# Summary: Proposed Tax on Corporate Payroll
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**Tax on Corporate Payroll Package:**

1. **Tax Proposal:**
    a. Impose a new corporate payroll tax on the City's largest businesses that will generate approximately $500 million annually.
    b. Create a 1.3% tax on businesses with more than $7 million of annual payroll;
    c. Exempt non-profits, grocery stores, small- and medium- sized businesses, and government employers.
    d. Impose the tax beginning June 1, 2020; businesses to remit taxes owed for 2020 and 2021 in February 2022.

    *For more details on the tax proposal, see Pages 2 through 4 of this Summary.*

2. **Spending Plan Proposal:**
    a. Direct $200 million authorized through the Interfund Loan bill to be distributed in 2020 for emergency cash assistance for up to 100,000 low-income households including those that have lost income directly as a result of the coronavirus crisis.
    b. Direct the first $205 million in 2021 to repay principal and interest on the Interfund Loan.
    c. Direct 5% of the revenue in 2021 and 3% in all subsequent years for start-up and ongoing administration costs.
    d. Direct 75% of the remaining revenue[1] for investments to build up to 10,800 units of new social housing in the first 10 years[2].
    e. Direct 25% of the remaining revenue for investments in housing-related strategies called for in Seattle's Green New Deal (GND).

    *For more details on the spending plan proposal, see Pages 4 through 6 of this Summary.*

3. **Interfund Loan (IFL) Proposal**
    a. Allow $200 million in emergency spending related to the COVID-19 civil emergency in 2020.
    b. Authorize up to $50 million loans from up to six potential fund sources to ensure flexibility.

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[1] "Remaining revenue" means revenue available each year after repaying the principal and interest on the Interfund Loan (2021 only) and start-up and ongoing administrative costs (2021 and beyond).

[2] Under this proposal, social housing is defined as affordable housing that is either publicly owned or owned or operated by a public development authority (PDA) or a nonprofit housing provider that enters into a regulatory agreement with the City that includes rent and income restrictions.

c. Direct the Executive to implement this authorization in a manner that minimizes or eliminates impacts on the City's other planned uses of its Consolidated Cash Pool during the period of the Interfund Loan.

## Tax Proposal

1. **What is the annual revenue goal?**
   $500 million annually; with no sunset.

   a. **How many businesses would be subject to the tax?**
      800 businesses based on Employment Security Data (ESD) shared by the King County Office of Economic and Financial Analysis (OEFA) with the City Budget Office.

   b. **How much would the typical business pay?**
      The actual tax bill will depend on the size of each business's payroll. A business with 200 employees that pays each employee $100,000/year would have an annual tax bill of $260,000 (200 employees X $100,000 per employee X 1.30% = $260,000)

   c. **What percent of businesses would be exempt from this tax?**
      98% of businesses.

2. **What is the exemption threshold?**
   The tax applies to businesses with annual payrolls greater than $7 million. That's the top 2% of businesses by payroll.

3. **Beyond the payroll size exemption, which types of businesses are exempt from paying the tax?**
   Exempt categories include government and education, not-for-profit organizations, and grocery stores.

4. **What specific businesses would be taxed?**
   A list of businesses ranked by amount of payroll is not available because the City does not maintain such a list. The City does maintain a list of businesses ranked by taxable gross receipts, but information about the taxable gross receipts for individual businesses is highly confidential and therefore not available.

5. **What percentage of businesses would be taxed under this proposal?**
   At a $7 million threshold, this tax would apply to the top 2% of businesses, as measured by size of payroll, based on ESD data transmitted by OEFA.

6. **When would the new tax take effect?**
   June 1, 2020. The proposed corporate payroll tax would take effect in June 2020, but tax payments would not be collected until 2021 or 2022. Therefore, 2020 emergency spending for COVID-19 response will require an Interfund Loan (IFL) of $200 million dollars. The IFL loan will be repaid, with interest, beginning in 2021.

7. **What are the costs and staffing for a new corporate payroll tax?**
The Department of Finance and Administrative Services (FAS) estimates $5 million for one-time system costs; and $500,000 for annual system operations; and between 12 to 15 full-time equivalent (FTE) positions with an annual cost of $1.6 million to $2 million.

8. **How was the tax rate calculated?**
Using wage data received from the ESD, OEFA determined that the size of the payroll tax base in Seattle was approximately $61.8 billion in 2018.

Exemptions

To adjust the base for exemptions, OEFA deducted the following amounts from the $61.8 billion total payroll:

- $13.5 billion, which represents businesses with payrolls less than $7 million;
- $7.9 billion, which represents payroll for Government and Education; and
- $1.9 billion, which represents payrolls for Nonprofits and Grocery stores.

After removing exempt payrolls, the revised 2018 tax base is $38.5 billion.

Adjusting for Inflation

Since these figures are 2018 data, and the new tax would start in 2020, an inflation adjustment was applied. The 2018 revised tax base was increased by 13.9% (the difference between the 2018 ESD and the Seattle-wide compensation base used to develop HB 2907, a state payroll tax proposal. After applying this adjustment, the inflated 2021 tax base is $43.8 billion.

Adjusting for Uncertainty

The unprecedented nature of the COVID-19 public health emergency, including the impact of social distancing on the economy, has been met with record breaking federal fiscal and monetary policy responses, as well as state and local fiscal aid to businesses. It is un-knowable how these considerations will impact 2021 payrolls of the larger businesses that would be subject to this tax. Considering this uncertainty, the tax rate estimate of 1.3% (discussed further below) applies a 12% reduction to the payroll base. It is intended to be a conservative reduction, as the true extent of the impacts is unknown.

This reduction represents the share of the total 2018 covered employment represented by the 'Accommodation and Food Services' and 'Arts, Entertainment and Recreation' business sectors, which are the sectors most clearly impacted by the social distancing policy. After applying the 12% reduction, the revised payroll base is $38.6 billion. Similarly, it is unknown how this tax will impact future business employment decisions. However, no adjustment is made for this uncertainty.

Calculating the Tax Rate

A 1.3% rate is calculated by dividing the desired revenue target of $500 million into the payroll base of $38.6 billion: $500 million/$38.6 billion = 1.3%.

9. **How is the tax applied?**
   The tax is applied to compensation paid by businesses to their employees that work primarily in Seattle, or that are not primarily assigned to any single location and reside in Seattle. Employees include individuals that provide work for compensation by a business, and includes members of limited liability companies, partners, owners of pass through entities, sole proprietors, and independent contractors. A business may not make any deductions from employees' compensation to pay for this tax.

## Spending Plan Proposal

**Spending Plan for 2020:**

*Emergency Cash Assistance (2020 only)*
In response to the economic impacts of the COVID-19 crisis, the spending plan for the proposed tax on corporate payroll would direct up to $200 million dollars in 2020 for emergency cash assistance to low-income households. The $200 million would support up to 100,000 households with $500 payments per month over four months in 2020.[3]

To distribute the emergency cash assistance as quickly as possible, the intent is to build on the Emergency Grocery Voucher Program[4] by distributing cash to households currently enrolled in existing assistance programs (e.g., the Utility Discount Program, Fresh Bucks, etc.) and the processes developed to prioritize distribution to low-income households including, but not limited to, those who are:

- unemployed or had their work hours severely reduced;
- seniors;
- immigrants and refugees,
- at risk of deportation;
- experiencing homelessness or lack a permanent address;
- households with language barriers;
- experiencing domestic violence; and
- low-income households not enrolled in existing assistance programs.

The proposed legislation would require the Executive to report to Council on its proposed process and eligibility criteria prior to distributing funds. Further, the Executive would be required, at a minimum, to provide information to the Council concerning the populations receiving this cash assistance.

[3] Any costs associated with the Executive's administration and distribution of these funds could reduce the total number of households supported.
[4] Attachment 1 provides more details on Emergency Grocery Store Voucher Program

Spending Plan (by Category) for 2021 and Beyond

In 2021, approximately $205 million will be used to repay the principal and interest owed on the IFL for direct cash assistance in 2020. After repayment of the IFL in 2021, the annual spending of the new tax will be as described below.

After accounting for start-up and ongoing administrative costs, 75% of the anticipated revenue would be dedicated to developing and acquiring social housing affordable to households with incomes from zero to 100% of AMI,[5] and to provide services for Permanent Supportive Housing (PSH) units. The remaining 25% of the tax revenue, after startup and administrative costs, would support implementation of select housing-related strategies identified in Seattle's Green New Deal (GND) Resolution 31895.

*Social Housing Investments*[6]

Depending on the mix of housing investments, the new revenue could provide $1.8 billion for about 5,600 housing units by year five and $4 billion for about 10,809 housing units by year 10. In addition, $70 million could support the operating and service costs for about 1,400 PSH units by year five and $382 million for about 3,393 PSH units by year 10.

A new Social Housing Board is proposed that would guide and oversee all housing development and preservation investments. The 21-member board would include three representatives from each Council district; members will include renters and homeowners, individuals from historically underrepresented groups, as well as individuals with housing development and finance experience.

*Green New Deal Investments*

The following housing-related strategies identified in the GND resolution would be prioritized for funding:

- Investments to convert residential housing units from natural gas and heating oil to electric heat;[7]
- Weatherization of existing residences;
- Solar installations; and
- Investing in job training programs to equip workers with skills needed in the green economy and assist workers whose jobs currently depend on the fossil fuel industry to transition to a green economy.

[5] AMI is the household income for the median ("middle") household in a region. The Department of Housing and Urban Development (HUD) annually calculates and publishes AMI figures for a specific area.

[6] Unit production estimates are based on average per unit costs in projects funded by the City or the Seattle Housing Authority that include primarily one bedroom and studio units. Per unit costs will vary depending on the location, size, mix of units, etc.

[7] As an example, about 38,000 existing housing units could be converted to electricity for the heat source if all the revenue proposed for GND investments was used for this purpose. This assumes the cost to convert the heat source to electricity is $16,000 per unit.

Further, the investments in housing development and preservation are consistent with the following housing-related strategies identified in the GND resolution:

- Create more affordable housing located near transit hubs, green space, and neighborhood amenities to reduce dependence on private vehicles;
- Use anti-displacement strategies and alternative housing models, such as: acquisition of existing affordable housing in areas at risk of displacement, community-owned cooperative housing, community land ownership, etc.; and
- Increase housing density to meet current unmet demand for affordable housing and projected future population growth.

The GND Oversight Board established by Ordinance 125926 would guide and oversee the proposed investments in GND housing-related strategies. The Board would invite workers who are employed by the fossil fuel industry, or who are in jobs that may be displaced due to the implementation of this spending plan, along with their unions, to coordinate on “just” transition recommendations to minimize economic harm to affected workers.