

SUMMARY and FISCAL NOTE*

Department:	Contact Person/Phone:	Executive Contact/Phone:
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** Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

1. BILL SUMMARY

Legislation Title: AN ORDINANCE related to ending the square footage business tax for periods after December 31, 2015; and amending Section 5.46.030 of the Seattle Municipal Code.

Summary and background of the Legislation: This legislation ends imposition of the City’s square footage tax on businesses after December 31, 2015. The City imposed the square footage tax on businesses in response to the State Legislature’s passage of HB 2030 in 2003. Several sections of HB 2030 went into effect in January 2008 and altered the rules for allocating and apportioning businesses’ gross receipts. Allocation and apportionment of income is necessary when elements of a taxable transaction take place in more than one jurisdiction. This can occur when an item is delivered from a business in one taxing jurisdiction to a customer in a different taxing jurisdiction, or when staff from multiple offices of a business work together on a project - and the offices involved are located in more than one jurisdiction. In such instances income must either be allocated fully to one of the jurisdictions (allocation) or split between the jurisdictions (apportionment). HB 2030 significantly changed the rules for allocating and apportioning income for both the sale of tangible personal property and the delivery of “service” activity. The net effect for the City of Seattle was the reduction in its taxable base due to the allocation or apportionment of previously taxable activity to other cities within the state; thus resulting in a revenue loss to the City. At the time, State Department of Revenue estimated the City’s annual loss in revenue at approximately \$22 million. The City’s square footage tax measure was intended to mitigate these losses on City services.

Experience indicates businesses’ response to HB2030 changes have largely worked themselves through and the square footage tax has not collected significantly more than about \$2-\$3 million annually. Additionally, the tax is administratively complicated for businesses to comply with, creating growing potential for increased errors in calculation. In response to businesses ongoing feedback regarding City taxes and tax administration, and in line with City efforts to simplify the administration of business licensing and taxes, the Executive proposes ending the square footage tax on businesses after December 31, 2015.

2. CAPITAL IMPROVEMENT PROGRAM

This legislation creates, funds, or amends a CIP Project.

3. SUMMARY OF FINANCIAL IMPLICATIONS

This legislation has direct financial implications.

Budget program(s) affected:				
Estimated \$ Appropriation change:	General Fund \$		Other \$	
	2015	2016	2015	2016
Estimated \$ Revenue change:	Revenue to General Fund		Revenue to Other Funds	
	2015	2016	2015	2016
		(\$2,500,000)	N/A	N/A
Positions affected:	No. of Positions		Total FTE Change	
	2015	2016	2015	2016
Other departments affected:	None			

3.a. Appropriations

This legislation adds, changes, or deletes appropriations.

3.b. Revenues/Reimbursements

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

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Dept	Revenue Source	2015 Revenue	2016 Estimated Revenue
General Subfund - 00100	N/A	Business License Square Footage Tax	\$0	(\$2,500,000)
TOTAL			\$0	(\$2,500,000)

Revenue/Reimbursement Notes:

3.c. Positions

This legislation adds, changes, or deletes positions.

4. OTHER IMPLICATIONS

- a) Does the legislation have indirect or long-term financial impacts to the City of Seattle that are not reflected in the above?
 Yes, the loss of revenue will be an ongoing annual loss.
- b) Is there financial cost or other impacts of not implementing the legislation?

No

c) Does this legislation affect any departments besides the originating department?

No

d) Is a public hearing required for this legislation?

No

e) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No

f) Does this legislation affect a piece of property?

No

g) Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?

No

h) If this legislation includes a new initiative or a major programmatic expansion: What are the long-term and measurable goals of the program? Please describe how this legislation would help achieve the program's desired goals.

N/A

i) Other Issues:

List attachments/exhibits below: