



Seattle Tax Advisory Group

Date: Tuesday, September 9, 2025
10:00 am

Location: Microsoft Teams

Attendees:

Joseph Cunha, Tax Administrator, City of Seattle

Mark Watterson, Tax Audit Manager, City of Seattle

Kevin Guichon, Tax Policy Analyst, City of Seattle

Stephanie Gilfeather, Director U.S. Indirect Tax, Expedia Group

Shannon Kingston, Director, Indirect Tax, Starbucks

Eric Ng, Senior Manager, Global Indirect Tax, Starbucks

Arcadia Corbett, Senior Manager, Global Indirect Tax, Expedia Group

Tara McGlaughlin, Director, State & Local Tax, Amazon

Minutes:

1. Welcome / Introductions

Mark Watterson—

2. City Update on Changes from ESSB 5814

Mark Watterson—ESSB 5814 made changes at the state level to the definition of retail sale that added several activities that were subject to tax as services and will be taxed as retail sales. The cities are in the process of updating the Model Ordinance to implement the changes in state law to the definition of “sale at retail” or “retail sale.” The Model Ordinance amendments which implement the changes made by ESSB 5814 will become effective 1/1/2026.

Joseph Cunha—AWC is coordinating the update of the Model Ordinance. Cities are finalizing the changes and then will conduct outreach with the AWB. How has ESSB 5814 changed the definition of “retail sale?” The cities will defer to the state regarding the scope of the definition of the changes to the definition of “retail sale” that have occurred as a result of ESSB 5814.

Currently, we are addressing the definition part and have not yet addressed the sourcing issues introduced by ESSB 5814.

Stephanie—Is the city going to issue guidance or will there be legislative action by cities regarding the scope of the activities that ESSB 5814 has redefined as retail sales and the sourcing of income derived from these activities?

Joseph—With respect to the scope of the activities that ESSB 5814 has redefined as retail, the city will follow the state's interim guidelines, but the sourcing for the cities may differ from the state sourcing for these activities.

The cities may continue with 2-factor apportionment methodology where taxpayers would report under retail and no longer under the service classification. RCW 35.102.130 is the only guidance state law provides regarding sourcing of income derived from these activities. RCW 35.102.130 states "[g]ross income derived from all activities other than those taxed as service or royalties must be allocated to the location where the activity takes place."

For advertising services, where the activity takes place is the only current statutory sourcing requirement. Do cities need changes in the state statute to address the sourcing rule if the cities decide to apply a two-factor apportionment to these services now defined as a retail sale? Whether the sourcing will require a rule or whether sourcing will require legislation remains an open question.

Stephanie—If there is legislation, and the [TAG members] anticipate that there will be legislation, they ask the city to please inform them about this prior to the city finalizing it so that they can provide their industry insight and identify issues that the city may have not seen.

Tara McGlaughlin—Have you talked to the state about how they are going to allocate use tax to cities with the MPUs? In particular, with advertising there is no reasonable way to know where the advertising is being viewed or where the activity is taking place.

Stephanie—The most granular you can identify is state or perhaps a zip code. Some zip codes include more than one city. You can get to the state level which is called a proxy. For income derived from advertising activities sourcing is very difficult to get accurately at the local level.

Stephanie—Has the state reached out regarding how they intend to source income for activities now defined as retail for purposes of sales and use tax at the local level?

Joseph—If we are talking sales tax, the state will have to develop some kind of estimate that the cities would have to accept. It won't be an exact measure.

3. Social Housing Tax Update

Mark Watterson—For the Social Housing Tax, we are developing FAQs, which will be similar to the FAQs for the Payroll Expense Tax. In October, the city will be presenting separate training sessions for the Social Housing Tax and the Payroll Expense Tax.

4. City of Seattle Business License Tax Rebalancing-Ballot Measure (Seattle Shield Initiative)

Mark Watterson—As reported in the news, in the election on November 5, 2025, Seattle voters will decide whether to approve a city B&O tax measure. The ballot proposition 1) will increase the city B&O threshold from \$100,00 to \$2 million, 2) add a standard deduction in the amount of \$2 million and 3) will also increase city B&O

tax rates to provide revenue to offset the revenue lost as a result of the increase in the threshold and the standard deduction.

Stephanie Gilfeather—How are you thinking about ESSB 5814 along with the potential ballot measure? Interesting timing. I do not know when the ballot measure will become effective. If cities are only going to move the ESSB 5814 implementation to, say, July 1, 2026, then that additional time could provide a window to address unidentified issues.

Joseph Cunha—Everything is 1/1/2026. There is a lot coming at us as of 1/1/2026. We did some general forecasting regarding the decrease in revenue due to the change from service to retail. The economic forecasting office forecast a \$60 million decrease as a result of the increase in the B&O tax threshold and the \$2 million standard deduction. They also estimated that the city B&O rate increases will generate an additional \$150 million in revenue. How much will the city gain as a result of the increase in sales and use tax? The answer to this question is not clear.

5. Open items/questions

Stephanie Gilfeather—Are the cities considering a potential legal challenge to ESSB 5814? It's a new approach. No one is contemplating how this is working out in the long run.

Joseph Cunha—At a conference, Bob Mahon indicated that there may be an issue regarding in-state versus out-of-state impacts when taxpayers apply the MATC.

Stephanie Gilfeather—We are all companies. Not everyone has caught up. Most likely, the members present here have thought about these issues as much as anyone. There are a lot of unknowns with this legislation.

Joseph Cunha—We will follow the state and defer to their judgment. The state tax conference surprised him regarding the complexity in the definitional changes. We are also going to face dilemmas regarding sourcing these activities. Joseph's priority is getting the Social Housing Tax and the Seattle Shield prepared in terms of systems updates. If the ballot measure passes or not, the city has to be ready for the changes in order to implement changes that may occur.

Stephanie Gilfeather—AWC is going through a process to update the Model Ordinance. Before it becomes final, we encourage the AWCs to communicate with us so that we can address issues that the cities may not have anticipated.

Joseph Cunha—The way that the Model Ordinance process works is that the cities will move activities that were service into retail. The cities will follow the state's lead with respect to the scope of activities defined as a "sale at retail" or "retail sale." The cities will publish a notice that informs taxpayers that cities will be generally following the state's definitions.

Stephanie Gilfeather—There are nuances in the city B&O that are not relevant to the state that can cause issues, especially with respect to sourcing.

Joseph Cunha—Once the cities complete the Model Ordinance, then we will address the sourcing issues. We would like to follow the state, but we do not yet know how the state is going to source all activities ESSB 5814 defines as retail.

Stephanie Gilfeather—Please send to us the copy of the Model Ordinance that the AWC has agreed to adopt before AWC finalizes it. We would like the opportunity to review it independently of the AWC Model Ordinance process and provide comments to the city.