

Social Housing Tax (SMC 5.37)

City of Seattle Tax Training



City of Seattle Social Housing Tax

- What is the Social Housing Tax?
- Social Housing Tax Definitions
- Methods for determining excess compensation paid in Seattle
 - Hours Method
 - Primarily Assigned Method
- Examples-Hours Method and Primarily Assigned Method
- Social Housing Tax Exemptions
- When is the Social Housing Tax Due?



Social Housing Tax Facts

- Social Housing Tax
 - is an excise tax imposed on persons engaging in business in Seattle, not on the employee.
 - is measured by annual “excess compensation” paid in Seattle for each employee.
 - imposes a rate of 5% (only on annual compensation paid in Seattle that exceeds \$1 million).
 - is in addition to any license fee or tax imposed by the city, the state, or other governmental entity.



Social Housing Tax Definitions

- “Excess compensation” means annual compensation to an employee that exceeds \$1 million.
- Other definitions applicable to the Payroll Expense Tax as of January 1, 2024, also apply to Social Housing Tax.



The Social Housing Tax Adopts Definitions From The Payroll Expense Tax

These include but are not limited to...

“Employee”	any individual who performs work, labor, or personal services of any nature for compensation paid by a business.
“Compensation”	remuneration as defined by the Washington Family and Medical Leave Act. Includes net distributions and guaranteed payments to owners of pass-through entities.
“Payroll Expense”	the compensation paid in Seattle to employees under the “hours method” or “primarily assigned method.”
“Primarily Assigned”	the business location of the taxpayer where the employee performs their duties.



Who is an Employee?

- Any person that performs work, labor, or personal services of any nature for compensation is an employee.
- Includes owners of passthrough entities if they perform work, labor, or services for the business
- Individual independent contractors unless exempt
(see slide “Tax Exemptions”)
- **Excludes** owners of pass-through entities whose compensation is **not** earned for services rendered/work performed.



Employee Compensation

- Compensation means “remuneration” as defined by the Washington State Family and Medical Leave program.
- Compensation includes:
 - Employee contributions to deferred compensation plans
 - Net distributions, or incentive payments earned for services rendered or work performed.



Compensation To Owners Of Pass-Through Entities

Net distributions:

- Draws from net income attributable by an owner of a pass-through entity are included in compensation.
- Taxable distributions limited to the amount of draws or net income for that owner, whichever is less.
- Example: If the owner of a pass-through entity takes draws of \$1,400,000 in the calendar year, but the net income attributable to that owner is \$1,200,000 for the year, the compensation paid is \$1,200,000. Excess compensation is \$200,000.

Methods to Determine Excess Compensation Paid in Seattle

- **Primarily assigned method:** uses the same criteria as the as the Payroll Expense Tax to determine if excess compensation is paid in Seattle.
- **Hours method:** uses the same hours method as the Payroll Expense tax to determine how much excess compensation paid to an employee is paid in Seattle.
 - The taxpayer must select the method to determine excess compensation paid in Seattle. Selection must be made on the return for the first quarter that the taxpayer has excess compensation. The method selected applies to excess compensation paid to all employees for the year.
 - If the taxpayer does not select the hours method, excess compensation paid in Seattle shall be determined using the primarily assigned method.



"Hours Method"

- The amount of excess compensation paid in Seattle is:
 - (1) 100% of the excess compensation paid to employees that work exclusively in Seattle; and
 - (2) For employees who work partly within and partly outside Seattle, an employee's annual excess compensation is multiplied by the total number of the employee's hours worked in Seattle over the total number of the employee's hours worked everywhere.

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

(calculated as a %)

- Assumes 1,920 for employee's hours worked everywhere.
 - If actual hours worked are more, the employer must be able to document the number of actual hours.



Excess Compensation Paid in Seattle

Hours Method Example 1

Company A elects to use the hours method to determine excess compensation paid in Seattle. In 2025 Company A pays employee Emma annual compensation of \$1,600,000 per year.

Company A has \$600,000 of excess compensation paid to Emma. In 2025, Emma worked 1,440 hours in Seattle.

Excess Compensation paid to Emma in Seattle is \$450,000.

$$\$600,000 \times \frac{1440 \text{ hours worked in Seattle}}{1920 \text{ hours worked everywhere}} = \$450,000$$



Social Housing Tax Hours Method Example 2

- 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 shown on slide 13.

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Social Housing Tax Hours Method

Example 2

Beta Corp's Annual Excess Compensation Employee M		Ratio of hours worked in Seattle over hours worked everywhere		Beta Corp's Annual Excess Compensation Paid in Seattle Employee M	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



“Primarily Assigned Method”

- If the Hours Method is not elected, then compensation is paid in Seattle is determined using the “Primarily Assigned Method.”
- Compensation paid in Seattle is determined by three cascading criteria:
 - (1) The employee is primarily assigned in Seattle;
 - (2) The employee is not primarily assigned in Seattle but performs 50% or more of their services in Seattle during the tax period; or
 - (3) The employee is not primarily assigned to any place of business and does not perform 50% or more of their services in any city, but the employee resides in Seattle.
- “Primarily assigned” 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.



Primarily Assigned Examples 1 & 2

- Company A has an office in Seattle. John is an employee of Company A and works in the Seattle office three days a week.
 - John is primarily assigned to Seattle and compensation paid to John is paid in Seattle because more than 50% of John's duties are performed at Company A's business location in Seattle.
- Company B has an office in Bellevue. Sarah is an employee of Company B and works in Company B's office two days per week. Sarah works from her home in Seattle the other three days per week.
 - Sarah is not primarily assigned to Company B's office in Bellevue. Sarah performs 50% or more of her services from her home in Seattle, therefore compensation paid to Sarah is paid in Seattle.



Primarily Assigned Example 3

- Company C has an office in Seattle. Jack is an employee of Company C and spends one day a week in the Seattle office. Jack spends most of his time traveling visiting clients in different cities. Jack resides in Seattle.
 - Jack is not primarily assigned to any office because he does not perform more than 50% of his duties at a business location of Company C.
 - Jack does not perform 50% or more of his services in any one city.
 - Jack resides in Seattle.
 - Compensation paid to Jack is paid in Seattle.



Social Housing Tax Primarily Assigned

Method Example 4

- 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.

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Social Housing Tax

Primarily Assigned Method Example 4

- Employee M's excess compensation is not paid in Seattle. Employee M is not primarily assigned within 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.
- Based on the facts above, compensation paid to employee K was paid in Seattle and Company B will owe Social Housing Tax on the \$500,000 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.



Excess Compensation Paid In Seattle

Filing Requirement-Example 1

- Vibrant Visions, Inc. (Vibrant), operates a digital advertising company based in Seattle, Washington.
- Vibrant has retained one highly compensated employee, Employee Elroy Jetson.
- Vibrant compensates Elroy with an annual salary equal to \$2 million.
- Vibrant's employment contract with Elroy includes a performance bonus equal to 20% of Elroy's base annual salary or \$400,000. Vibrant remits employee performance bonuses during Q4.
- Elroy works in Vibrant's Seattle office at least 3 days per week.
- For the current tax year, Vibrant elects to calculate excess compensation paid in Seattle using the primarily assigned method.
- Under the primarily assigned method, excess compensation paid to Elroy is paid in Seattle.

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Excess Compensation Paid In Seattle

Filing Requirement-Example 1

Vibrant Visions, Inc.					
Employee Elroy Compensation	Q1	Q2	Q3	Q4	Total
Salary	\$500,000	\$500,000	\$500,000	\$500,000	\$2,000,000
20% Performance Bonus	\$0	\$0	\$0	\$400,000	\$400,000
Total annual compensation paid in Seattle	\$500,000	\$1,000,000	\$1,500,000	\$2,400,000	\$2,400,000
Excess compensation subject to Social Housing Tax	\$0	\$0	\$500,000	\$900,000	\$1,400,000
Tax Rate	n/a	n/a	5%	5%	5%
Tax Due	n/a	n/a	\$25,000	\$45,000	\$70,000



Excess Compensation Paid In Seattle

Filing Requirement-Example 2

- 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.
- VV will calculate the compensation paid to Partner A as the sum of the guaranteed payments and the net distributions.

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Excess Compensation Paid In Seattle

Filing Requirement-Example 2

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- 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 calendar 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 A 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 ($\$375,000 \times 5\%$) on its Q4 return. For the applicable tax year, VV's total Social Housing Tax liability equals \$25,000.

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Excess Compensation Paid In Seattle

Filing Requirement-Example 2

Virtual Ventures					
Partner A Compensation	Q1	Q2	Q3	Q4	Total
Guaranteed Payments	\$125,000	\$125,000	\$125,000	\$125,000	\$500,000
Net 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



Independent But Consistently Applied Methods to Determine Excess/Compensation Paid In Seattle

- The Social Housing Tax and the Payroll Expense Tax are distinct, independent excise taxes.
- With respect to each tax, for each calendar year, a taxpayer may elect to use either the “Hours Method” or the “Primarily Assigned Method” to determine compensation (Payroll Expense Tax) or excess compensation (Social Housing Tax) paid in Seattle.
- However, for each calendar year, for each tax, the taxpayer must consistently apply the method elected to determine compensation or excess compensation paid in Seattle.



Social Housing Tax Exemptions

- Entities The City May Not Tax, for example:
 - Federal, state and local governments and subsidiaries.
 - Insurance businesses and their appointed insurance producers.
 - Businesses that only sell motor vehicle fuel.
 - Businesses that only sell liquor.
- Individual independent contractors whose compensation is included in the payroll expense of another business (See definition of employee).



When Must a Business File a Social Housing Tax Return and Pay Tax Due?

- The Seattle Social Housing Tax became effective January 1, 2025.
- For tax year **2025**, filings and payment are not due until **Jan. 31, 2026** – *the due date of the 2025 fourth quarter.*
- After 2025, at the start of the first quarter that the taxpayer has excess compensation, the business must file a Social Housing Tax return and pay tax due.



How is the Tax Reported and Paid?

- **Online:** <https://www.filelocal-wa.gov/>
 - Payment Options: MC, VS, and ACH debit.
 - Electronic filing requires electronic payment.

OR

- **Manual:** Downloadable form
 - Manual filing requires manual payment. A paper check will need to be submitted.
- **Payroll Processor Submissions:**
 - Business authorization required





Registration – What is Needed?

- Seattle account number and/or State of Washington UBI number.
- Businesses can locate these identification numbers on our website:
<https://www.seattle.gov/city-finance/business-taxes-and-licenses/find-a-licensed-business>

- Example:

Legal Name: **2018 FILELOCAL TEST ACCOUNT**
Trade Name: **DBA FILELOCAL TEST ACCOUNT TEST**
Seattle Business License Tax Certificate Number: **826781**
UBI Number: **0008267810740905**
City Account Number: **0008267810740905**
Address: **700 5TH AVE SEATTLE, WA 98104-5058**
Phone: **(206) 684-8484**
NAICS: **541611, Administrative Management and General Management Consulting Services**
License types:
BUSINESS LICENSE Renewal Date: **12/31/2017**
COMMERCIAL PARKING Renewal Date: **12/31/2018**

- Each business must file their own separate return. Bulk filings are not available.



CITY OF SEATTLE - SOCIAL HOUSING TAX RETURN - QUARTERLY

To file this form electronically, please go to: www.FileLocal-wa.gov

Manual Filing: Paper Form Example (2025)

Business Legal Name

Filing Period (Quarter/Year)

Customer # or UBI-16

Method of Filing (Select One - Required)

Primarily Assigned Method

Hours Method

☐
☐

If no selection is made, the default is the Primarily Assigned Method

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
Tax Classification	Total Excess Compensation	Tax Rate	Tax Due Amount
Compensation Exceeding \$1,000,000 per Employee		x 0.05	\$.

Total Tax Due:	\$.
Penalty Due: Returns must be filed and taxes paid by the due date or penalties shall apply. See back of form for rates.	\$.
Interest Due: Returns filed after the due date will accrue interest. Contact our office for information about rates.	\$.
Total to be Paid:	\$.

References

- Seattle Social Housing Tax
 - [SMC 5.37](#)
 - [Director's Rule 5-981](#)
 - On the Social Housing Tax web page, the city has published Frequently Asked Questions (FAQs). [Social Housing Tax - City Finance | seattle.gov](#)



Questions:
(206) 684-8484
tax@seattle.gov
<https://www.seattle.gov/city-finance>

