Director's Rule 5-981 Social Housing Tax

(1) Introduction.

In a special election held in February of 2023, Seattle voters approved Initiative 135 (I-135). I-135 created the Seattle Social Housing Developer (PDA) to develop, own, and maintain social housing developments in the City of Seattle. In a special election held February 11, 2025, the voters of the City of Seattle approved Proposition 1A, which created the Social Housing Tax. The Social Housing Tax is an excess compensation excise tax intended to provide a dedicated revenue stream to support the PDA. The tax is imposed on persons engaging in business in the City of Seattle. The Social Housing tax imposes a tax rate of 5% on compensation that exceeds $1 million paid in Seattle to an employee. The new tax went into effect January 1, 2025.

(2) Definitions. SMC 5.37.110 clarifies that the definitions applicable to the Seattle Payroll Expense Tax "shall be fully applicable to" the Social Housing Tax "except as may be expressly stated to the contrary…." For purposes of this rule, the following definitions will apply:

a) "Compensation" includes "remuneration" as defined by the Washington State Family and Medical Leave program as currently or subsequently amended.

(i) The name by which employee compensation is designated is immaterial and includes all payments for personal services, including commissions and bonuses and the cash value of all earnings paid in any medium other than cash.

(ii) Based on the guidance from the Washington State Employment Security Department, compensation includes:

(A) Salary or hourly wages;

(B) Cash value of goods or services given in the place of money;

(C) Commissions or piecework;

(D) Bonuses;

(E) Cash value of gifts or prizes;

(F) Cash value of meals and lodging when given as compensation;

(G) Holiday pay;

(H) Paid time off (vacation, sick leave, associated cash-outs);

(I) Separation pay such as severance pay, termination pay, or wages in lieu of notice;

(J) The value of stocks at the time of transfer to an employee if part of a compensation package (i.e., stock grants, Restricted Stock Units (RSUs)); and

(K) Stipends and per diems (unless provided to cover a past or future cost incurred by the worker as a result of the worker's expected job functions).

(iii) In addition, for purposes of the Social Housing Tax, compensation also includes:

(A) Employee contributions to deferred compensation plans (e.g., 401(k), 403(b), or other deferred compensation plans) in which a portion of an employee's salary or wages are set aside to be paid at a later date; and

(B) Net distributions, or incentive payments, including guaranteed payments earned for services rendered or work performed, whether paid directly or through an agent. "Net distribution" means the draws from net income by any owner of a pass-through entity.

Taxable distributions are limited by the amount of draws or net income for that owner, whichever is less.

(iv) Compensation does not include:

(A) Tips;

(B) Supplemental benefit payments as defined in WAC 192-510-025 made by an employer to an employee in addition to any paid family or medical leave benefits received by the employee;

(C) Employee exercised stock options (incentive stock options (ISOs) or non-qualified stock options (NQSOs));

(D) Payments provided to cover a past or future cost incurred by the worker as a result of the worker's expected job functions;

(E) Employer contributions into retirement or disability plans;

(F) Payments to an owner of a pass-through entity that are not earned for services rendered or work performed (i.e., return of capital, investment income, or other passive activities).

Examples included in this rule identify facts and then state a conclusion; they should be used only as a general guide. The tax consequences of all situations must be determined after a review of all facts and circumstances. Additionally, each fact pattern in each example is self-contained (i.e., "stands on its own") unless otherwise indicated by reference to another example. Examples concluding that Social Housing Tax applies to the transaction assume that no exclusions or exemptions apply, and the sale is sourced to Seattle. All examples apply to tax year 2025, unless the example expressly identifies a different tax year.

Example 1: Able Corp retains employee X to work at their Seattle office. Employee X's total compensation is $1.75 million per year. Employee X decides to contribute 50% of their $1,750,000 compensation into the Able Corp 401K plan. When Able Corp determines its Social Housing Tax due, Able Corp must include employee X's total annual compensation of $1,750,000. A business must include an employee's contributions to retirement plans when determining compensation subject to the Social Housing Tax.

Example 2: Employee Y works for Able Corp and has an annual salary of $1,600,000. Employee Y also receives 40,000 Restricted Stock Units (RSUs) that vest at a rate of 25% a year. In 2025, the value of 10,000 shares of stock was $1,200,000 at the time it vested. The value of stocks at the time of transfer (vesting) is part of a compensation package and is considered compensation for the Social Housing Tax. Employee Y's total compensation for purposes of Able Corp's Social Housing Tax is $2,800,000 ($1,600,000 salary + $1,200,000 vested RSUs).

Example 3: Employee Z works for Beta Corp and has an annual salary of $1,600,000. Employee Z also receives 40,000 non-qualified stock options (NQSOs). In 2025, employee Z exercises 10,000 stock options. Employee Z's exercised stock options are not included in Beta Corp's excess compensation calculation because they are not considered compensation.

Example 4: While on paid medical leave, an employee receives 61% of the employee's typical weekly wage from the State of Washington. The employer paid the employee the remaining 39% of the employee's typical weekly wage as a supplemental benefit payment. The payments made to the employee from the State of Washington and the supplemental benefit payments from the employer are not compensation for purposes of the Social Housing Tax.

b) "<u>Employee</u>" means any individual who performs work, labor, or personal services of any nature for compensation paid by a business and includes:

   (i) Individuals who are members of limited liability companies, members of professional limited liability companies, partners, other owners of pass-through entities and sole proprietors; and

   (ii) Independent contractors, who are individuals contracted to perform work or provide services to the business and are not considered to be employees under the common law rules of the employer-employee relationship.

Example 5: ZYX is a partnership based in Seattle. During the current year, ZYX calculated $5 million of compensation paid in Seattle to non-partner employees and $5 million in net distributions paid in Seattle to the two partners who performed work for ZYX. Each of the non-partner employees were paid annual compensation under $1 million. However, ZYX Partner 1 received a net distribution of $3 million. Partner 2 received a net distribution of $2 million. The Partners' net distributions are considered compensation paid by the partnership under the Social Housing Tax. ZYX Partner 1's excess compensation is $2 million. ZYX Partner 2's excess compensation is $1 million. ZYX's total Seattle excess compensation would equal $3 million. For the current tax year ZYX partnership would owe Social Housing tax of $150,000 ($3 million x 5%).

Example 6: Same as Example 5, except that ZYX also has a limited partner in Seattle who does not provide services or perform work for the partnership. Rather, the limited partner is merely an investor in the partnership. In addition to the $10 million in compensation paid to the non-partner employees and general partners, ZYX also distributes another $2 million in net distributions to its limited partner. When calculating the excess compensation paid in Seattle to employees, ZYX does not include the $1 million of excess compensation paid to its limited partner. The Social Housing Tax excludes from the definition of compensation payments made to owners of pass-through entities that are not earned for services rendered or work performed.

c) "<u>Excess compensation</u>" means annual compensation paid to an employee in excess of $1,000,000.

d) "<u>Hours worked</u>" means acting in the course of employment and includes time spent by the employee acting at his or her employer's direction or in the furtherance of his or her employer's business.

e) "<u>Payroll expense</u>" means compensation paid in Seattle to employees.

f) "<u>Primarily assigned</u>" means the business location of the taxpayer where the employee performs their duties for the tax period. An employee that performs more than 50% of their duties at the business location of the taxpayer will be primarily assigned to that business location.

g) "<u>Tax period</u>" means the calendar year during which tax liability is accrued.

(3) Determining Excess Compensation Paid in Seattle to Employees.

a) For employees who receive excess compensation, to determine excess compensation paid in Seattle to employees, the taxpayer must utilize either the "Hours Method" or the "Primarily Assigned Method."

b) At the start of the first quarter that a taxpayer has excess compensation, a taxpayer must elect the method that they will use to determine excess compensation paid in Seattle. The same method will apply to all employees for the remainder of that tax year.

c) Using the “Hours Method” – The amount of excess compensation paid in Seattle is:

   i. One hundred percent (100%) of the excess compensation paid to employees that work exclusively in Seattle; and

   ii. Allocated, for employees who work partly within and partly outside Seattle, by multiplying employee’s excess compensation paid during the calendar year by a fraction, the numerator of which is the total number of the employee’s hours worked in Seattle and the denominator of which is the total number of the employee’s hours worked everywhere.

$$\text{Excess Compensation Paid in Seattle} = \text{Annual Excess Compensation} \times \frac{\text{Hours Worked in Seattle}}{\text{Total Hours Worked Everywhere}}$$

   iii. The Director will presume 1,920 work hours for full-time employees per year. If actual hours worked are more than 1,920 hours or can be reasonably anticipated to be more than 1,920, the employer must be able to document the increased number of actual hours for the calculation.

Example 7: Alpha Corp has 100 employees in Seattle who work exclusively in Seattle. Alpha Corp elects to use the Hours Method to determine compensation paid in Seattle. One hundred percent of the compensation paid to Alpha Corp employees is paid in Seattle because they work exclusively in Seattle. (see section (3)(c)(i)). Alpha Corp will determine whether it is subject to the Social Housing Tax by calculating whether the annual Seattle compensation of any of its 100 employees exceeds $1,000,000. The Social Housing Tax will impose a rate of 5% on the annual Seattle compensation paid to any of Alpha Corp’s employees whose annual compensation exceeds $1,000,000.

Example 8: At the start of the first quarter that Beta Corp has excess compensation, it elects to use the Hours Method to determine excess compensation paid in Seattle. All of Beta Corp’s employees work exclusively in Seattle for the tax period except for employee M. Employee M works partly in and partly outside Seattle. During the tax year, employee M worked 770 hours in Seattle and the remaining hours were worked outside Seattle. Therefore, 40% of employee M’s annual excess compensation is paid in Seattle. (see section (3)(c)(ii)).

$$\text{Excess Compensation Paid in Seattle} = \text{Annual Excess Compensation} \times \frac{\text{770 Hours Worked in Seattle}}{\text{1,920 Total Hours Worked Everywhere}}$$

Compensation paid to all other Beta Corp employees is paid in Seattle because they worked exclusively in Seattle. Beta Corp will determine whether it is subject to the Social Housing Tax by calculating whether the annual compensation paid in Seattle to any of its employees, including employee M, exceeds $1,000,000. The Social Housing Tax will impose a rate of 5% on the annual Seattle compensation of any Beta Corp employee that exceeds $1,000,000. Under the facts provided above, if employee M's annual compensation paid during the calendar year was $1,600,000, the excess compensation paid in Seattle under the hours method would be $240,000 ($600,000 of excess compensation x 770/1,920 = $240,000).

Example 9: At the start of the first quarter that Gamma Corp has excess compensation, Gamma Corp elects to use the Hours Method to determine excess compensation paid in Seattle. All of Gamma Corp's employees worked exclusively in Seattle for the tax period except for employee P who worked partly in and partly outside Seattle. During the current tax year, employee P worked 320 hours in Seattle. P did not work for 480 hours during the current tax year because P was on Paid Family and Medical Leave. Due to the extended period of time Employee P did not work during the year, the total hours worked everywhere was reduced by 480 hours. Therefore, 22% of employee M's annual compensation is paid in Seattle. (see section (3)(c)(ii)).

$$\text{Excess Compensation Paid in Seattle} = \text{Annual Excess Compensation} \times \frac{\text{320 Hours Worked in Seattle}}{\text{1,440 (1,920-480) Total Hours Worked Everywhere}}$$

Annual compensation includes amounts defined as compensation in section (2)(a)(i) – (iii). Gamma Corp will determine whether it is subject to the Social Housing Tax by calculating whether the annual compensation paid in Seattle to any of its employees, including employee P, exceeds $1,000,000. The Social Housing Tax will impose a rate of 5% on the annual Seattle compensation of any Gamma Corp employee that exceeds $1,000,000. If employee P's annual compensation was $1,300,000, P's excess compensation paid in Seattle under the hours method would be $66,667 ($300,000 compensation in excess of $1,000,000 x 320/1,440).

Example 10: At the start of the first quarter that Beta Corp has excess compensation, Beta Corp elects to use the Hours Method to determine excess compensation paid in Seattle. All of Beta Corp's employees work exclusively in Seattle for the tax period except for employee M. Employee M works partly in and partly outside Seattle. Employee M is a highly compensated employee. During the current tax year, Beta Corp paid Employee M $4.3 million. Thus, Beta Corp's current tax year excess compensation is $3.3 million ($4.3 million - $1.0 million). During the current tax year, Employee M worked 770 hours in Seattle and the remaining hours were worked outside Seattle. Therefore, 40% of Employee M's annual excess compensation is paid in Seattle. Beta Corp's Social Housing tax due for the tax period is $66,000 determined as follows:

Employee M's Annual Excess Compensation		Ratio of hours worked in Seattle over hours worked everywhere		Employee M's Annual Excess Compensation Paid in Seattle	Beta Corp's Social Housing Tax Due
$4.3 million – $1 million = $3.3 million	X	$\frac{770}{1920}$	=	$1.32 million	$1.32 million x 5% = $66,000

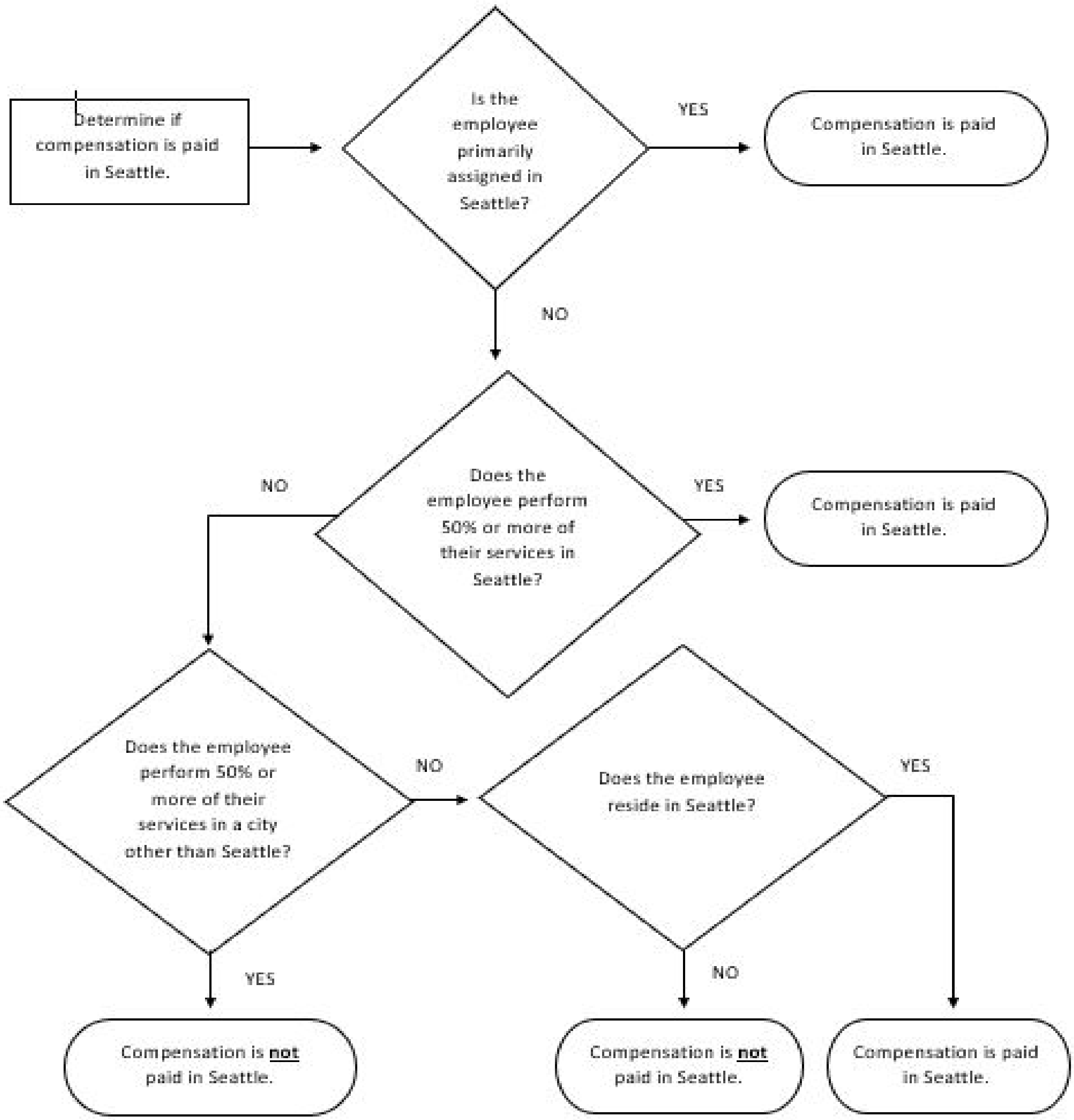
d) "Primarily Assigned Method" – If the taxpayer does not elect the Hours Method to determine compensation is paid in Seattle, then compensation is paid in Seattle to an employee if:

(i) The employee is primarily assigned within Seattle;

(ii) The employee is not primarily assigned to any place of business for the tax period and the employee performs 50% or more of their service for the tax period in Seattle; or

(iii) The employee is not primarily assigned to any place of business for the tax period, the employee does not perform 50% or more of their service in any city, and the employee resides in Seattle.

(iv) The City of Seattle offers the following decision tree as a visual aid to allow businesses to follow a step-by-step method to determine compensation paid in Seattle under the Primarily Assigned Method.


Determine if compensation is paid in Seattle.
Is the employee primarily assigned in Seattle?
YES
Compensation is paid in Seattle.
NO
Does the employee perform 50% or more of their services in Seattle?
YES
Compensation is paid in Seattle.
NO
Does the employee perform 50% or more of their services in a city other than Seattle?
YES
Compensation is **not** paid in Seattle.
NO
Does the employee reside in Seattle?
YES
Compensation is paid in Seattle.
NO
Compensation is **not** paid in Seattle.

Example 11: At the start of the first quarter that Company A has excess compensation, Company A elects to use the Primarily Assigned Method for determining excess compensation paid in Seattle. Company A has three employees in Seattle, employee X, Y, and Z. All three employees perform their duties at Company A's headquarters in Seattle. Employees X, Y and Z are primarily assigned in Seattle because they perform their duties at Company A's business location in Seattle. Any excess compensation paid to employees X, Y and Z is paid in Seattle and included in Company A's excess compensation payroll expense. (see section (3)(d)(i)). Company A will determine whether it is subject to the Social Housing Tax by calculating whether the annual Seattle compensation paid to employee X, Y, or Z exceeds $1,000,000. The Social Housing Tax will impose a rate of 5% on the annual Seattle compensation paid to each Employee X, Y, and Z that exceeds $1,000,000.

Example 12: Company B has an office in Seattle. At the start of the first quarter that Company B has excess compensation, Company B elects to use the Primarily Assigned Method to determine excess compensation paid in Seattle. Company B has three employees, K, L, and M. K's annual compensation is $1,500,000, L's annual compensation is $800,000, and M's annual compensation is $1,300,000. Employees K and L perform 100% of their duties at Company B's office in Seattle for the tax period. During the current tax year, employee M spends 60% of their time performing services at a client's worksite in Kent, Washington and 40% of their time performing duties at the Seattle office. Excess compensation paid to employees K and L is paid in Seattle because employees K and L are primarily assigned within Seattle. Employees K and L are primarily assigned within Seattle because they spend more than 50% of their time performing their duties at the business location of the taxpayer in Seattle. However, employee M's excess compensation is not paid in Seattle. Employee M's excess compensation is not paid in Seattle because employee M does not spend more than 50% of their time performing their duties at the business location of the taxpayer. Additionally, because employee M performs 50% or more of their time performing services for the tax period in Kent, Washington, their compensation is not paid in Seattle. (see section (3)(d)(ii)). Based on the facts above, compensation paid to employee K was paid in Seattle and Company B will owe Social Housing tax on the $500,0000 of excess compensation paid to employee K (the compensation paid to employee K in excess of $1 million). Annual compensation paid in Seattle to employee L was below $1 million, therefore no Social Housing tax is due on compensation paid to employee L. Finally, excess compensation paid to M is not subject to the tax because under the primarily assigned method the compensation paid to M was not paid in Seattle.

Example 13: At the start of the first quarter that Company C has excess compensation, Company C elects to use the Primarily Assigned Method for determining excess compensation paid in Seattle. Company C has an office in Seattle and has three employees, employees R, S, and T. Employee R's annual compensation is $850,000, Employee S's annual compensation is $1.2 million and Employee T's annual compensation is $1.4 million.

Employee R performs their duties at Company C's office in Seattle. Employees S and T enter telework agreements with Company C and work from their respective residences for the entire tax period. Employee S's residence is in Kent, Washington and employee T's residence is in Seattle. Compensation paid to R and T is paid in Seattle. Compensation paid to employee R is paid in Seattle because employee R is primarily assigned in Seattle. R is primarily assigned in Seattle because employee R spends more than 50% of their time performing their duties at the business location of the taxpayer in Seattle. Employee T is not primarily assigned to Company C's office because they do not spend more than 50% of their time performing their duties at the business location of the taxpayer. However, compensation paid to employee T is in Seattle because employee T spends 50% or more of their time performing their services from T's home in Seattle. (see section (3)(d)(ii)). Conversely, compensation paid to employee S is not paid in Seattle. Employee S is not primarily assigned within Seattle because employee S does not spend more than 50% of their time performing their duties at the business location of the taxpayer. Additionally, Employee S performs 50% or more of their service for the tax period in Kent, Washington. Therefore, because Employee S spends 50% or more of their time performing services in Kent, Washington, their compensation is not paid in Seattle. (see section (3)(d)(ii)). Based on the facts above, Company C will owe Social Housing tax on the $400,0000 of excess compensation paid in Seattle ($400,000 compensation paid in Seattle to employee T in excess of $1 million). Annual compensation paid in Seattle to Employee R was below $1 million, therefore no Social Housing tax is due on compensation paid to Employee R. Finally, excess compensation paid to Employee S is not subject to the tax because under the primarily assigned method compensation paid to Employee S was not paid in Seattle.

Example 14: At the start of the first quarter that the Umbrella Corp. has excess compensation in Seattle it elects to use the Primarily Assigned Method to determine excess compensation paid in Seattle. Umbrella Corp is domiciled in Seattle but also maintains additional offices around the world which serve local customers. Umbrella Corp requires their General Counsel to work in their Seattle office 5 days per week. Umbrella Corp's Chief Financial Officer (CFO) performs

- 40% of their services at its Seattle headquarters,
- 20% at is regional office in Los Angeles,
- 15% at its northeast hub in Boston,
- 15% at its Midwest regional office in Milwaukee,
- 10% at its Asian regional office in Singapore.

Umbrella Corp's CFO resides in Seattle. Umbrella Corp's Chief Executive Officer (CEO) performs 65% of their services in Umbrella Corp's Seattle headquarters. Umbrella Corp's CEO performs 35% of their services in Umbrella's Los Angeles regional office. The chart below provides a calculation that identifies Umbrella Corp's Seattle Social Housing Tax liability under the primarily assigned method.

Employee	Annual Employee Compensation	Annual Excess Compensation	% of services performed in Seattle	Tax Rate	Tax Due
GC	$1.5 million	$500,000	100%	5%	$25,000
CEO	$4.7 million	$3,700,000	65%	5%	$185,000
CFO	$2.3 million	$1,300,000	40%	5%	$65,000
Umbrella Corp's Seattle Social Housing Tax Liability					$275,000

Excess compensation paid to GC and CEO is paid in Seattle because GC is primarily assigned to Umbrella Corp's Seattle office and CEO performs more than 50% of their duties in the Seattle office. Excess compensation paid to CFO is also paid in Seattle because while CFO is not primarily assigned in Seattle and does not perform 50% or more of their services in any city, CFO resides in Seattle.

Example 15: At the start of the first quarter that Company E has excess compensation, Company E elects to use the Primarily Assigned Method for determining excess compensation paid in Seattle. Company E maintains its office in Renton, Washington. Employee O has a telework agreement with Company E that states that Employee O will work from their residence four days per week during the current tax year. Employee O's residence is in Seattle. One day a week, employee O travels to Company E's office in Renton to attend meetings and meet with customers. Employee O spends 50% or more of their time performing services from their residence. Employee O is not primarily assigned to Company E's office because they do not spend more than 50% of their time performing their duties at Company E's business location. Compensation paid to Employee O is considered paid in Seattle because employee O spends 50% or more of their time performing services in Seattle. (see section (3)(d)(ii)). Since Employee O works from their Seattle residence more than 50% of their work time, Company E will determine whether Employee O's annual compensation exceeds $1 million. If Employee O's annual compensation exceeds $1 million, the Social Housing Tax will impose a rate of 5% on Employee O's annual compensation that exceeds $1 million.

Example 16: At the start of the first quarter that Company F has excess compensation, Company F elects to use the Primarily Assigned Method to determine excess compensation paid in Seattle. Employee N works for Company F in Bedford, New York, and travels to Seattle to provide services to customers. At the end of the year, Company F determines that Employee N spent 51% of their time performing services in Seattle and 49% of their time performing their duties at Company F's office in Bedford. Employee N is not primarily assigned to any place of business for the tax period because they do not spend more than 50% of their time performing their duties at the business location of the taxpayer. Compensation paid to Employee N is paid in Seattle because Employee N spends 50% or more of their time performing services in Seattle. (see section (3)(d)(ii)). Since Employee N performs 50% or more of their services in Seattle, Company F will determine whether Employee N's annual compensation exceeds $1 million. If Employee N's annual compensation exceeds $1 million, the Social Housing Tax will be due on the annual compensation paid to Employee N that exceeds $1 million.

Example 17: At the start of the first quarter that Company G has excess compensation, Company G elects to use the Primarily Assigned Method to determine excess compensation paid in Seattle. Employee M works for Company G in Seattle and travels to Hohman, Indiana to provide services to customers. At the end of the year, Company G determines that employee M spent 51% of their time performing services in Hohman, Indiana and spends 49% of their time performing their duties at Company G's Seattle office. Employee M is not primarily assigned to any place of business for the tax period because they do not spend more than 50% of their time performing their duties at the business location of the taxpayer. Furthermore, Employee M spent 50% or more of their time performing services in Hohman, Indiana for the tax period.

Employee M's compensation is not paid in Seattle, because Employee M spends 50% or more of their time performing services in another city. (see section (3)(d)(ii)).

e) Pass through entities. Under the Social Housing Tax, compensation includes net distributions, or incentive payments, and guaranteed payments that are earned for work performed. Net distribution means the draws from net income by any owner of a pass-through entity. Taxable distributions are limited by the amount of draws or net income for that owner, whichever is less. If, for example, the owner of a pass-through entity receives both a guaranteed payment and net distributions, both the guaranteed payment and the taxable net distributions paid to the owner must be included as compensation to determine if the entity has excess compensation payroll expense.

Example 18: Virtual Ventures (VV) is a partnership that engages in business in Seattle. Under the primarily assigned method, VV determines compensation paid to one of its partners, Partner A, is paid in Seattle. Each quarter, VV pays guaranteed payments to Partner A in the amount of $125,000. At the end of each quarter of the tax year, Partner A also receives a net distribution of $250,000.

Virtual Ventures					
Partner A compensation	Q1	Q2	Q3	Q4	Total Annual Compensation
Guaranteed Payments	$125,000	$125,000	$125,000	$125,000	$500,000
Net income distributions	$250,000	$250,000	$250,000	$250,000	$1,000,000
Total annual compensation paid in Seattle	$375,000	$750,000	$1,125,000	$1,500,000	$1,500,000
Excess compensation subject to Social Housing Tax	$0	$0	$125,000	$375,000	$500,000
Tax Rate			5%	5%	5%
Tax Due			$6,250	$18,750	$25,000

VV will calculate the compensation paid to Partner A as the sum of the guaranteed payments and the net distributions. During Q1, VV had total compensation paid in Seattle equal to $375,000 ($125,000 in guaranteed payments plus $250,000 in net distributions). In Q1, VV did not have excess compensation paid in Seattle. By the end of Q2, VV had total compensation paid to Partner A of $750,000 which was still under $1 million, therefore VV did not have excess compensation paid in Seattle by the end of Q2. By the end of Q3, VV had compensation paid to Partner A equal to $1,125,000 year to date. By the end of Q3, VV had excess compensation paid to Partner A equal to $125,000 ($1,125,000 less $1,000,000). Thus, by October 31 of the applicable tax year, VV will report and pay Social Housing Tax in the amount of $6,250. In Q4, VV paid Partner A compensation equal to $375,000. All of the compensation paid to Partner A in Q4 is subject to the Social Housing tax because compensation to Partner was already in excess of $1 million by the end of Q3. VV will report and pay Social Housing Tax in the amount of $18,750 ($375,000 x 5%) on its Q4 return. For the applicable tax year, VV's total Social Housing Tax liability equals $25,000.

(4) Social Housing Tax Exemptions.

a) The excess compensation of individuals who qualify as independent contractors whose excess compensation is included in the tax paid by another business is exempt.

Example 19: Company R maintains its headquarters in Seattle. Company R hires an individual independent contractor, individual Z, for consulting services performed 100% in Seattle and agrees to pay them $1.2 million in the current tax year. Individual Z is an independent contractor for purposes of the business license tax. Company R includes individual Z's total annual compensation of $1.2 million in Company R's payroll expense. The Social Housing Tax defines Individual Z as an employee of Company R. Individual Z would not include payments received from Company R as excess compensation for purposes of the Social Housing Tax because that amount is included in Company R's calculation of its Seattle excess compensation.

Example 20: Same as example 19, except that individual Z provides consulting services to Company R and Company S. Company R and Company S both utilize the primarily assigned method. Individual Z is deemed to be primarily assigned in Seattle for both Company R and Company S. Companies R and S each pay individual Z $1.25 million for consulting services performed during the current tax year. Company R will report $250,000 of excess compensation paid to individual Z in the current tax year and Company S will also report $250,000 of excess compensation paid to individual Z in the current tax year.

Example 21: In the current tax year, Cyberdyne Systems retained an independent contractor, JustLaunchIt LLC, to provide information technology (IT) services. Cyberdyne agrees to pay JustLaunchIt $2.5 million in IT fees. Individual E is an employee of JustLaunchIt LLC and is entrusted to perform the IT services requested by Cyberdyne Systems. In the current tax year, JustLaunchIt pays Individual E annual compensation in an amount of $1.8 million for work completed in Seattle. As JustLaunchIt's employee, Individual E's compensation is included in JustLaunchIt's payroll expense. Cyberdyne would not include the consulting fees paid to JustLaunchIt LLC in their excess compensation calculation because JustLaunchIt LLC includes Individual E's excess compensation in their payroll expense. JustLaunchIt would be subject to Seattle Social Housing Tax measured by the excess compensation that it paid to Individual E.

2025 Annual Compensation Paid In Seattle to Individual E	2025 JustLaunchIt LLC excess compensation	Tax Rate	2025 JustLaunchIt Social Housing Tax Liability
$1.8 million	$800,000	5%	$40,000

b) The Social Housing Tax exempts any person engaged in business in Seattle that federal or state statutes or regulations preempt cities from subjecting to tax, including, but not limited to, the following:

i. Insurance businesses and their appointed insurance producers whose revenue is exempt from the business license tax;

ii. Businesses that only sell, manufacture, or distribute motor vehicle fuel as defined in RCW 82.38.020 and exempted under RCW 82.38.080;
iii. Businesses that only distribute or sell liquor as defined in RCW 66.04.010 and exempted under RCW 66.08.120;
iv. Federal and State government agencies and any local governmental entity.

c) To the extent that a business has activities listed in Section (4)(b) that are pre-empted from taxation, but the business also engages in activities not preempted from taxation, the business will be allowed to exclude the excess compensation attributable to those activities preempted from taxation by excluding:
   i. excess compensation of employees exclusively engaged in supporting those activities preempted from taxation; and or
   ii. that portion of excess compensation paid to employees engaged in supporting those activities preempted from taxation but also not preempted from taxation equal to such excess compensation multiplied by a ratio equal to the gross income of the business from activities preempted from taxation over the total gross income of the business.

Example 22: Company L is a distributor of alcohol in Seattle. In addition to distributing alcohol products, Company L also distributes some non-alcoholic drink items such as mixers and soda. Company L derives a portion of their gross revenue from the sales of alcohol and a portion of its gross revenue from the sale of non-alcoholic items. In addition, all of Company L's employees support activities in selling and distributing both alcohol and non-alcoholic items. First, Company L calculates their excess compensation paid in Seattle. (*See* Section (3)). Next, Company L's excess compensation paid in Seattle is multiplied by the ratio of Company L's total gross income derived from distributing alcoholic products by their total gross income derived from all activities during the applicable tax year to determine the excess compensation paid in Seattle to exclude from the Social Housing Tax.

(5) Temporary or contracted employees. Businesses that hire temporary or contracted employees shall include the temporary or contracted employees' annual compensation in their excess compensation calculation, regardless of whether the temporary or contracted employees are from an employment agency.

Example 23: Company A engages Temp Agency Corp to recruit and fill a temporary position at Company A. Temp Agency Corp performs all recruiting, interviewing, and background check services and identifies Individual T as its top candidate for Company A. Company A hires Individual T on a temporary basis. Company A is Individual T's employer and responsible for individual T's employment costs (including but not limited to employment taxes and state unemployment insurance). Assuming Individual T's annual compensation paid in Seattle exceeds $1 million, Company A includes the excess compensation paid to individual T in their excess compensation calculation because Individual T is an employee of Company A.

Example 24: Company B hires Temp Agency Corp to provide temporary staff. Temp Agency Corp employs several individuals that it offers to companies that require temporary labor solutions. Company B contracts with Temp Agency Corp to fill two temporary positions for a project expected to last through the year. Temp Agency Corp schedules two of its employees, individuals X and Y to serve Company B. Temporary Agency Corp regularly invoices Company B at the agreed rates for the temporary staff working for Company B during the year. Individuals X and Y are employed and paid by Temp Agency Corp for their services. Assuming that Individuals X and Y's annual compensation paid in Seattle exceeds $1 million, Temp Agency Corp would include the excess compensation paid to Individuals X and Y in its excess compensation calculation because Individuals X and Y are employees of Temp Agency Corp.

(6) Allocation and apportionment.

a) The Social Housing Tax, SMC 5.37.060, adopted by reference the allocation and apportionment provisions contained in the Seattle Payroll Expense Tax, SMC 5.38.050.

b) The Director may adopt procedures to allow taxpayers who have excess compensation paid to employees who conduct services within and outside Seattle to use a representative test period or conduct a survey based on factual data to arrive at a formula with which to calculate the percentage of excess compensation attributable to Seattle. Any formula so established will be subject to review and correction by the Director. This section is strictly used to identify and establish a method to determine if an employee's excess compensation is primarily assigned to Seattle.

c) If a taxpayer's calculation of excess compensation as defined in SMC 5.37.020 does not fairly represent the extent of the excess compensation paid by the taxpayer arising from taxpayer's business activity in the city, the taxpayer may petition for, or the Director may require, in respect to all or any part of the taxpayer's business activity, the employment of any other method to effectuate an equitable allocation and apportionment of the Social Housing Tax.

d) Taxpayers seeking an alternative apportionment calculation must submit a request to the Director for approval prior to the application of any alternative apportionment formula.

e) The party petitioning for, or the Director requiring, the use of any method to effectuate an equitable allocation and apportionment of the excess compensation must prove by a preponderance of the evidence:

   i. That the taxpayer's calculation of excess compensation as defined in SMC 5.37.020 does not fairly represent the extent of the excess compensation paid by the taxpayer arising from taxpayer's business activity in the city; and

ii. That the alternative calculation of excess compensation proposed by the taxpayer is reasonable. The same burden of proof shall apply whether the taxpayer is petitioning for, or the Director is requiring, the use of an alternative, reasonable method to effectuate an equitable allocation and apportionment of taxpayer's excess compensation.

f) If the Director requires any method to effectuate an equitable allocation and apportionment of the taxpayer's excess compensation, the Director cannot impose any civil or criminal penalty with reference to the tax due that is attributable to the taxpayer's reasonable reliance solely on the allocation and apportionment provisions of this section (6).

g) A taxpayer who has received written permission from the Director to use a reasonable method to effectuate an equitable allocation and apportionment of the taxpayer's excess compensation shall not have that permission revoked with respect to transactions and activities that have already occurred unless there has been a material change in, or a material misrepresentation of, the facts provided by the taxpayer upon which the Director reasonably relied in approving a reasonable alternative method.

h) Nothing in this rule shall be construed as requiring the payment of any tax for engaging in business when such payment would be in violation of the Constitution or a statute of the United States or of the Constitution or a statute of the State of Washington.

i) A business is allowed a credit to the extent necessary to preserve the validity of the City's Social Housing Tax and still apply the City's tax to as much of the business's activities as may be subject to the City's taxing authority.

(7) Social Housing Tax Filing and Payment Deadlines.

a) All tax due for the calendar year 2025 shall be due and payable on the fourth quarter tax filing due January 31, 2026.

b) Beginning January 1, 2026, the Social Housing Tax shall be due on a quarterly installment basis unless the Director assigns a different reporting period to the taxpayer. Taxpayers shall start reporting in the first quarter in the calendar year in which the taxpayer has excess compensation paid in the city.

c) Social Housing Tax becomes due in any quarter a person engaging in business in Seattle pays annual compensation in Seattle to at least one employee that exceeds $1 million.

Example 25: Company A has employees primarily assigned in Seattle. During Quarter 1, compensation paid to any of the employees did not exceed $1 million. However, by the end of Quarter 2 Company A had compensation paid in Seattle to one employee that was $1,200,000. Company A would not have to file a Social Housing tax return for Quarter 1 because it had no annual compensation paid in Seattle to any employee that exceeded $1 million by March 31. Company A would need to file a Social Housing tax return for Quarter 2 because by the end of June 30 Company A had excess compensation paid in Seattle to an employee. Company A would report $200,000 of excess compensation paid in Seattle on its Quarter 2 Social Housing tax return.

d) For periods after Dec. 31, 2025, if taxes are reported by a taxpayer on a basis more frequently than once per year, taxpayers may use the excess compensation calculated in the prior calendar year to estimate reporting in the current calendar year and correct the reporting for the current year amount on the fourth quarter return. The taxpayer will report amounts on the fourth quarter return that reflect adjustments that correct inaccuracies in excess compensation and Social Housing Tax due as estimated on the first, second and third quarter returns.

e) Persons discontinuing their business activities in Seattle shall report and pay the Social Housing Tax at the same time as they file their final business license tax return under Chapter 5.45.

Example 26: In a tax year subsequent to 2025, Company BB engages in business in Seattle. BB retains a Chief Executive Officer (CEO) who works exclusively in Seattle. CEO receives a base, annual salary equal to $800,000. In December of the tax year, based on BB's financial performance, BB distributes an annual bonus to their CEO in the amount of $300,000. In Q4 of the applicable tax year, BB has excess compensation paid in Seattle to its employee, the CEO. Therefore, in Q4 of the applicable tax year, BB must file a Social Housing Tax return and pay the tax due. In Q1, Q2 and Q3 of the applicable tax year, BB did not have excess compensation paid in Seattle. Thus, in Q1, Q2, and Q3 BB does not need to file Social Housing Tax returns because there was no excess compensation paid in those quarters.

Example 27: In a tax year subsequent to 2025, Tech Tonic (TT), engages in business in Seattle. TT retains Employee A who works exclusively in TTs Seattle office. Employee A's compensation paid in Quarter 1 exceeds $1 million. At the end of Quarter 1 of the applicable tax year, Employee A separates from employment with TT. First, the excess compensation paid to Employee A during Quarter 1 of the applicable tax year is paid in Settle because Employee A was primarily assigned in Seattle during Employee A's employment with TT. Second, TT will need to report the excess compensation paid to Employee A on TT's Quarter 1 Social Housing Tax return. If TT has no other compensation paid in Seattle to any other employee that exceeds $1 million for the remainder of the year, TT will not need to file a Social Housing Tax return for Quarters 2, 3, and 4.

Example 28: In a year subsequent to 2025, at the start of the first quarter Globex Corp (Globex) has excess compensation, Globex elects to use the Hours Method to determine excess compensation paid in Seattle. During the applicable tax year, Globex's CEO works partly in and partly outside Seattle. Globex pays their CEO compensation of $600,000 per quarter. During the 4th quarter, Globex also pays their CEO a bonus in the amount of 20% of their compensation. During the applicable tax year CEO received a current calendar year bonus equal to $480,000. The tables below demonstrate the methodology that Globex used to calculate their Social Housing Tax liability in Q1, Q2 and Q3 of the current calendar year.

Quarter 1 Current Calendar Year						
CEO Compensation	**Excess Compensation**	**Percentage of Hours Paid in Seattle/Hours Worked Everywhere**		**Excess Compensation Paid in Seattle**	**Rate**	**Tax**
$600,000	$0	200 ÷ 480	41.7%	$0	5%	n/a

Quarter 2 Current Calendar Year						
CEO Compensation	**Excess Compensation**	**Percentage of Hours Paid in Seattle/Hours Worked Everywhere**		**Excess Compensation Paid in Seattle**	**Rate**	**Tax**
$600,000	$200,000	180 ÷ 480	37.5%	$75,000	5%	$3,750

Quarter 3 Current Calendar Year						
CEO Compensation	**Excess Compensation**	**Percentage of Hours Paid in Seattle/Hours Worked Everywhere**		**Excess Compensation Paid in Seattle**	**Rate**	**Tax**
$600,000	$600,000	300 ÷ 480	62.5%	$375,000	5%	$18,750

After the end of the year, before filing its fourth quarter return, Globex determines its excess compensation paid in Seattle for the entire year as shown in Table 2 (below).

Table 2 Globex Corp. Excess Compensation In Seattle						
CEO Current Calendar Year Compensation	**Excess Compensation**	**Percentage of Hours Paid in Seattle/Hours Worked Everywhere**		**Excess Compensation Paid in Seattle**	**Rate**	**Tax**
$2,880,000	$1,880,000	900 ÷ 1920	46.875%	$881,250	5%	$44,062.50

Globex will need to adjust their Q4 return to correct the Social Housing Tax amount due for the current calendar year. Globex calculates the adjustment on their Q4 return by completing three steps. In step 1, Globex will calculate their current calendar year Social Housing Tax due as shown in Table 2 (above). In step 2, Globex will calculate the amount of Social Housing Tax that they paid in Q1, Q2 and Q3. In Step 3, Globex will subtract the amount of Social Housing Tax paid in Q1, Q2 and Q3 from the amount of their current calendar year Social Housing Tax due. Lastly, in Step 4, Globex will calculate the amount to report on their Q4 Social Housing Tax return by dividing the tax balance due for the year in Step 3 by the tax rate to arrive at the excess compensation amount to report on their fourth quarter return ($21,562.50 ÷ 0.05 = $431,250).

Table 3—Social Housing Tax Quarter 4 Reconciliation		
Step 1	Current calendar year Social Housing Tax due	$44,062.50
Step 2	Amount of Social Housing Tax Paid Q1, Q2 and Q3	$22,500.00
Step 3	Difference between current calendar year Social Housing Tax due and amount of Social Housing Tax Paid Q1, Q2 and Q3. This is the amount of tax that will be due on Globex's Q4 return.	$21,562.50
Step 4	Amount of excess compensation that Globex will report their Q4 return to arrive that tax amount due for Q4 ($21,562.50 ÷ 0.05).	$431,250

Example 29: In a year subsequent to 2025, at the start of the first quarter Company EE has excess compensation, the company elected to use the Primarily Assigned Method to determine excess compensation paid in Seattle. During all relevant tax years, EE's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) worked exclusively at EE's Seattle headquarters. The following table identifies EE's most recent complete prior calendar year excess compensation paid in Seattle and Social Housing tax due.

Company EE				
Excess Compensation—Most Recent Complete Calendar Year				
Employee Annual Compensation	**Total Payroll Expense**	**Excess Compensation**	**Rate**	**Tax**
$0-$1 million	$30,000,000	$0	N/A	$0

CEO	$1,500,000	$500,000	5%	$25,000
CFO	$1,100,000	$100,000	5%	$5,000
Total	$32,600,000	$600,000	5%	$30,000

In the current calendar year, EE elects to use the Primarily Assigned Method to determine excess compensation paid in Seattle. EE decides to estimate their current calendar year excess compensation using the prior calendar year information. Therefore, EE may estimate their returns by dividing the total excess compensation reported in the prior calendar year by four to arrive at an estimated amount to report in the current calendar year quarter one, two, and three and report those quarters as follows:

Quarter 1 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$150,000	5%	$7,500

Quarter 2 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$150,000	5%	$7,500

Quarter 3 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$150,000	5%	$7,500

At the end of the current calendar year, before filing its fourth quarter return, EE reviews its compensation paid in Seattle and determines it had total excess compensation of $700,000. The table below identifies EE's total current year excess compensation.

Excess Compensation—Current Calendar Year				
Employee Annual Compensation	**Total Payroll Expense**	**Excess Compensation**	**Rate**	**Tax**
$0-$1 million	$30,000,000	$0	N/A	$0
CEO	$1,550,000	$550,000	5%	$27,500

CFO	$1,150,000	$150,000	5%	$7,500
Total	$32,700,000	$700,000	5%	$35,000

When EE prepares its fourth quarter return, they will need to adjust their return so as to make correct the Social Housing Tax due for the current calendar year. On their fourth quarter Social Housing Tax return, the total excess compensation that EE must report will be $250,000 ($700,000 total excess compensation paid in Seattle - $450,000 reported on EE's Q1, Q2, and Q3 returns). EE's total Social Housing tax paid for the current year will be $35,000 ($22,500 paid in Q1, Q2, and Q3 plus $12,500 paid in Q4).

On their current calendar year fourth quarter return, EE will report the following:

Quarter 4 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$250,000	5%	$12,500

Example 30: Similar to Example 28, in the most recent calendar year, EE paid excess compensation of $600,000. In the current calendar year, EE estimates their first, second, and third quarter returns based on their most recent calendar year excess compensation, same as in Example 28.

However, at the end of the current calendar year, EE determines that it paid current year excess compensation of $500,000. At the end of the current calendar year, EE determines its Social Housing Tax due is $25,000 as follows:

Excess Compensation—Current Calendar Year				
Employee Annual Compensation	**Total Payroll Expense**	**Excess Compensation**	**Rate**	**Tax**
$0-$1 million	$30,000,000	$0	N/A	$0
CEO	$1,450,000	$450,000	5%	$22,500
CFO	$1,050,000	$50,000	5%	$2,500
Total	$32,500,000	$500,000	5%	$25,000

When EE prepares its fourth quarter return, it will need to adjust its return so as to make correct the Social Housing Tax due for the current calendar year. On their fourth quarter Social Housing Tax return, the total excess compensation that EE must report will be $50,000 ($500,000 total excess compensation paid in Seattle - $450,000 reported on EE's Q1, Q2, and Q3 returns). EE's total Social Housing tax paid for the current year will be $25,000 ($22,500 paid in Q1, Q2, and Q3 plus $2,500 paid in Q4).

On their current calendar year fourth quarter return, EE will report and pay $2,500 correcting the Social Housing Tax due for the current year ($22,500 + $2,500 = $25,000).

On their current calendar year fourth quarter return, EE will report the following:

Quarter 4 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$50,000	5%	$2,500

Example 31: In a year subsequent to 2025, at the start of the first quarter Company Z has excess compensation, the company elected to use the Primarily Assigned Method to determine excess compensation paid in Seattle. Company Z has excess compensation it reports on its first, second, and third quarter returns based on information available at the time of filing as follows:

Quarter 1 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$3,000,000	5%	$150,000

Quarter 2 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$500,000	5%	$25,000

Quarter 3 Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$2,500,000	5%	$125,000

At the end of the end of the current calendar year and before filing its fourth quarter return, Company Z calculates its total annual excess compensation paid in Seattle under the primarily assigned method and determines its total excess compensation tax for the year is $225,000.

Total Annual Excess Compensation - Current Calendar Year		
Excess Compensation Paid in Seattle	**Rate**	**Tax**
$4,500,000	5%	$225,000

However, Company Z already paid $300,000 of Social Housing Tax in the first, second, and third quarters resulting in $75,000 more in Social Housing Tax paid than is due for the year. Therefore, Company Z will report $0 of excess compensation on its fourth quarter return and submit an amended third quarter return to reduce the excess compensation reported by $1,500,000 ($75,000 ÷ 5%) to reflect the correct amount of excess compensation paid in Seattle in the current calendar year.

(8) **Records to be kept by the taxpayer.** Businesses subject to the Social Housing Tax are required to maintain and keep complete and adequate records. Records must be kept in such a manner as to enable the Director to determine the Social Housing Tax liability of the taxpayer. Such records shall be retained for a period of not less than five years. Records retained must be presented upon request of the Director and demonstrate the excess compensation of the business, including but not limited to; where employees are primarily assigned, perform their duties, and reside, and employee compensation. Examples include but are not limited to; W-2 and earnings summaries and work papers and other employment tax records; work location schedules; teleworking agreements between employee and employer; payroll expense reports; copies of state employment security returns and their workpapers; etc.

DIRECTOR'S CERTIFICATION

I, Jamie Carnell, Director, Office of City Finance, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Office of City Finance.

DATED this ____ day of May 2025.

CITY OF SEATTLE, a Washington municipality.

By: Jamie Carnell,

Director, City of Seattle, Office of City Finance

Effective date: May ___, 2025.