

April 25, 2018

MEMORANDUM

To: Finance and Neighborhoods Committee
From: Dan Eder, Central Staff Deputy Director
Erik Sund, Budget & Finance Coordinator
Subject: C.B. 119244 Summary

This memo summarizes [Council Bill \(C.B.\) 119244](#). The bill would impose new taxes on large businesses to increase the City's investments in programs that address homelessness and build new affordable housing (the spending plan is provided in [Resolution 31810](#)).

I. Background:

In [Resolution 31782](#), the Council stated its intent to consider a new tax on businesses that would generate between \$25 million and \$75 million and be in effect on January 1, 2019. On March 9, the Progressive Revenue Task Force submitted its [recommendations](#) to the City Council. On April 2, 2018, Central Staff provided a [memo](#) highlighting several policy options for imposing such a tax.

II. Summary of the Bill

A. Revenue Amount

C.B. 119244 would raise \$75 million annually (plus inflation).

B. Types of Tax & Tax Rates

C.B. 119244 would impose two separate taxes; these taxes will not be in effect at the same time. Beginning in 2019, the bill would impose an Employee Hours Tax; this tax would be in effect through 2020. Beginning in 2021, a new Payroll Tax would replace the Employee Hours Tax.

For those businesses that are not exempted (as discussed in Sections C and D below), the following rates would apply each year that the taxes are in effect:

1. *Employee Hours Tax (2019 and 2020)*

Employers would pay \$500 per full-time equivalent (FTE) employee. Employers could choose to calculate their tax bill either by multiplying:

- a) \$0.26 per hour times the hours worked by all employees in Seattle; or
- b) \$500 per FTE in Seattle plus \$0.26 times the hours worked in Seattle by part-time employees.

2. *Payroll Tax (2021 and thereafter)*

Employers would pay 0.7 percent times the total payroll paid to all employees for work performed in Seattle.

C. Exemption for Smaller Businesses

Both the Employee Hours Tax and the Payroll Tax would apply only to the City's largest businesses. The measure for the exemption is the same as the measure for the City's existing [Business License Tax](#) (generally referred to the "Business & Occupation Tax" or "B&O Tax") but with a higher threshold. Specifically, the bill exempts businesses with up to \$20 million in taxable gross receipts with a Seattle nexus after applying all allowed deductions and exemptions.

Based on summary information provided by the Department of Finance and Administrative Services, 22,703 businesses paid the Business & Occupation Tax in 2016.¹ Approximately 3% (585) of those businesses would be required to pay the new business tax.

The exemption threshold (like the measure of the tax itself) is based on revenues generated inside Seattle. As an illustrative example, a hypothetical business generates \$45 million in worldwide gross revenue in 2019 of which \$8 million is Seattle-based taxable gross receipts. This business would be exempt from paying the new tax imposed in C.B. 119244 because its annual Seattle-based taxable gross receipts amount to less than the \$20 million exemption threshold.

D. Other Exemptions

C.B. 119244 exempts the following businesses from both the Employee Hours Tax and the Payroll Tax:

1. All non-profits regardless of the size of taxable gross receipts.
2. Those entities for which the City does not have authority to tax, specifically:
 - a. the federal government and its subsidiaries;
 - b. the state government and its subsidiaries;
 - c. insurance businesses and their agents;
 - d. businesses that only sell, manufacture, or distribute motor vehicle fuel; and
 - e. businesses that only sell or distribute liquor.

cc: Kirstan Arestad, Central Staff Director

¹ Businesses with up to \$100,000 in taxable gross receipts are exempt from the Business & Occupation Tax and are therefore not included in this figure.