

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, 5.45.105, 5.55.030, and 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 small business tax threshold from \$100,000 to \$2 million,
- Add a \$2 million standard deduction
- Provide tax credits equal to the tax obligation impacts of the restructure for non-profit pediatric hospitals and cancer research centers
- Make conforming changes to the City's business license fee, which currently uses B&O tax taxable income for its fee schedule
- Through 2032, the higher rates would generate approximately \$81 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, support for worker rights and protections, public health, workforce development and job readiness training, and arts and culture.
 - Mitigate federal funding cuts in the areas of housing stability, food insecurity, financial stability for the affordable housing sector, emergency shelter and homelessness, substance use disorder treatment, and transportation projects.
- Beginning January 1, 2033, the rates would decrease to levels that support some elements of the restructure, including the small business threshold, the standard deduction and the targeted credits, but would not raise net new revenue compared to current baselines.

The council bill would also require that the Mayor submit with 2027 Proposed Budget balanced financial plans for the General Fund (GF) and the JumpStart Payroll Expense Tax Fund (JSF), and that those plans include an additional future year (2030) compared to current requirements. If either plan demonstrates a deficit in any year, the bill calls for a collaborative process between the City Council and Mayor process to resolve that deficit.

The bill would also request that, on September 1, 2026 and the three years thereafter, the Executive provide a report on outcomes in program areas funded by the GF and/or JSF as referenced in the bill and similar outcome data for new or additional funding provided to mitigate federal reductions.

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 through December 31, 2032, and would decrease the rate to 0.273 percent thereafter; and would increase the rate per dollar of gross receipts from services, other and transport for hire to 0.658 percent through December 31, 2032, and would decrease the rate to 0.526 thereafter.. Based on Office of Economic and Revenue Forecasts (Forecast Office) estimates and independent estimates of the standalone credits, these rate changes would generate \$11 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 \$80 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 the estimated revenue impact from the Forecast Office was adjusted by the self-reported impact of the standalone credits on impacted organizations. These self-reported impacts totaled approximately \$9.3 million; while specific taxpayer information is confidential, publicly available receipts information generally confirms this amount.

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 \$81 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 addition to this cost, additional staffing may be required to administer the new standalone credits added in the bill. 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 Memo – June 26, 2025