



## ***“For Your Information...”***

### **Important Revenue Sourcing Change Effective January 1, 2008**

In 2003, the Legislature passed HB 2030 (codified as RCW 35.102), which placed new requirements on Washington cities that impose a tax based on gross receipts. Beginning on January 1, 2008, HB 2030 requires businesses within gross receipts Business and Occupation (B & O) tax cities to assign their sales of tangible personal property to the place of delivery for taxation purposes. Gross income derived from activities taxed as services under SMC 5.45.050G (service and other income) shall be apportioned to the City by multiplying apportionable income by a fraction, the numerator of which is the payroll factor plus the service-income factor and the denominator of which is two. The payroll cost factor will be computed as a fraction, with the numerator being the total amount of compensation paid in the city during the tax period by the taxpayer and the denominator being the total compensation paid everywhere during the tax period. The service income factor also is a fraction, the numerator being the total service income of the taxpayer in the city during the tax period, and the denominator being the total service income of the taxpayer everywhere during the tax period. For more information concerning the apportionment provisions, please review RCW 35.102.130. Please note that these changes only apply to municipal B&O taxes and take effect for tax periods beginning January 1, 2008. Also, please note that these changes were not sought by the City of Seattle or other cities but instead were imposed by the State.

You may review RCW 35.102.130 at <http://apps.leg.wa.gov/RCW/default.aspx?cite=35.102.130>.

### **New Square Footage Tax Effective January 1, 2008**

As a result of the expected loss of \$21.9 million in B&O tax revenue due to HB 2030's apportionment and allocation procedures described in paragraph 1 above, the City of Seattle has implemented SMC 5.46, a new floor area, or square footage, tax that will become effective on January 1, 2008. Any business that leases, owns, occupies or otherwise maintains an office or place of business within the city may be subject to the square footage tax. The only businesses that will pay the square footage business tax are those that receive a tax reduction as a result of the new allocation and apportionment procedures. The tax is structured so that no business will pay more tax on its activities than would have been the case under existing (2007) tax law. Some businesses will pay the same tax as they would under current law, others will pay less, but none will pay more.

Floor area will be taxed at two different rates. Business floor space, which includes office, retail, and production space, will be taxed at 39 cents per square foot per quarter. Other floor space, such as warehouse, storage, dining, and exercise space, will be taxed at 13 cents per square foot per quarter. The tax rates will be adjusted annually for inflation.

Any business that pays both the gross receipts B&O tax and the square footage business tax may take a credit against the square footage business tax for the amount of gross receipts tax paid. To use the credit, a business first computes the square footage business tax it would owe on 100% of its floor area, and then multiplies that figure by the credit. The credit is determined by computing the total gross income derived from the Seattle business locations less the gross income derived from the Seattle business locations that is exempted from taxation by HB 2030, and then dividing that figure by the total gross income derived from the Seattle business locations. In simple terms, if a Seattle business receives a 20% reduction in its gross receipts tax from HB 2030, 20% of its floor area will be subject to the square footage business tax.

To ensure that no business faces a tax increase due to the implementation of the square footage business tax, a maximum square footage tax credit is provided. To use this credit, a business computes its tax under both the new post-January 1, 2008 tax law and the old pre-January 1, 2008 tax law. If the tax due is higher under the new law, the business is allowed to take a credit for the difference between the tax computed under the new law and the tax computed under the old law.

For more information about the Square Footage tax please go to:

<http://clerk.ci.seattle.wa.us/~public/CBOR1.htm>, and type in council bill # 116061.

## **Reminder: Employee Hour Tax Returns due January 31, 2008**

On July 1, 2007, the Employee Hours Tax became effective in the City of Seattle. The first annual Employee Hours Tax returns, for the period July 1, 2007 through December 31, 2007, are due on January 31, 2008. Please make sure you complete the Employee Hours Tax computation form and submit it with the Employee Hours Tax Form. Additional information about the Employee hours tax may be found at:

**Employee Hours Tax FAQ** <http://www.seattle.gov/rca/taxes/EmployeeHoursTax.htm>

## **Seattle Municipal Code (SMC) and Business Tax Rules on-line**

The SMC website is <http://clerk.ci.seattle.wa.us/>. Select the Seattle Municipal Code link under the Municipal Code and Charter section to search for codes. Select the Business Tax Rules link under the More Resources section to search for rules. If you do not have a computer, computers for public use are available at Seattle public libraries and most Neighborhood Service Centers.

When viewing the SMC it is helpful to be aware that the Code is made up of titles, chapters and sections. Title 5, Subtitle II of the SMC is Revenue, Finance and Taxation, and includes the following chapters:

- 5.30 Definitions
- 5.35 Parking Tax
- 5.37 Employee Hours Tax
- 5.40 Admission Tax
- 5.45 Business and Occupation Tax
- 5.48 Business Tax – Utilities
- 5.52 Gambling Tax
- 5.55 License and Taxes

## **Revenue and Consumer Affairs Website**

Visit our website at <http://www.cityofseattle.net/rca/> for a business license application or renewal instructions, a Multiple Activities Tax Credit (MATC) Worksheet, and other useful information in reference to licensing and business taxes in Seattle. You are now able to fill out a form online to request that a Seattle tax form be sent to you. The request form generates an automatic email to our offices.

## **SELF – The Seattle Electronic Filing System**

**Remember** - The City of Seattle offers online tax filing of the business license (B&O) tax and occupational utility tax. In addition to filing current period returns, you can check your account for any unfiled periods going back to the 1<sup>st</sup> quarter 2002, renew your current year business license, update addresses and phone numbers, as well as add or change trade names.

If you haven't registered, get registered today! The SELF website is located at: <https://dea.seattle.gov/self/>

## **Need a Speaker?**

Are you a member of a professional or trade group with questions regarding any Seattle business taxes? Revenue and Consumer Affairs has speakers available to address your organization. Please contact us at (206) 684-8484 and request to speak with someone from the Audit group.

## **HAVE QUESTIONS? -- CALL EARLY!**

The department receives hundreds of information calls the last week prior to the due date of the quarterly tax returns. To insure we are able to adequately answer your questions, please do not wait until the last few days. If you leave a message, please give us your customer number, name, phone number, and the best time to reach you. YOUR CALL WILL BE RETURNED.

Information line (206) 684-8484 or fax (206) 684-5170

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