

March 29, 2021

MEMORANDUM

To: Finance & Housing Committee
From: Tom Mikesell, Analyst
Subject: CB 120030 – Payroll Expense Assignment Method

On April 6, 2021, the Finance and Housing Committee will discuss and possibly vote on Council Bill (CB) 120030 that would add an additional, alternate method for Seattle businesses to use in calculating business payroll expenses subject to the JumpStart Seattle payroll expense tax (“payroll tax”).

Background

Passed by the City Council on July 6, 2020, [Ordinance 126108](#) imposed a tax on business payrolls of \$7 million or more annually. The tax applies at different rates determined by size of business and level of individual compensation. The payroll tax applies only to employee payroll expense in Seattle as determined through a three-part test. A payroll expense for an employee is currently subject to the tax if it meets any of the following criteria:

- Employee is primarily assigned to Seattle;
- Employee performs 50 percent or more of their work in Seattle; or
- Employee resides in Seattle and does not perform 50 percent or more of their work in a single city.

Additional Payroll Assignment Method in CB 120030

In the fall of 2020, tax administration staff with the Department of Finance and Administrative Services (FAS) conducted a rulemaking process and then published a [Director’s Rule](#) for the payroll tax. During the rulemaking process, FAS staff received numerous questions from businesses about how to apply the payroll assignment methodology included in the ordinance. Some businesses questioned whether it was fair to apply the full measure of the payroll tax when employees split their time between work in Seattle and work in other jurisdictions.

In response to that feedback, CB 120030 would add an additional method for businesses to use to determine Seattle assigned payroll. Businesses would be able to use the original payroll assignment methodology if they choose to do so. CB 120030 would add a new option allowing businesses to allocate employee payroll expenses based on hours worked in Seattle in proportion to the employee’s total hours worked. The new methodology addresses the feedback that FAS received during its rulemaking process.

Each year, every covered business must choose either the original method or the new method for all employees to calculate total annual Seattle payroll, to determine the applicable tax rate, and to determine the resulting tax liability.

Revenue Impacts

The 2021 Adopted Budget includes \$214 million in new General Fund revenue from this tax. It seems reasonable to assume that some businesses will calculate potential tax liability using both methods and then select the one that results in the lowest tax liability, balanced against any added administrative costs; and other businesses will continue to use the original methodology. All other things being equal, this would naturally result in some reduction in the amount of tax revenues that the City would collect.

However, due to limitations of the Washington State Employment Security Department data used to estimate 2021 revenue, it is not possible to estimate the potential revenue impact from providing the alternative payroll assignment method in CB 120030.

cc: Dan Eder, Interim Director
Aly Pennucci, Budget and Policy Manager