



July 10, 2025

Jamie Carnell
Director
Seattle Office of City Finance
P.O. Box 94669
Seattle, WA 98104
ocf@seattle.gov

Re: Questions about implementing and compliance of the Seattle Social Housing Tax

Dear Director Carnell:

PayrollOrg offers Seattle's Office of City Finance comments and questions related to the Seattle Social Housing Tax and Payroll Expense Tax. Our goal is to provide payroll professionals with information to enable them to achieve and maintain compliance as well as to assist Seattle in receiving the accurate amount of taxes.

About PayrollOrg

PayrollOrg is a nonpartisan, nonpolitical association representing over 20,000 payroll professionals who manage the payroll function for employers of all sizes and industries across the U.S.

PayrollOrg is dedicated to advancing the payroll industry through education, advocacy, networking, and collaboration. Our Government Relations Task Force provides payroll professionals with the opportunity to partner with government to create efficiencies, open doors to new technologies, and provide opportunities for professional growth.

Social Housing Tax Issues and Questions

1. In Director's Rule 5-981(2)(b)(ii), independent contractors are covered by the Social Housing Tax. However, under Seattle Municipal Code § 5.37.050(A)(1), exempt is the excess compensation of an independent contractor for purposes of the business license tax if the Social Housing Tax is paid by another business.

Question:

- a. How is the paying entity expected to determine the amount paid by another business entity in order to calculate the exemption amount—without risking the disclosure of individuals' confidential tax information?
2. In Director's Rule 5-981(3)(d)(iii), full-time employees are presumed to work 1,920 hours per year. Employers must document additional hours for purposes of calculating the Social Housing Tax. A typical employee works 8 hours per weekday, according to the federal Bureau of Labor Statistics. If an employer multiplies the hours per week (40 hours) by 52 weeks per year, the typical full-time employee will work 2,080 hours per year. This is the standard number of hours utilized by most payroll departments.

Question:

- a. What types of documentation does the Seattle Office of City Finance consider acceptable for employers to substantiate employees with typical annual hours exceeding 1,920?
3. Under Director's Rule 5-981(5), temporary and contract employees are included in the excess compensation calculation, regardless of whether the employees are from a temporary or employment agency.

Example 24 indicates that when payment arrangements are made between the employer and employment agency, the agency is responsible for calculating and paying the Social Housing Tax. The example does not match the language in the rule.

Question:

- a. If a worker is employed by a separate entity but performs services for the paying employer, is the employer of record—the worker’s direct employer—responsible for calculating, reporting, and paying the Social Housing Tax, rather than the paying employer?
4. Under Director’s Rule 5-981(7)(b) and (c), beginning January 1, 2026, the Social Housing Tax is due on a quarterly installment basis unless the Director assigns a different reporting period to the taxpayer. Taxpayers must start reporting in the first quarter in the calendar year in which the taxpayer has excess compensation paid in the city. However, an employee may not receive excess compensation in each quarter, i.e., an employee receiving excess compensation at year end or in the second or third quarters.

Questions:

- a. Are employers required to file a zero-amount tax return in a quarter without excess compensation or only file when excess compensation is actually reached?
- b. If some employees receive excess compensation and some not in a given quarter, will the quarterly tax return form reflect this information?
- c. If an employer knows that an employee will have excess compensation by year end, is the employer required to make quarterly Social Housing Tax payments (i.e., based on 25% of expected total annual excess compensation) even if actual excess compensation is not reached in a given quarter?
- d. If quarterly tax filing is required as asked in c above, will the quarterly tax return form distinguish between actual and expected? Note: Seattle has been unable to accept quarterly Payroll Expense Tax payments that do not match the quarterly return.
- e. How will Seattle determine compliance if an employer’s quarterly tax returns are significantly different each quarter?

- f. Currently, there is no employer tax return form specific to the Social Housing Tax nor is it included as part of the amended Seattle Payroll Expense Tax form. Is the Seattle Office of City Finance developing a dedicated return for the Social Housing Tax? If so, when is it expected to be available, will filing be electronic, and will PayrollOrg have an opportunity to provide feedback on a draft version?
- g. How are overpayments to the City of Seattle going to be handled? Note: There is not a process in place for refunding overpayments of the Payroll Expense Tax.
- h. What are the potential penalty and interest measures for underreporting or nonreporting of the Social Housing Tax? Will good cause be considered if a company desires to waive any penalties assessed?

PayrollOrg would be pleased to discuss these issues further. We can be reached at 202-669-4001 or ajacobsohn@payroll.org.

Sincerely



Alice P. Jacobsohn, Esq.
Director, Government Relations

For: Government Relations Task Force
State and Local Issues Subcommittee
Chairs Carlanna Livingstone, CPP; Bruce Phipps, CPP; and Alma Stewart, CPP