



SEATTLE CITY COUNCIL  
**CENTRAL STAFF**

# Business and Occupation Tax Rebalancing

---

TOM MIKESELL, ANALYST; JEN LABRECQUE, ANALYST  
FINANCE, TRIBAL GOVERNMENTS, AND NATIVE COMMUNITIES COMMITTEE  
JULY 2, 2025

# Outline

---

- Background
- Overview
- Analysis of Restructure
- Use of Proceeds
- Considerations

# Background (1/2)

---

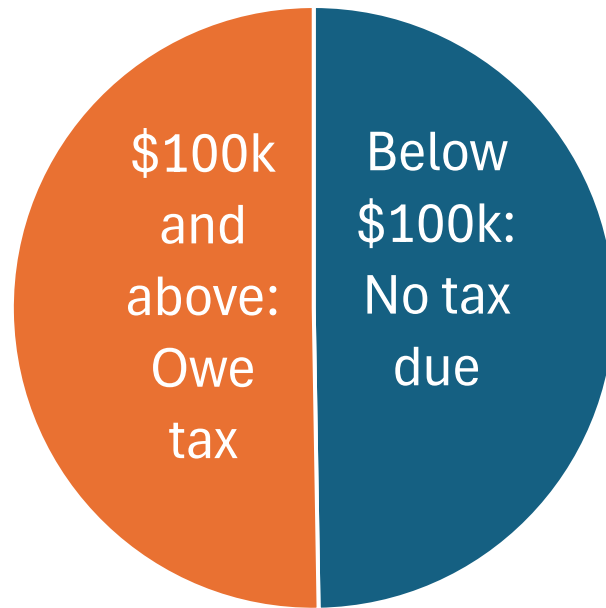
## Business and Occupation (B&O) Tax Structure

- Tax on gross revenue of businesses revenue earned in Seattle
- Since based on gross revenue, no deductions for operating expenses
- Current rates represent a fraction of a percent of gross business revenue:
  - 0.222% for retail sales and services, wholesaling, and manufacturing/extracting (22 cents per \$100 of revenue)
  - 0.427% for services, transporting freight for hire, and other (43 cents per \$100 of revenue)
- Businesses with gross revenue below \$100,000 are exempt
- Rates are at statutory maximum; voted increase authorized by RCW 35.21.711

# Background (2/2)

---

2024 total filers: 42,000



- In 2024, about half of tax filers had zero B&O tax obligation (that is, revenue was below the \$100,000 exemption threshold).
- B&O tax generated \$353M in 2024.
- Currently projected to raise \$369M in 2025 and \$385M in 2026 <sup>1/</sup>.
- Represents ~20% of General Fund (GF) revenue.

<sup>1/</sup>Does not include Forecast Office's estimated impacts of ESSB 2015, which classifies some technology services as retail and would reduce B&O tax revenues.

# Overview

---

1. Increase the exemption threshold to \$2M, create a new \$2M standard deduction, align business license fee accordingly, and designate use of proceeds, contingent on voter approval of a B&O tax rate increase.
2. Submit question to the November 5, 2025, General Election. The proposal before the voters would:
  - a) Increase rates to offset the threshold increase and standard deduction; and
  - b) generate an estimated \$90M in net new revenue.
3. All changes would be effective January 1, 2026.
4. Includes a January 1, 2030, sunset date, which can be extended an additional four years by an ordinance approved by July 31, 2029.

# Analysis of Restructure (1/6)

Increase exemption threshold from \$100,000 to \$2M:

- Based on 2024 data, would exempt an additional 16,000 taxpayers (75% of total)
- Number of businesses owing tax would drop to ~5,000
- Forecast Office estimates impact is \$28.4M (prior to rate increase)

**Number and Percentage of Firms No Longer Subject to B&O Tax**

Business Type	Number	% of All Taxpayers
Agriculture, Forestry, Fishing, and Hunting, Mining, Manufacturing	654	71%
Construction	2,457	74%
Trade	2,128	65%
Transportation, Warehousing, and Utilities	200	67%
Information	318	66%
Finance and Insurance	315	60%
Real Estate and Rental and Leasing	578	73%
Professional and Business Services	3,848	76%
Educational Services	254	90%
Health Care and Social Assistance	1,633	86%
Arts, Entertainment, and Recreation	347	83%
Accommodation and Food Services	320	73%
Restaurants	1,343	82%
Other Services	1,511	83%
<b>Total</b>	<b>15,906</b>	<b>75%</b>

1/ 2024 data - Office of Economic and Revenue Forecasts

# Analysis of Restructure (2/6)

---

## New \$2M Standard Deduction:

- Based on Forecast Office analysis, would exempt \$10.8B of revenue from tax for remaining taxpayers
- Forecast Office Estimates impact is \$33M (prior to rate increase)

## Conforming changes to business license fee:

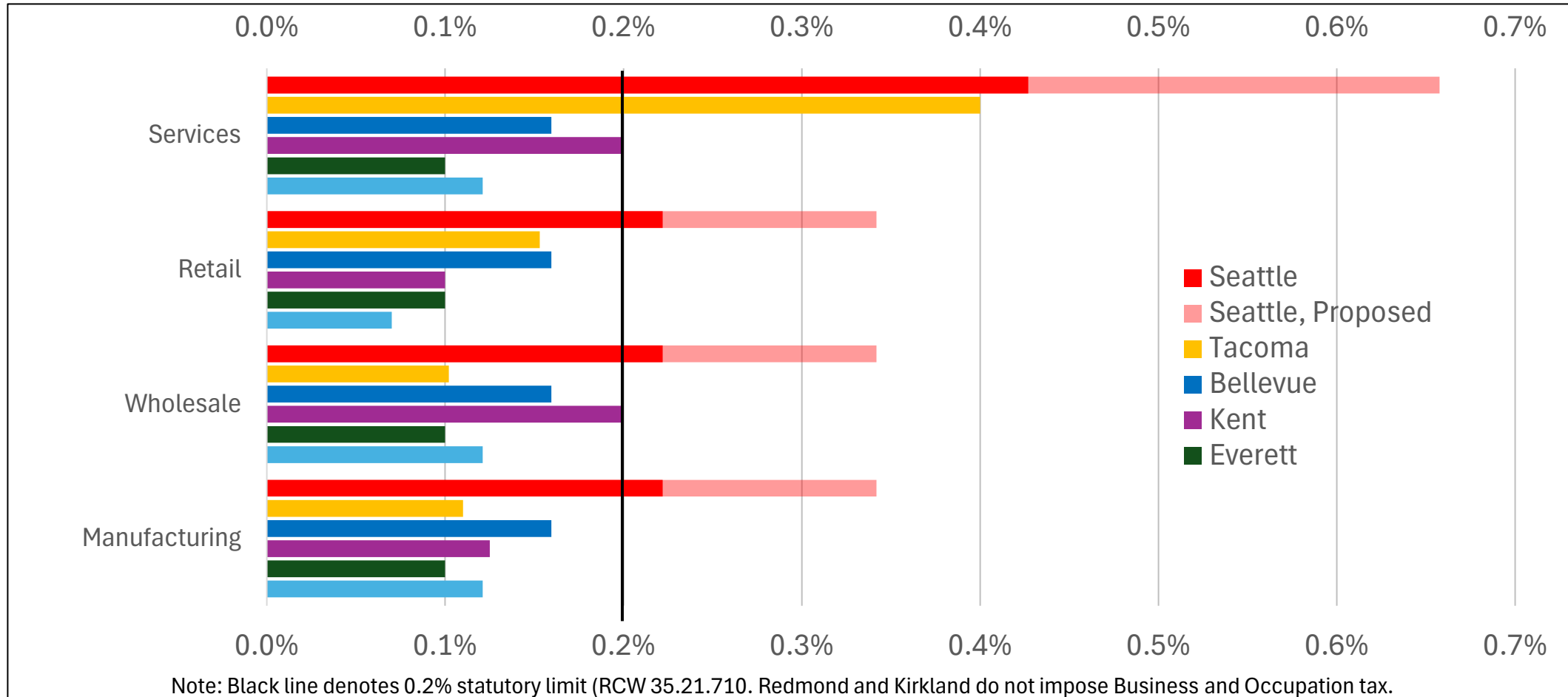
- Business license fee is based on taxable revenue, would clarify that is prior to standard deduction

Business Type	Current	Proposed	Change	Per \$1M of Revenue
Retail/Wholesale Trade, and Manufacturing	0.222%	0.342%	0.120%	\$1,200
Services, Other	0.427%	0.658%	0.231%	\$2,310

- Forecast Office estimates rate increase would generate \$151M in 2026 (with stated caveats and risks).

# Analysis of Restructure (3/6)

Regional rate comparisons (Forecast Office):





# Analysis of Restructure (4/6)

Examples of Taxpayer Impacts (retail, wholesaling, and manufacturing):

Business	Revenue	Tax Due:		Difference
		Current Structure	After Restructure	
A	\$250,000	\$555	\$0	(\$555)
B	\$500,000	\$1,110	\$0	(\$1,110)
C	\$2,000,000	\$4,440	\$0	(\$4,440)
D	\$5,700,000	\$12,654	\$12,654	\$0
E	\$10,000,000	\$22,200	\$27,360	\$5,160
F	\$20,000,000	\$44,400	\$61,560	\$17,160
G	\$100,000,000	\$222,000	\$335,160	\$113,160
H	\$500,000,000	\$1,110,000	\$1,703,160	\$593,160

➤ Taxpayers below ~\$5.7M revenue would owe lower tax.

# Analysis of Restructure (5/6)

Examples of Taxpayer Impacts (services, transporting freight for hire, and other ):

Business	Income	Tax Due:		Difference
		Current Structure	After Restructure	
A	\$250,000	\$1,068	\$0	(\$1,068)
B	\$500,000	\$2,135	\$0	(\$2,135)
C	\$2,000,000	\$8,540	\$0	(\$8,540)
D	\$5,700,000	\$24,339	\$24,346	\$7
E	\$10,000,000	\$42,700	\$52,640	\$9,940
F	\$20,000,000	\$85,400	\$118,440	\$33,040
G	\$100,000,000	\$427,000	\$644,840	\$217,840
H	\$500,000,000	\$2,135,000	\$3,276,840	\$1,141,840

➤ Taxpayers below ~\$5.7M revenue would owe lower tax.

# Analysis of Restructure (6/6)

---

## Fiscal Recap:

- Cost of increasing exemption threshold: \$28M
- Cost of new \$2M standard deduction: \$33M
- Impact of higher tax rates: \$151M
- Net: \$90M GF revenue

# Use of Net \$90M GF revenue (1/3)

---

- Implementation costs and ongoing administration of the tax
- Fund City General Fund investments in the following program areas
  - Food access
  - Gender-based violence
  - Small business supports
  - Homelessness prevention
  - Emergency shelter
  - Support for workers' rights and protections

# Use of Net \$90M GF revenue (2/3)

---

- Up to \$30 million in proceeds may be used to mitigate the impact of federal funding reductions in the following program areas:
  - Housing stability for low-income tenants
  - Food insecurity
  - Financial stability for the affordable housing providers and properties
  - Emergency Shelter and Homelessness

# Use of Net \$90M GF revenue (3/3)

---

- At least three months prior to the Mayor submitting the annual budget, the executive shall:
  - Consult with Council on impact of actual and anticipated revenue reductions and federal funding cuts on the identified program areas
  - Inform Council how the new revenue generated by this ordinance is to be utilized.
- The Mayor shall submit to 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 the identified program areas

# Considerations (1/2)

---

## Tax base risk (Forecast Office):

- A narrower tax base would add some volatility (5,000 vs. 21,000 taxpayers)
- Potential adverse business response to successive City tax changes
  - Payroll expense tax (2020)
  - Payroll expense tax increase for student mental health (2023)
  - Social Housing tax (2024)
  - About a third of the tax increase would be imposed on 65 taxpayers that paid ~87% (\$306M) of payroll expense tax in 2024

## Revenue Forecast risk (Forecast Office)

- 40-50% chance of national recession in next 12 months
- Estimated impacts for recent state law changes (ESSB 5814) is based on imperfect sourcing information

# Considerations (2/2)

---

## System implementation risk :

- SLIM Legacy system
  - To meet January 1 timeframe, staff would need to begin work, and incur costs, prior to vote
  - Risks that are commonplace in all system changes, such as dependencies on key personnel and facilitation across interdependent systems
  - Executive intends to position measures to monitor and mitigate risks
  - Changes to the current scope would require a reassessment of risks

## Budget implementation risk:

- The Executive will submit a 2026 budget assuming the \$90M revenue
- If the measure fails, Council would need to quickly rebalance and do so in a year where significant cuts will already be incorporated into the proposed budget.
- An adverse October revenue forecast update would intensify the pressure



# Questions?