



Seattle Tax Advisory Group

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

Location: Microsoft Teams

Attendees:

Joseph Cunha, Tax Administrator, City of Seattle
Holly Paige, Director, U.S. Tax, Russell Investments
Marsha McLean, State & Local Tax Compliance Manager, Weyerhaeuser
Brian Aragon, JD, LLM, Senior Manager, State and Local Tax, Amazon
Elvina Tong, Director Int'l Indirect Tax, Starbucks
Mark Watterson, Tax Audit Manager, City of Seattle
Kevin Guichon, Tax Policy Analyst, City of Seattle
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

2. Seattle Shield B&O Tax Changes Update

- **Draft Rules and Rule Hearing**

Mark Watterson—The Seattle Shield B&O tax change was a proposition approved by the voters in the November 2025 general election. The Seattle Shield B&O tax change

- increases the B&O tax threshold from \$100,000 to \$2 million.
- introduces a new \$2 million standard deduction and
- introduces new B&O tax credits, one for comprehensive cancer centers and one for pediatric hospitals.

In an ordinance separate from the Seattle Shield B&O tax change, Washington cities have increased the business license tax certificate threshold from \$2,000-\$4,000.

Joseph Cunha--We are working on getting the systems updated to implement the Seattle Shield B&O tax changes. Currently, the City of Seattle has approximately 17,000 taxpayers reporting B&O tax on a quarterly basis. We are moving taxpayers who are no longer subject to city B&O tax from a quarterly to an annual tax filing status.

The city has published and completed updates to the Seattle Shield B&O tax changes web page. We have completed draft rules to implement the Seattle Shield B&O tax

changes. We have completed a stakeholder meeting and scheduled a public hearing for consideration of the Seattle Shield B&O tax change rules.

Mark Watterson—To implement the Seattle Shield B&O tax changes, the city has published three draft rules. Two rules are amended rules and we have also created one new rule. The new rule, Dir. Rule 5-013, addresses the increase in the city B&O tax threshold amount from \$100,000 to \$2 million and the application of the new B&O tax \$2 million standard deduction. One amended rule addresses the new credits for comprehensive cancer centers and pediatric hospitals. Amendments to draft Director’s Rule 5-002 explain how taxpayers apply the increased minimum business license threshold. Taxpayers may view the draft rules on the Office of City Finance Director’s Rules web page.

Eric Ng--How does the \$2 million standard deduction apply?

Joseph Cunha—In the code you can do whatever you want to do. Our system will apply the standard deduction to the higher rate tax first. The city wants taxpayers to use the standard deduction during the first quarter that the taxpayer has income. At the end of the day taxpayers can elect which classification to apply the standard deduction. However, the city would prefer that taxpayers first apply their \$2 million standard deduction to income subject to the highest B&O tax rate.

Mark Watterson—We will be holding a hearing regarding Seattle Shield draft rules on Friday December 19, 2025. You may find a link to register for the draft rules public hearing on the Office of City Finance Director’s Rules web page.

3. City update on Retail Sales definition changes under SB 5814

Mark Watterson— Effective January 1, 2026, as a result of amendments to state law, Washington cities who impose B&O taxes have agreed to redefine several activities as retail sales which were formerly classified as service and other business activities.

Cities are working on developing guidance to implement the reclassification of the service activities to retail. The City of Seattle has not yet codified the SB 5814 changes to the definition of retail sale in the SMC, but taxpayers can view the changes to the definition on the city council’s website under ordinance 121118.

Joseph Cunha—Washington cities are following the state’s definition regarding the activities that are being reclassified from service to retail sales. We are not deviating from the state’s definition.

With respect to sourcing income from most activities reclassified from service to retail generally Washington cities will likely follow the state’s guidance. However, for advertising activities, cities are considering using the income factor from the existing 2-factor service apportionment formula test and apply that to income derived from advertising services. The cities have not yet decided this sourcing issue.

We know that time is of the essence on this because on January 1 the changes become effective. There will be more information to follow. We understand that the state for certain activities, if there is an existing contract, then there will be a safe haven, the state is honoring the contract through March 31, 2026. The question for the cities is whether cities are going to follow the state’s guidance with respect to existing contracts.

Eric Ng--When will the cities be issuing guidance for implementing the reclassification of activities from service to retail?

Joseph Cunha—At a meeting of Washington cities approximately one month ago, we explained how the state’s sourcing guidance applied to each class of activities reclassified from service to retail and asked for the cities to provide their input regarding whether we should follow the state’s sourcing guidelines or whether we should consider other possible sourcing criteria.

The cities will be publishing their SB 5814 guidance on the AWC website. The guidance will also appear on the MSC website. Further, each city will publish SB 5814 guidance on their own city web sites. We can send an email out to the group identifying when cities may have SB 5814 implementation guidance available.

Eric Ng—It would be nice to have the cities adopt the existing contracts guidance published by the state. We would also welcome a communication regarding when cities would be publishing their guidance for implementation of new tax treatment for services now defined as retail sales.

Arcadia Corbett—We were one of the businesses that were unable to track existing contracts like the DOR assumed. From a legal perspective, we understand how the state assumed that taxpayers could treat existing contracts. However, from a systems perspective we could not do that for most of our clients and contracts. Aligning with the state’s existing contracts guidance is good, but allowing flexibility is important because applying the state’s criteria, other than for a few contracts, we could not apply the service and other business activities classification to our existing contracts through March 31, 2026.

4. Social Housing Tax

- First Returns Due January 31, 2026

Mark Watterson—The first Social Housing Tax returns (for tax year 2025) will be due on January 31, 2026.

- Reminder notices

Mark Watterson--Based on the information that we have, we will be sending reminder notices to certain taxpayers that they may be subject to the Social Housing Tax. City Finance will send these reminder notices to taxpayers at the end of December 2025 so that taxpayers will receive them early in January 2026.

- Joseph Cunha—Similar to the Payroll Expense Tax, for the Social housing Tax for the calendar year 2025, returns and payment will be due January 31, 2026. Then, we will be moving to a quarterly tax reporting period.

5. Open items/questions

None