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## Breaking Developments in Tax Law

08/27/07

### City of Seattle's Employee Hours Tax

#### What is the employee hours tax?

Effective July 1, 2007, the City of Seattle ("City") imposed an employee hours tax (hereinafter referred to as the "Head Tax") on companies engaged in business activity within the City (Seattle Municipal Code 5.37, *et. al.*). Calculation of the Head Tax is based upon the number of employee work hours performed within the Seattle city limits and it is in addition to the City's business and occupation tax. Vacation and sick leave hours are excluded from the calculation. There is a deduction allowed for hours worked by employees who commute to work at least 80 percent of the time by other than single-occupancy vehicles ("Commuter Deduction").

#### What is the purpose of the Head Tax?

Revenue from the Head Tax will be used exclusively by the City to fund the maintenance and improvement of local transportation infrastructure.

#### What is the applicable Head Tax rate?

The Head Tax rate is \$0.01302 per employee hour. Taxpayers may use the alternative computation method of \$25 per year for each full-time equivalent ("FTE") employee. For 2007 only, businesses should calculate the amount of the Head Tax based only on employee hours worked from July 1 to December 31. For example, the 2007 tax amount for each FTE is \$12.50. All businesses that report the Head Tax will receive a tax credit of up to \$50 on the amount of the Head Tax due; however, the amount of the tax credit may not exceed the total Head Tax due.

#### What businesses are exempt from the Head Tax?

- Any business with an annual worldwide gross income of \$50,000 or less.
- Persons employed in private residences as domestic servants, gardeners, and maintenance and repair persons.
- Volunteers, and persons providing services in return for aid or sustenance from religious or charitable organizations.
- State and federal agencies and other government jurisdictions.
- Certain businesses are exempted from the tax by state or federal regulations, including insurance businesses; businesses that only sell, manufacture, or distribute motor vehicle fuel; and businesses that only sell or distribute liquor.

## **Which employees qualify for the Commuter Deduction?**

When computing the number of employees or employee hours subject to the Head Tax, businesses may deduct the hours for those employees who commute to work at least 80 percent of the time by other than a single-occupancy vehicle. Commuting methods eligible for the deduction include use of mass transit, carpooling, walking, and/or bicycling.

## **When is the Head Tax Due?**

Businesses should report and pay the Head Tax annually, at the same time as they report their fourth quarter or annual business tax returns. The due date is January 31 in the year following the reporting period. Businesses are required to use the tax reporting form provided by the City. Businesses that close or cease business prior to the end of the calendar year should report and pay the Head Tax at the same time they file their final Seattle business tax return.

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