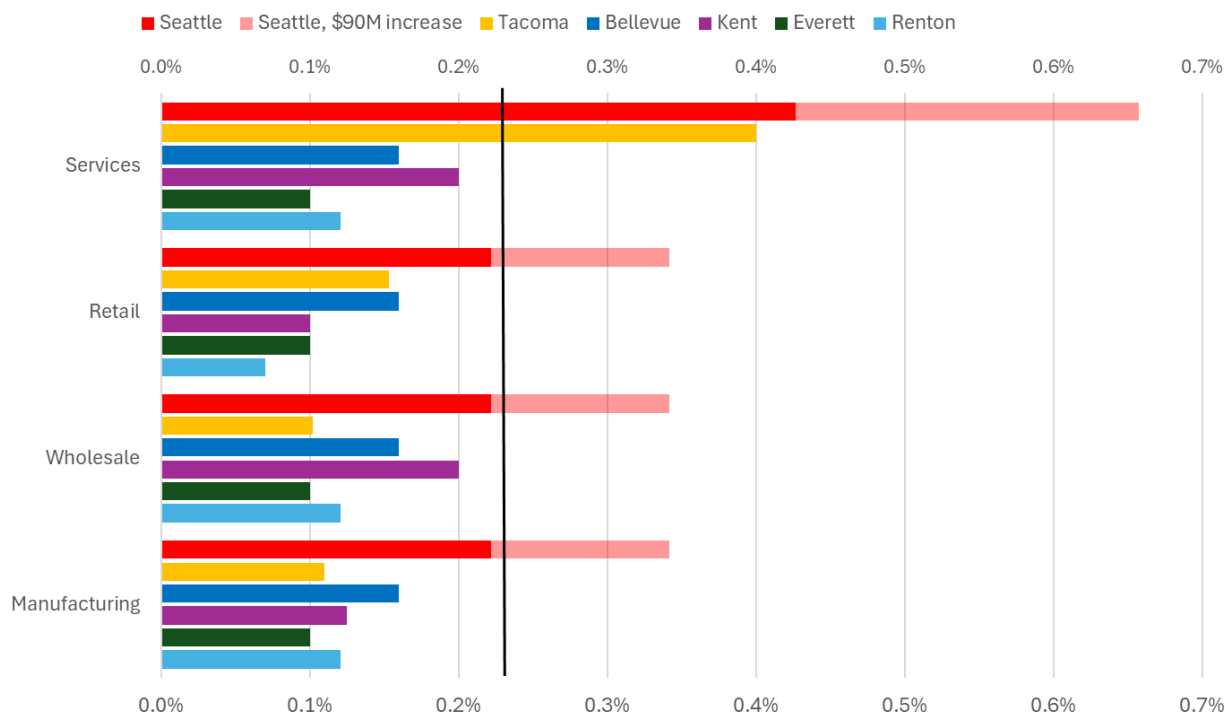
Revenue forecast developed by the Forecast Office in April 2025 was next used together with the revenue collection data to estimate the 2026 B&O revenues by business activity classification. To obtain B&O revenue estimates for 2026, it is also necessary to account for the revenue loss due to Washington State Senate Bill 5814, which makes certain services (IT training services, technical support, custom website development services, digital automated services, security services, temporary staffing services, advertising services, live presentations) subject to the sales tax and the B&O tax rate for retail sales; generally these services are currently subject to the higher B&O tax rate imposed on service and other business activities. The resulting estimates for 2026 B&O revenues are presented in the Table 2 below.

Table 2. Business and Occupation Tax - estimates of 2026 tax due, \$ millions

	Current Tax Rate	Taxpayers with taxable amount up to \$2 million - total tax due	Taxpayers with taxable amount over \$2 million - tax due on taxable amount up to \$2 million	Taxpayers with taxable amount over \$2 million - tax due on taxable amount over \$2 million	Total B&O tax due
Manufacturing, Wholesaling, Retail Sales, Printing, and Tour Operator or Processor for Hire	0.222%	\$13.4	\$14.4	\$123.4	\$151.2
Service & Other Business Activities and Tour Operator or Processor for Hire	0.427%	\$15.0	\$18.4	\$188.4	\$221.8
Total		\$28.4	\$32.8	\$311.8	\$373.0

The increase of the threshold to \$2 million in 2026 is estimated to result in B&O tax revenue loss of \$28.4 million, the \$2 million standard deduction would further reduce revenues by additional \$32.8 million. To make up for the combined \$61.2 million loss and to further increase B&O revenues by \$90 million over the April 2025 forecast for 2026, tax rates would have to increase by a factor of 1.54. This would increase the lower B&O rate from 0.222% to 0.342% and the higher rate from 0.427% to 0.658%. Figure 2 below shows the current B&O tax rates and tax rates after the increase and compares them to the B&O tax rates in other large cities close to Seattle.

Figure 2. Business and Occupation Tax rates



Note: Black line denotes 0.2% statutory limit. Redmond and Kirkland do not impose Business and Occupation tax.

4. Risks to the revenue estimate

Any forecasts or estimates of future revenues have some uncertainty associated with them. The amount of economic uncertainty is however remarkable now, due to a number of recent policy changes on the national, state, and local level. As a result, there are notable risks to the presented estimates that should be taken into account.

First, when it comes to the outlook for national and regional economies in 2026, higher tariffs are expected to push inflation higher, increasing costs for households and businesses, and slowing economic growth. Recession fears have subsided somewhat since the April revenue forecast was developed, but the likelihood of a recession in the next 12 months is still 40%-50%, which is uncomfortably high. Based on the Washington State Employment Security Department data released in June, Seattle area regional economy has in the first five months of 2025 lost about 8,000 jobs compared to the same period in 2024, which is a 0.4% decline. Employment in the national economy has grown 1.1% during the same period. Overall, a variety of data suggests that the regional economy is currently more vulnerable than the national one, raising the risks and the negative implications of a potential downturn.

Second, data that can be used to obtain revenue impact estimates of Washington State Senate Bill 5814 is limited, there is a lot of uncertainty regarding the affected tax base, and it is also not clear what kind of sourcing rules will be applied to services affected until rule making takes place. As a result, the actual B&O revenue loss due to Senate Bill 5814 can be materially lower or higher than the underlying estimate here. This would also mean lower than predicted additional revenue from B&O tax rate increase.

Third, the number of businesses paying B&O tax would drop significantly as the result of this proposal, from more than 22,000 to about 5,400. Moreover, about 400 businesses will be paying 75% (\$345 million) of the total tax, top 90 businesses about 50% (\$236 million), and top 20 about 30% (\$140 million) of the total B&O tax revenues. At the same time, to cover the revenue loss due to a higher threshold, new deduction, and to raise \$90 million in additional revenue the B&O tax rate would have to increase substantially for businesses paying a larger share of this tax – top 270 businesses would be paying \$100 million more combined, facing a 54% increase in their 2026 tax burden. Top 30 taxpayers would be paying about \$50 million more combined, a 54% increase as well. There is a significant overlap between the taxpayers subject to Payroll Expense Tax and the top taxpayers of the B&O tax. As a result of a higher concentration of B&O tax if the proposed changes are implemented, both revenue streams will be more closely tied to financial fortunes and decisions of a relatively small number of businesses. This would make B&O tax revenues more volatile and less predictable.

Finally, this would be another business tax increase in a short period of time, including the Payroll Expense Tax imposed in 2021, Payroll Expense Tax rates increase in 2024, new Social Housing Tax starting in 2025, tax increase in 2025 due to Senate Bill 5814, and finally this proposed change in Business and Occupation tax in 2026. It is important to note that as shown above, the B&O tax rates in Seattle are already much higher than in the surrounding cities. It is difficult to predict how large businesses will react to the cumulative impact of all these increases in tax burden, but several large employers have recently moved thousands of jobs out of Seattle, to some of the surrounding cities. A large increase in B&O tax rates could potentially further exacerbate this problem, which would then lead to negative downstream effects, lower job and income growth in the local economy, as well as lower B&O Tax, Payroll Expense Tax, and Sales Tax revenue growth in the coming years.

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