Appendix B – Employer Tax Variations

1. Hours v. Payroll Tax Comparison

Calculating the amount of an Employer Tax as a percentage of all payroll, rather than a flat amount per FTE employee, could make this tax more progressive. The chart below is intended as a conceptual example, not reflecting actual average pay in various sectors.

	"Restaurant Chain" $40,000 average annual pay, 100 FTE	**"Construction Firm"** $60,000 average annual pay, 100 FTE	**"Law Firm"** $80,000 average annual pay, 100 FTE	**"Tech Company"** $100,000 average annual pay, 100 FTE	**Total Annual Revenue[1]**
$300 per FTE employee	$30,000 annual tax = $0.156/hour	$30,000 annual tax = $0.156/hour	$30,000 annual tax = $0.156/hour	$30,000 annual tax = $0.156/hour	~$75 million
0.5% of total payroll	$20,000 annual tax = $0.104/hour	$30,000 annual tax = $0.156/hour	$40,000 annual tax = $0.208/hour	$50,000 annual tax = $0.260/hour	~$75 million

1. *Assuming $60K average annual pay in Seattle; $5 million gross receipts exemption cut-off; and correctness of EHT revenue estimates given to the Progressive Revenue Task Force by Central Staff.*

2. Graduation by Number of Employees

It may be possible to add another layer of progressivity by graduating a payroll-based tax by number of employees. For example:

Size of business:	1-50 FTE employees	50-100 FTE employees	100-500 FTE employees	Over 500 FTE employees
Tax paid:	0.2% of all payroll	0.4% of all payroll	0.6% of all payroll	0.8% of all payroll

In this way, very large businesses with high-paid employees would pay the most per head; smaller businesses with lower-paid employees would pay the least per head; and large businesses with lower-paid employees and smaller businesses with high-paid employees would land somewhere in the middle. There could still be a gross receipts exemption cutoff, but perhaps it wouldn't have to be as high with these additional means of tapering the tax for smaller and lower-margin businesses. (The assumption being made here, which is worth checking, is that lower-margin sectors tend to be those that employ lower-wage workers.)

Below are extremely rough revenue estimates for two possible graduations of a payroll-based tax.

Firm Size by # of Employees[1]	% of Total Employees[1] (2014)*	Est. # FTEs (2015)	Est. Salary Base @ Uniform $29.41/hour[2,3]	Proposed Tax Rate - % payroll	Avg. Tax Rate per FTE / hour[4]	Est. Annual Tax Revenue	Exemption at < $5 million[5]	Exemption at < $10 million[6]
0-50	34.1%	152,838	9,349,537,379	0.20%	$120/$0.062	18,699,075	[small]	[very small]
51-100	11.4%	50,933	3,115,727,572	0.40%	$240/$0.125	12,462,910	[small]	[very small]
101-500	26.1%	117,011	7,157,919,370	0.60%	$360/$0.188	42,947,516	42,947,516	27,150,729
501+	28.5%	127,839	7,820,279,560	0.80%	$480/$0.250	62,562,236	62,562,236	62,562,236
Total	**100.0%**	**448,622**	**27,443,463,882**			**136,671,738**	**105,509,752**	**89,712,965**

Firm Size by # of Employees[1]	% of Total Employees (2014) [1]	Est. # FTEs (2015)	Est. Salary Base @ Uniform $29.41/ hour[2,3]	Proposed Tax Rate - % payroll	Avg. Tax Rate per FTE / hour[4]	Est. Annual Tax Revenue	Exemption at < $5 million[5]	Exemption at < $10 million[6]
0-50	34.1%	152,838	9,349,537,379	0.25%	$150/$0.078	23,373,843	[small]	[very small]
51-100	11.4%	50,933	3,115,727,572	0.25%	$150/$0.078	7,789,319	[small]	[very small]
101-500	26.1%	117,011	7,157,919,370	0.50%	$300/$0.156	35,789,597	35,789,597	22,625,607
501+	28.5%	127,839	7,820,279,560	0.75%	$450/$0.234	58,652,097	58,652,097	58,652,097
Total	**100.0%**	**448,622**	**27,443,463,882**			**125,604,856**	**94,441,694**	**81,277,704**

Assumptions:

1. Position counts, not adjusted for full-time equivalency (FTE) status.
2. Mean Seattle-Tacoma-Bellevue wage (all occupations) per BLS May 2016 Area Occupational Employment and Wage Estimates
3. Assumes uniform distribution of mean wage across all firm sizes
4. Assumes $60K average annual pay in Seattle and uniform distribution of mean wage across all firm sizes. Averaged across all firms in each size category; the actual rate for a given firm will depend on that firm's average FTE pay
5. Assumes 55% of employees work for firms with gross receipts above $5 million. Assumes the firms thereby exempted include the vast majority of 1-100 employee firms, and no 101+ employee firms.
6. Assumes 45% of employees work for firms with gross receipts above $10 million. Assumes the firms thereby exempted include nearly all 1-100 employee firms, ~36.8% of 101-500 employee firms, and no 501+ employee firms.

3. Hybrid FTE/Payroll Employer Tax Model

There are some tradeoffs between basing a tax on number of FTEs (or employee hours), or on total payroll. A hybrid model may be a good compromise. For example:

- Employers can choose to pay either $400 per FTE or 0.5% of total payroll.
- A law firm with 100 employees that pays $400 per FTE owes $40,000. Suppose this law firm's average salary is $80K. Their total payroll is $8M, and 0.5% of $8M is also $40,000.
- So, for businesses with average pay $80K and above, it would make sense to choose the first option.
- A grocery store with 100 employees also owes $40,000 if they choose the first option. But suppose their average annual employee pay is only $40K. Their total payroll is $4M, and 0.5% of $4M is only $20,000.
- For businesses that employ lower-wage workers, it would generally make sense to choose the second option.

How much revenue would this raise? With a $5M exemption threshold, if everyone chose the first option, it would generate around $100M/year. If every worker in Seattle was paid minimum wage (~30K/year) and every employer chose the second option, it would generate around the same amount as a $150/FTE flat rate, i.e. $37.5M/year. The actual figure would be somewhere between those two boundaries, likely toward the middle. So, this hybrid approach could bring in around $75M/year.

	$X per FTE	**0.Y percent of total payroll**	**Hybrid: Employer's choice**
Fairness / Progressivity	Low-margin, high-revenue sectors are hit hardest, particularly when they are labor-intensive (high ratio of employees to revenue).	To the extent that low-margin sectors, such as food and retail, tend to employ lower-wage workers, this approach is more equitable. Businesses with high-paid employees, such as law firms and tech companies, would pay relatively more.	In terms of targeting those businesses most able to contribute, this approach falls somewhere in the middle of the other two, again assuming that low-margin sectors tend to be those with lower-wage workers.
Employer Administration	Relatively simple.	Employers may not want to disclose their total payroll, and for businesses with operations extending beyond Seattle it may be difficult to calculate.	Employers can choose whether it's worth it to them to calculate and disclose their payroll in order to pay a lower amount.