

SUMMARY and FISCAL NOTE

Department:	Dept. Contact:	CBO Contact:
Legislative	Tom Mikesell	n/a

1. BILL SUMMARY

Legislation Title: relating to the business and occupation tax; requesting that a special election be held concurrent with the November 4, 2025 general election for submission to the qualified electors of the City a proposition to lift the limit on business and occupation tax rates under RCW 35.21.711, authorize the City to levy additional taxes for the purposes of providing housing, human services, workforce, and small business support, increase the business and occupation tax threshold, create a business and occupation tax standard deduction, and revise the business license tax consistent with changes to the business and occupation tax; amending Sections 5.45.050, 5.45.100, and 5.55.030, 5.55.040 of the Seattle Municipal Code; proposing a ballot title; and ratifying and confirming certain prior acts.

Summary and Background of the Legislation:

This council bill would submit a business and occupation tax restructure proposal to the voters of Seattle for their approval at the November 4, 2025, general election. Contingent on voter approval, it would, as of January 1, 2026:

- Increase B&O tax rates,
- Increase the standard exemption from \$100,000 to \$2 million,
- Add a \$2 million standard deduction,
- Make conforming changes to the City’s business license fee, which currently uses B&O tax taxable income for its fee schedule
- Generate \$90 million of new General Fund (GF) revenue, which will be used to:
 - Pay for implementation and ongoing operating costs related to the tax
 - Support city investments in the areas of food access, gender-based violence, small business supports, emergency shelters, homelessness prevention and support for worker rights and protections
 - Mitigate federal funding cuts in the areas of housing stability, food insecurity, financial stability for the affordable housing sector and emergency shelter and homelessness.

These changes sunset on January 1, 2030 unless the City Council passes, by July 31, 2029, an ordinance to extend them an additional four years.

RCW 35.21.710 establishes maximum rates for business and occupation (B&O) taxes imposed by cities in Washington state. Subject to a majority vote by the qualified electors of a city, RCW 35.21.711 authorizes increases above the statutory maximum. Seattle currently imposes a 0.222 percent tax rate per dollar of gross business receipts received from retail and wholesale trade; manufacturing; extracting; printing and publishing activities in the city. Gross business receipts from services (broadly defined) and transport for hire are taxed at a 0.427 percent tax rate per dollar of gross receipts. To avoid any confusion or misinterpretation, the rates are fractions of a percent, so less than one percent. That said, they apply to a business's gross (total) revenues, not its net income or profit.

Businesses with total gross receipts of \$100,000 or below are exempt from paying the tax. Revenues from the tax are deposited in the City's General Fund and are available to support any City program. Based on the April 2025 revenue forecast from the Office of Economic and Revenue Forecasts, the B&O tax is projected to generate \$368.6 million in 2025 and \$385 million in 2026.

The business and occupation tax restructure proposed to the qualified voters of Seattle by this council bill would increase the rate per dollar of gross receipt from retail and wholesale trade; manufacturing; extracting; printing and publishing activities to 0.342 percent and would increase the rate per dollar of gross receipts from services, other and transport for hire to 0.658 percent. According to the Office of Economic and Revenue Forecasts (Forecast Office), these rate changes would generate \$151 million of new business and occupation tax revenue in 2026. However, as detailed below, there are several factors that create uncertainty about this forecast of the potential incremental revenues.

Of the new revenue \$28 million would offset the projected loss of business and occupation tax revenue resulting from increasing the exemption threshold to \$2 million, and an additional \$31 million would be offset by the new \$2 million standard deduction for all taxpayers. In applying the standard deduction, taxpayers would be able to choose which line of business income is deducted first.

Subject to allocation through the fall budget process, the bill would dedicate the remaining revenues from the higher rates, estimated at \$90 million. Proceeds shall be used to support City investments in food access, gender-based violence services, small business supports, emergency shelter, homelessness prevention and support for worker's rights and protections. Up to \$30 million in proceeds may also be used to 1) pay for implementation costs and ongoing administration of the tax (see Section 4 below for further details on these costs); and 2) mitigate the impact of federal funding reductions related to housing stability for low-income tenants, food insecurity, financial stability for affordable housing providers and properties and emergency shelters and homelessness.

The Executive is required to consult with the City Council, at least three months prior to the Executive transmitting the budget, on the impact of actual and anticipated revenue reductions and federal funding cuts on the program areas described in the above paragraph and how the revenues generated by the ordinance will be utilized. Additionally, the Executive must submit to

the City 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 these program areas.

The Forecast Office memorandum that describes the analysis and methods used to derive the rates to generate these revenue amounts identified several risks and considerations, including:

- Unpredictability of federal fiscal and trade policy, including heightened inflationary pressures from tariffs;
- Heightened chance of a national recession in the next 12 months;
- Limited data to inform the local tax base implications of Engrossed Substitute Senate Bill (ESSB) 5814, which shifts some service business types to retail for purposes of B&O tax;
- Concentration of the B&O tax base to a smaller number of taxpayers, by way of increasing the exemption threshold, which would make the tax more volatile and increase the tax burden for remaining taxpayers;
- Recent history of tax increases affecting current B&O taxpayers, including the imposition of the City's payroll expense tax and a subsequent rate increase; a new payroll tax to support social housing; and an increase to State B&O tax rates in ESSB 5814.
- Lower current B&O tax rates at neighboring cities imposing a B&O tax; and,
- Large overall rate increases in percentage terms.

While the Forecast Office did not explicitly estimate the impacts of most of these considerations (the estimated implications of ESSB 5814 on the tax base was included in calculating the proposed rates, though as cited above the data was limited), each of these can be seen as potential downside risks, in the form of the possibility of changing economic assumptions and/or the reaction of taxpayers to tax rate changes. The full Forecast Office memorandum is attached.

It is worth noting that there are also upside considerations, including:

- Tax relief supported by the new revenues from the tax increase could allow some small business to remain in business in the face of economic pressures;

As with the listed potential downsides, the impact of these is inestimable.

2. CAPITAL IMPROVEMENT PROGRAM

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

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation have financial impacts to the City? Yes No

This legislation provides for a business and occupation tax restructure proposal to be placed on the ballot, which, if approved, would restructure the tax, providing an estimated \$90 million of new General Fund revenue for small business tax relief, housing, human services, and workforce support beginning in 2026. This amount would grow annually by the rate assumed in the overall revenue forecast for the B&O tax. These revenues are not added to the City's budget through this legislation but will be accounted for in separate legislation if the rate increase is approved.

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 included in Sections 3.a through 3.c? If so, please describe these financial impacts.

As noted above, this legislation does not directly impact the adopted budget. Appropriations of new revenue will be approved in separate legislation if voters approve the tax increase.

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

Please describe any financial costs or other impacts of *not* implementing the legislation.

N/A

4. OTHER IMPLICATIONS

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

The Office of City Finance in the Department of Finance and Administrative Services (FAS) administers the taxpayer education, compliance, and audit functions for all City taxes, including the business & occupation tax. To meet the tight implementation timeline, City Finance staff would likely need to begin implementation prior to the November vote.

City Finance staff initial estimates of implementation costs include \$2.3 million for system changes in 2025, and approximately \$1.5 million in ongoing costs, including personnel. In the event these changes result in stability issues to the legacy system, City Finance Staff estimate an additional \$2.7 million would allow for accelerated system replacement costs in 2027.

FAS revenue administration staff would implement tax structure changes in collaboration with system vendors and Seattle Information Technology staff, including submitting any budget requests to support these costs as needed.

- 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 submits a question for the public ballot and would not directly nor indirectly impact historically disadvantaged communities. However, the revenue raised by the tax increase would be dedicated to small business tax relief, housing, human services, and workforce support, which may benefit these communities. Further, tax relief would be provided to businesses with less than \$5.7 million in revenue, which may also benefit 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?**

Information about the proposed ballot measure will be provided to the public as part of the standard voter's pamphlet. A translated version of this document is generally 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)? What mechanisms will be used to measure progress towards meeting those goals?**

5. CHECKLIST

Please click the appropriate box if any of these questions apply to this legislation.

- Is a public hearing required? No**

- Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required? No**
- If this legislation changes spending and/or revenues for a fund, have you reviewed the relevant fund policies and determined that this legislation complies? Not applicable**
- Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization? No**

6. ATTACHMENTS

Summary Attachments:

- 1. Office of Economic and Revenue Forecasts June 26, 2025 memo**

DRAFT



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

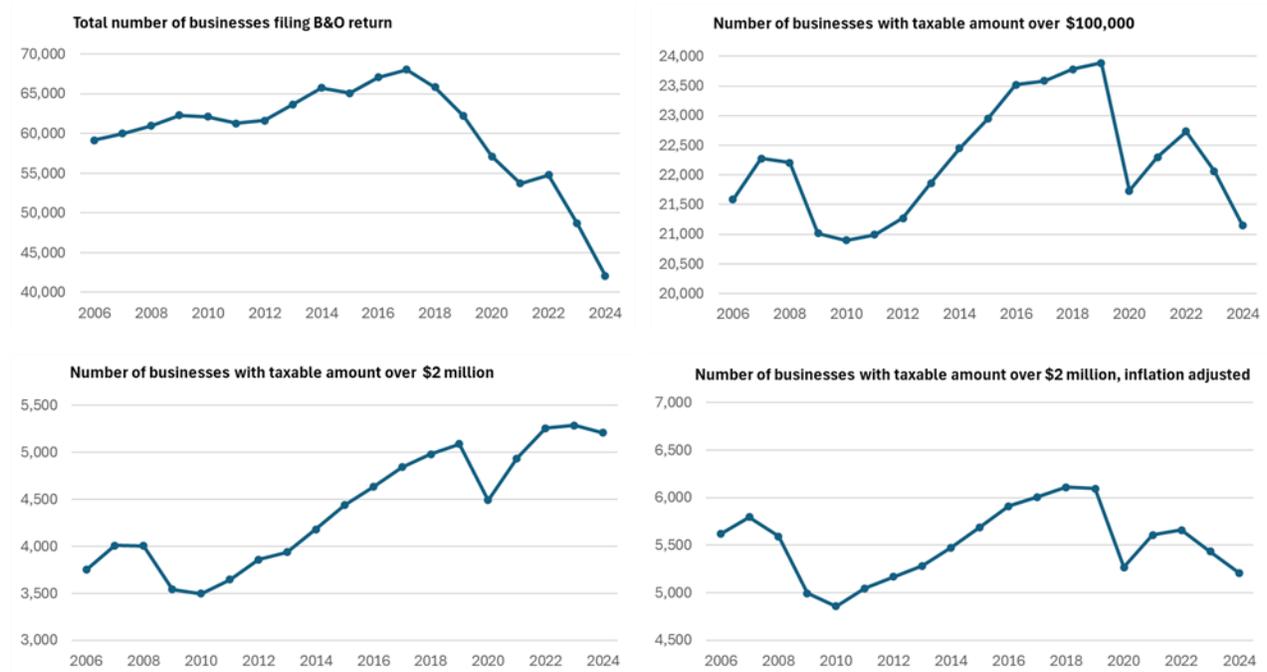
B&O tax returns data for 2024 was first used to obtain the aggregate tax revenues by business activity classification and by taxable amount, to obtain initial insights about the concentration of B&O revenues.

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

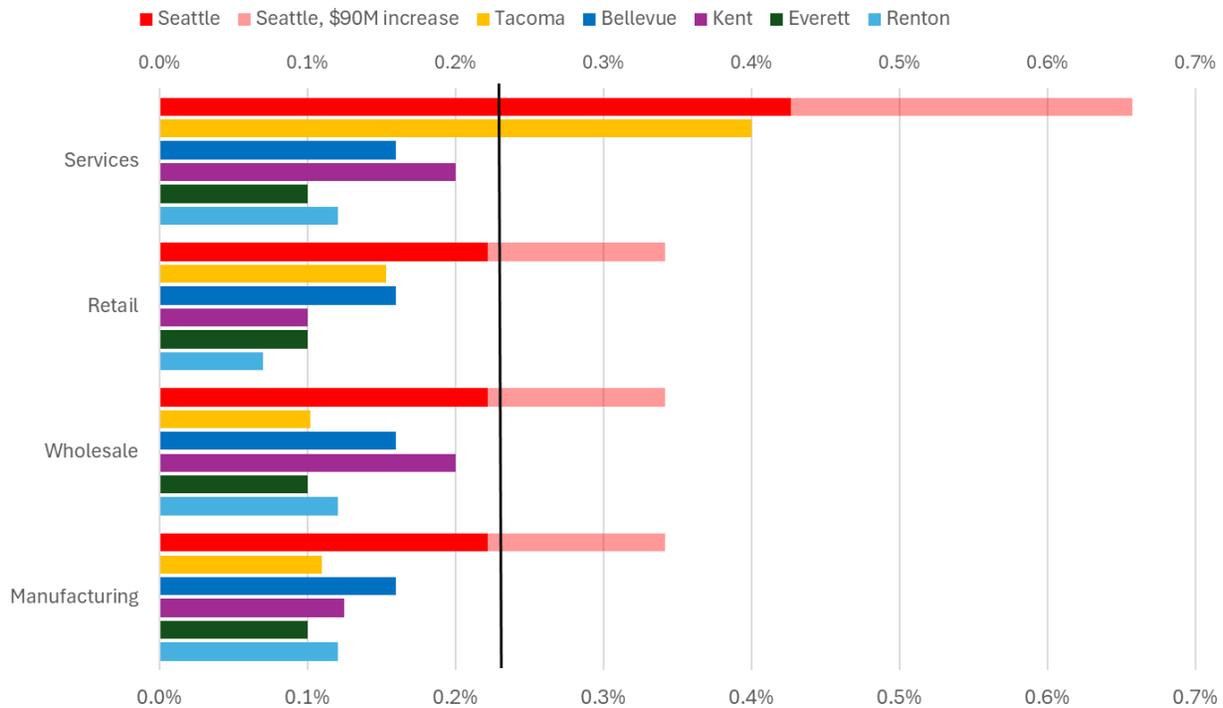
Revenue forecast developed by the Forecast Office in April 2025 was next used together with the revenue collection data to estimate the 2026 B&O revenues by business activity classification. To obtain B&O revenue estimates for 2026, it is also necessary to account for the revenue loss due to Washington 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.

cc: Ben Noble, Director, Council Central Staff
Dan Nolte, Deputy Chief of Staff, Mayor's Office
Dan Eder, Director, City Budget Office
Jeanette Blankenship, Deputy Director, City Budget Office
Richard Dadzie, Fiscal and Policy Manager, City Budget Office
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