

LOCAL TAXES ON EMPLOYEES
RCWs 81.100.030, 81.104.150 and 82.80.050

Tax Base Full-time equivalent (FTE) employees of all employers, including private firms and governmental agencies, working within the city or county. In the case of the street utility tax on residential properties, the tax applies to housing units as defined in RCW 35.95.040.

Tax Rate Up to \$2.00 per FTE per month (\$2.00 per month per housing unit in the case of the street utility tax).

Levied by The following local governments, if the tax is approved by the voters:

HIGH OCCUPANCY VEHICLE SYSTEMS (RCW 81.100.030): King, Pierce, or Snohomish counties for high occupancy vehicle systems (HOV) (e.g., car pooling programs and HOV lanes) or a regional transportation investment district (RTID) for capital purposes.

HIGH CAPACITY TRANSPORTATION (RCW 81.104.150): Cities, counties, metropolitan municipal corporations, public transportation benefit areas, high capacity transportation corridor areas, and regional transit authorities if such districts operate high capacity transportation systems (e.g., commuter rail systems). Such jurisdictions may not levy the tax if the county also levies a local employee tax for high occupancy vehicle systems.

STREET UTILITIES (RCW 82.80.050): Cities or towns may levy a tax on commercial businesses and residential properties. The tax on businesses is measured by the number of employees, while the tax on residences is measured by housing units within the city.

Recent Collections It is not known whether any local taxes on employees have been implemented to date. This category is not separately shown in the State Auditor's Local Government Financial Reporting System. Presumably, the street utility tax is not currently imposed on residences due to the court decision noted below.

Administration The levying jurisdiction may contract with the Department of Revenue or "other appropriate entity" for collection of the tax from employers. Presumably the tax would be collected from the employer. In the case of the street utility tax, the city may contract with another utility or local government entity for billing and collection of the tax.

Distribution of Receipts

Proceeds must be used for local transportation systems.

Exemptions, Deductions and Credits

None specified in law, although the levying jurisdiction may exempt educational, cultural, health, charitable, or religious organizations. The HOV tax will not apply: (1) to employees whose employer pays at least 50 percent of a transit pass issued by the jurisdiction, or (2) to employees whose employer has agreed with the county to implement programs designed to reduce the number of single-occupancy vehicles driven to work at their facilities.

History

Authorizing legislation for the local taxes on employees was adopted in 1990.

In 2009, a new type of taxing jurisdiction – a high capacity transportation corridor area – was added to the permissible jurisdictions that can impose the tax under RCW 81.104.150. These entities are restricted to Clark and Spokane counties.

Discussion/Major Issues

Currently, the state Departments of Employment Security and Labor and Industries collect taxes from employers based on the amount of wages paid to their employees. Municipal business taxes levied by certain cities are measured by the number of employees. The Department of Revenue has no experience in collecting a tax that is measured by the number of employees.

In an appellate court decision, Libby Covell et al v. the City of Seattle (1996), the court ruled that the \$2 per month tax on households constituted a property tax rather than a regulatory or utility fee. According to this decision, the levy was improperly assessed because the rate was not uniform for all types of property.