

Director's Rule 5-804

Staffing business, staffing services

1. ~~(1)~~ Introduction. This rule explains the application of the business license tax to responsibilities of persons businesses engaged in the business of providing staffing services. This section does not apply to persons providing professional employer services. Persons providing professional employer services should refer to RCW 82.04.540 for information on their tax-reporting responsibilities.

~~This rule contains examples that identify a number of facts and then state a conclusion. The examples should be used only as a general guide. The tax results in all situations must be determined after a review of all facts and circumstances.~~

2. ~~(2)~~ Definitions.

- a. ~~(a)~~ "Paymaster services" means providing payroll and related human resource services. The term "paymaster" generally refers to a person that acts as an agent for the purpose of paying the employer obligations of one or more clients. A paymaster may or may not be affiliated with its clients.
- b. "Provider-based clinic" -or "hospital-based clinic" means the site of an off-campus clinic or provider office that
 - i. is owned by a hospital licensed under chapter 70.41 RCW or a health system that operates one or more hospitals licensed under chapter 70.41 RCW,
 - ii. is licensed as part of the hospital, and
 - iii. is primarily engaged in providing diagnostic and therapeutic care including medical history, physical examinations, assessment of health status, and treatment monitoring.
 - iv. "Provider-based clinics" and "hospital-based clinics" do not include clinics exclusively designed for and providing laboratory, X-ray, testing, therapy, pharmacy, or educational services and does not include facilities designated as rural health clinics.
- c. ~~Staffing business.~~ "Staffing business" is a business engaged in the activity of providing staffing services.
- d. ~~(b) Staffing services.~~ "Staffing services" means services consisting of a person:
 - i. ~~(i)~~ Recruiting and hiring its own employees to provide short term or temporary help for others businesses and organizations;

- ii. ~~(ii)~~ Finding other organizations that need the services of its employees;
- iii. ~~(iii)~~ Assigning its employees on a temporary basis to perform work at, or services for, other organizations to support or supplement the organizations' work force, or to provide assistance in special work situations such as, but not limited to, employee absences, skill shortages, seasonal workloads, or to perform special assignments or projects, all under the direction and supervision of the customer~~client~~; and
- iv. ~~(iv)~~ Customarily attempting to reassign the employees to other organizations when they finish each assignment.

e. "Temporary staffing service" has the same meaning as "staffing service" in Section 2.d. in this rule.

3. ~~(3)~~ Business activities assigned by staffing businesses. Business activities generally assigned by staffing businesses to its employees, include but are not limited to, services rendered with respect to the following:

- a. ~~(a)~~ Construction (both custom and speculative);
- b. ~~(b)~~ Customer software design and implementation;
- c. ~~(c)~~ Manufacturing and light industrial activities;
- d. ~~(d)~~ Professional services including medical and clerical;
- e. ~~(e)~~ Janitorial and repair services; and
- f. ~~(f)~~ Other skilled and unskilled labor.

4. ~~(4)~~ Effective January 1, 2026, business license tax ~~Business license tax~~ treatment applicable to temporary staffing services.

- a. Effective January 1, 2026, businesses that provide temporary staffing services are subject to the business license tax under the retail sales and retail services classification.
- b. The taxable amount for temporary staffing services includes all fees, temporary staff wages, and other employee costs paid as part of a temporary worker's assignment. Taxpayers must pay business license tax under the retail sales and retail services classification on their gross income from all payments received from their customers. The amounts are not deductible as advancements and reimbursements because businesses that provide temporary staffing services generally do not act as the agent of their customers to the temporary staff.
- c. The sale of temporary staffing services, when sold between members of an affiliated group are not excluded from the definition of "retail sale." Therefore, temporary staffing

services sold between members of an affiliated group are subject to the business license tax under the retail sales and retail services classification.

d. Temporary staffing at hospitals and hospital-based clinical providers.

- i. Temporary staffing services do not include staffing services provided to hospitals licensed under chapter 70.41 or 71.12 RCW, for limited periods of time to supplement their workforce and fill employment vacancies on a contract or for a fee basis.
- ii. Businesses who provide hospitals licensed under chapter 70.41 or 71.12 RCW with temporary staffing services will continue to report their gross income derived from such activities under the business license tax based upon the classification of the underlying services performed by the assigned worker. If workers placed in qualifying hospitals and hospital-based clinical providers perform services that are subject to business license tax under the retail sales and retail services classification then the gross income derived from such services will be subject the retail sales and retail services classification. See Dir. Rule 5-620 Hospitals, Other Medical Care Facilities and Adult Family Homes.
- iii. **Effective January 1, 2027**, "temporary staffing services" do not include staffing services utilized by hospital-based clinical providers to supplement their fulfillment of hospital contracts for professional services and that are utilized for limited periods of time to supplement hospital staffing.
 - A. **Effective January 1, 2026 until January 1, 2027**, gross income received by businesses that provide hospital-based clinical providers with temporary staffing services is subject to the business license tax under the retail sales and retail services classification.
 - B. **Effective January 1, 2027**, gross income received by businesses that provide hospital-based clinical providers with temporary staffing services is subject to the business license tax based upon the classification of the underlying services performed by the assigned worker.

e. Temporary staffing services do not include direct hiring of employees.

- i. Employers that hire workers directly are not recruiting and hiring employees, finding organizations that need the services of such employees, or assigning or reassigning employees on a temporary basis to supplement another organization's workforce. The act of hiring workers directly does not meet the factors outlined in this rule and, therefore, is not engaging in temporary staffing services.

- ii. Hiring a worker directly, whether it is on a temporary or permanent basis, requires the employer to retain ultimate direction and supervision of that worker. A business with an employment position that is only available for a short duration (i.e., employment occurs for a brief or short period because the position is finite, but the worker remains under the direct supervision of the employer) will be considered to have "directly hired" that worker rather than purchased "temporary staffing services." For example, a retail seller may hire staff to support its operations during a holiday period or a school district may hire a teacher for one school year. Direct hiring activities by an organization, whether on temporary or permanent basis, do not qualify as "temporary staffing services" defined as a retail sale.
- f. Paymaster services that do not qualify as temporary staffing services.
 - i. Temporary staffing services do not include paymaster services to the extent amounts received from such services are deductible for purposes of State of Washington business and occupation tax under RCW 82.04.43393.
 - ii. RCW 82.04.43393 identifies four requirements necessary for a business who provides paymaster services to establish their eligibility for a state B&O tax deduction calculated by employee costs. The business must
 - A. Be a qualified employer of record,
 - B. Provide paymaster services,
 - C. Provide their paymaster services to an affiliated business and
 - D. Pay amounts to cover the costs of a qualified employee.
 - iii. A taxpayer qualifies as a paymaster and may exclude amounts received to pay client employer obligations only by meeting the following requirements:
 - A. The amounts received must be customary reimbursements or advances to the taxpayer for paying the employer obligations of a client.
 - B. The services performed by the employees must be services that the taxpayer does not or cannot render and for which no liability attaches to the taxpayer.
 - C. The taxpayer may have no liability to pay the employer obligations, except as the agent of the client.
- g. Temporary staffing services do not include services merely rendered by an independent contractor unless the services rendered by the independent contractor meet the definition of "staffing service."

h. Documents that a staffing service must retain to establish 1) direct hiring, and/or 2) independent contractor relationships.

- i. Taxpayers have an obligation to keep and maintain records that confirm the accuracy of business license tax classification under which the business reported their gross income.
- ii. For businesses who directly hire employees, the business can establish that their activities concerned direct hiring and not engaging in temporary staffing services by producing employment contracts, federal tax documentation (such as IRS Forms I-9, W-2, or W-4), documentation showing receipt of employee benefits, and similar items.
- iii. To substantiate independent contractor relationships, a business can substantiate the direct hire relationship through documents such as independent contractor agreements, federal tax documentation (such as IRS Form 1099s), and similar items.

5. Effective January 1, 2026, business license tax examples that apply to businesses who provide temporary staffing services.

Examples included in this rule identify facts and then state a general conclusion; they should be used only as a general guide. The tax consequences of all situations must be determined after a review of all facts and circumstances. Additionally, each fact pattern in each example is self-contained (i.e., "stands on its own") unless otherwise indicated by reference to another example. Examples concluding that business license tax applies to the transaction assume that no exclusions or exemptions apply, and the sale is sourced to Seattle.

Example 1. Office worker hired through a temporary staffing agency qualifies as temporary staffing services.

Jupiter Moon Marketing (JMM) operates an online marketing business in Seattle. JMM's CEO needs an administrative assistant for two weeks in August 2026 while her assistant is on leave. Virgo Rising Receptionists (VRR) operates a staffing agency in Seattle that specializes in temporary administrative staff servicesassistants. JMM retains VRR to hire a receptionist on a temporary basis for the required period. VRR places Josh, one of their experienced administrative assistants, with JMM. Although JMM will exercise direction and supervision over Josh's work activities, VRR remains Josh's employer.

JMM is using temporary staffing services to fill a vacancy. Therefore, the gross income that VRR receives from its contract with JMM will be subject to the business license tax under the retail sales and retail services classification.

Example 2. School staff hired through staffing agency qualifies as temporary staffing services.

Best Apple operates a staffing business that helps school districts fill vacancies with temporary employees. From January to March 2026, Seattle School District (SSD)'s front office receptionist is taking parental leave. In December 2025, SSD retains Best Apple to assist them in finding a temporary front office worker to fill the vacancy. Best Apple assigns Dave, a temporary office worker, to SSD to fill the position. Although SSD exercises direction and supervision over Dave's administrative work activities, Best Apple remains Dave's employer.

Best Apple is providing temporary staffing services to SSD. Therefore, the gross income that Best Apple receives from its contract with SSD will be subject to the business license tax under the retail sales and retail services classification.

Example 3. Hospital staff hired through a staffing agency-exempt from temporary staffing services but qualifies as a retail sale.

Thriving Kids owns and operates a children's hospital (licensed under chapter 70.41 RCW) located in Seattle. When their regular landscapers are unable to work because of illness or when they need extra assistance, Thriving Kids retains a staffing business called Green Experts. Thriving Kids informs Green Experts when, where, and how many people they need, and Green Experts hires and sends additional landscapers to complete the work for Thriving Kids.

The temporary landscaping services provided by Green Experts to Thriving Kids qualify for the exception to temporary staffing services applicable to hospitals licensed under chapter 70.41 or 71.12 RCW. As a result, gross income that Green Experts receives from its contract with Thriving Kids is subject to business license tax based on the activity performed by the temporary worker. In this case, Green Experts' temporary workers perform work classified as a retail sale (landscaping is separately classified as a retail service under SMC 5.30.345 E). Therefore, gross income that Green Experts derives from their contract with Thriving Kids is subject to the business license tax under the retail sales and retail services classification.

Example 4. Temporary staff hired by assisted living providers-qualifies as temporary staffing services.

Lily Pastures owns and operates an assisted living facility located in Seattle. Lily Pastures does not qualify as a hospital under chapters 70.41 or 71.21 RCW or a hospital-based clinical

provider. Lily Pastures retains Nifty Nurses, a medical personnel staffing agency also located in Seattle. Nifty Nurses provides temporary nurses when Lily Pastures' regular staff nurses are unable to work because of illness or when regular staff nurses take temporary leave. Lily Pastures informs Nifty Nurses when, where, and how many people they need, and Nifty Nurses sends licensed nurses to fill the vacant shifts. Nifty Nurses hires licensed nurses and sends them to Lily Pastures' assisted living facility. The temporary workers are employees of Nifty Nurses.

Lily Pastures does not qualify as a hospital under chapters 70.41 or 71.12 RCW or a hospital-based clinical provider. The temporary staffing services provided by Nifty Nurses to Lily Pastures are not excluded from the definition of a retail sale. Therefore, the gross income that Nifty Nurses receives from its temporary staffing services contract with Lily Pastures is subject to the business license tax under the retail sales and retail services classification.

Example 5. Teacher hired directly does not qualify as temporary staffing services.

A high school in Seattle needs to hire a math teacher for one school year starting in September 2027 and ending June 2028. The Seattle School District (SSD) posts the math teacher job description on a local job board, where candidates can send their resumes to the school district via email. In August of 2027, the SSD hires Quentin directly as a math teacher starting in September. As part of the onboarding process, Quentin submits completed IRS Form I-9 and IRS Form W-4 to the SSD. SSD pays Quentin directly and retains direction and supervision over Quentin's teaching activities.

SSD hired Quentin directly. SSD has not engaged in temporary staffing service activities. The fact that Quentin's employment contract with SSD expires in one year does not qualify SSD's direct hire activities as temporary staffing service activities.

Example 6. Temporary staff hired directly does not qualify as temporary staffing services

Same facts as Example 5, but the high school has a position that is open only from October 1 through December 31, 2028. In September of 2028, SSD hires Quentin directly. As part of the onboarding process, Quentin submits completed IRS Form I-9 and IRS Form W-4 to the SSD. SSD pays Quentin directly and retains direction and supervision over Quentin's teaching activities.

SSD hired Quentin directly. SSD has not engaged in temporary staffing service activities. The fact that Quentin's employment contract with SSD expires in three months does not qualify SSD's direct hire activities as temporary staffing service activities.

Example 7. A direct hire through a job posting platform does not qualify as temporary staffing services.

From January through March 2026, the Seattle School District (SSD) grants parental leave to a front office receptionist. Easy Apples is an online platform that specializes in recruiting temporary employees for elementary schools. SSD subscribes to Easy Apples. Easy Apples does not hire the temporary staff. Rather, the Easy Apples platform allows school districts and potential temporary workers to connect through the platform. The Easy Apples platform allows SSD to post jobs, screen applicants, set up interview times, and message interviewees. The platform charges users like SSD a monthly subscription and billing is processed through the portal.

SSD posted its temporary position on Easy Apples, reviewed several candidates, and set up three interviews using the Easy Apples platform. SSD hired Rosie, one of the Easy Apples applicants, as its temporary front office receptionist for January through March 2026. As part of the onboarding process, Rosie submitted a completed IRS Form I-9 and IRS Form W-4 to SSD. SSD pays Rosie directly and retains ultimate direction and supervision over her activities.

Easy Apples is not providing temporary staffing services because the platform only allows for the connection of employers and employees with one another. Although Easy Apples platform facilitated SSD's hiring of Rosie, SSD directly hired her. Gross income that Easy Applies receives from SSD will be subject to the business license tax according to the nature of the activities it is selling.

Example 8. A business who retains an independent contractor is not providing temporary staffing services.

Flying Dinosaur, a software company located in Seattle, Washington, frequently hires independent contractors to help with larger projects. Flying Dinosaur posts a short-term contract position, for which they hire Franz, who lives in Bellevue, Washington. Franz is contracted to work for 6 months, and Flying Dinosaur issues an IRS Form 1099 to Franz. Flying Dinosaur is not providing temporary staffing services because Flying Dinosaur is not recruiting and hiring employees, finding organizations that need the services of such employees, and then assigning or reassigning employees on a temporary basis to supplement another organization's workforce. Rather, Flying Dinosaur hired Franz directly for a short-term contract. Independent contractors are not temporary staff, even if hired for a limited duration.

Example 9. Directly hiring agricultural workers does not qualify as temporary staffing services.

Adaptive Agricultural Inc. (AA), located in Seattle, retains temporary agricultural workers from June through September each year. In June of 2026, AA employs 10 seasonal workers on H-2A visas. AA directly hires the seasonal agricultural workers. A staffing business does not provide the agricultural workers to AA. Margaux is an agricultural worker retained by AA on an H-2A visa to work from June to September of 2026. AA pays Margaux directly and retains direction and supervision over Margaux's work activities. In January of 2027, AA issues an IRS Form W-2 to Margaux. AA is not engaged in providing temporary staffing services because AA directly hired the seasonal agricultural workers, including Margaux.

Example 10. A business that derives income from providing outsourced services is not providing temporary staffing services.

Flying Dinosaur is a software company based out of Seattle, Washington. To keep up with the demand of its support call center, it retains Friendly Focus, a Seattle-based company that specializes in outsourced support call centers. Friendly Focus employs, trains, and manages all aspects of the call center employees. Friendly Focus can increase or decrease the number of employees working in a particular company's call center based on demand, such as new products or a software update that may increase the need for additional support. Under this arrangement, Friendly Focus can hire employees for any amount of time and may employ people temporarily.

Friendly Focus is not providing temporary staffing services. Flying Dinosaur is outsourcing its services to Friendly Focus. Friendly Focus is not a staffing business because they do not recruit and hire employees, then find organizations that need the work of such employees, and assign or reassign employees to those other organizations to meet work needs on a temporary basis. Rather, Flying Dinosaur entered a contract with Friendly Focus whose employees will perform the outsourced services (call center services). Gross income that Friendly Focus derives from their contract with Flying Dinosaur will be subject to business license tax classified according to the nature of the activities that the workers perform. In this case, Friendly Focus derives income from call center services. Effective January 1, 2026, this income is subject to business license tax under the retail sales and retail services classification.

6. ~~Until January 1, 2026, b~~Business license tax treatment applicable to temporary staffing classification of temporary staffing services prior to January 1, 2026.

a. ~~(a)~~ Until January 1, 2026, businesses that provide temporary staffing services determine the business license tax classification that applies by identifying activities that the employee conducts for the staffing services business' client.

~~(i)~~ The gross income received by a staffing business is subject to Seattle's business license tax, and possibly Seattle's utilities tax. The appropriate business license tax classification is determined by the activities that the employee engages in for the staffing business' client. It is the staffing business' responsibility to determine or identify the appropriate business license tax classification prior to dispatching its employee to its client and to report to the Director accordingly.

i. _____

~~(ii)~~ The staffing business should not assume that they should report ~~its~~ their employee'(s) activities under the same classification under which its client reports. It is the activity of each employee and the employee's relationship to the client or consumer that determines the tax classification, not the client's reporting classification.

ii. _____

iii. ~~(b)~~ When an assigned employee provided by a staffing business to a client provides more than one activity then the following applies:

A. ~~(i)~~ The different activities may be subject to business license tax ~~taxable~~ under separate ~~tax~~ classifications.

B. ~~(ii)~~ If the staffing business separates the amounts it charges the client by activities, the separated charges are reported under the appropriate tax classifications.

C. ~~(iii)~~ If the staffing business does not separate its charge to the client, the charge is reported under the classification of the predominant activity.

D. ~~(iv)~~ For purposes of this rule, the "predominant activity" for two employee ~~employee~~ activities subject to different business license tax classifications is the activity performed by an employee more than 50% of their work time. ~~is when more than 50% of the worker's time is spent working in one tax classified activity.~~

E. ~~(v)~~ For purposes of this rule, "predominant activity" for more than two employee activities subject to different business license tax classifications is the activity performed by an ~~at which the~~ employee ~~spends the for the~~ greatest amount of their work time.

F. ~~(vi)~~ When two or more employees engaged in different activities are assigned to one client, the charge for each employee is reported based on the predominant activity of each individual employee.

7. Business license tax examples that apply prior to January 1, 2026, for businesses who provide temporary staffing services(c) Examples.

(i) Example 11. A business operating a retail store is taxable under the retailing tax classification. If the staffing business provides a receptionist for the retail store's office, the gross income received for the receptionist's services is subject to the service and other business activities classification. The service and other business activities classification applies because the receptionist is not providing retailing services.

(ii) Example 12. A staffing business supplies an employee to help a prime construction contractor. If the employee provides construction and repair services to repair the contractor's building then the activity would be retail. T-and the staffing business will report the gross income derived from supplying the employee under the business license tax retail sales and retail services classification. must report under retailing. If the employee provides construction and repair service to repair a building that the contractor is repairing for another person then the activity would be reported under the wholesaling classification.

Example 13. (iii) The assigned employee in Example 12 (ii) above has a commercial driver's license and is only occasionally required to drive the client's truck within Seattle to pick up a load of gravel (an activity subject to the transporting freight for hire service and other business activities classification). The employee also spends about one hour per day helping in the office. The predominant activity is the wholesaling activity of performing construction work because the greatest amount of time is spent performing wholesaling construction work. The staffing business has not segregated charges for the other lesser activities. In this case, the staffing business reports the gross amount charged to the client under the wholesaling classification.

Example 14. (iv) Same facts as in Example 13 subsection (iii) above, except the staffing business also provides a receptionist to the client (general contractor.) As demonstrated in Example 13 subsection (iii), the staffing business is subject to the wholesaling tax on the gross amount charged to the client for work done by the employee engaged in construction work. However, the staffing business is subject to the service and other business activities tax classification on the gross amount charged to the client for the receptionist's work. The service and other business activities tax classification is the proper classification notwithstanding the client reports under the wholesaling classification for its construction activities.

8. (5) Exemptions and dDeductions that may apply to staffing businesses.

- ~~(a)~~ SMC 5.45.090, SMC 5.45.100, and SMC 5.48.070 provide limited exemptions and deductions from Seattle's business license tax and utility tax. The requirements of each specific exemption or deduction must be met to qualify for the exemption or deduction.
- ~~(b)~~ For example, a staffing business may qualify for a business license tax deduction for the amount of bad debts for which the business has paid on which tax has been paid and which the staffing service has have been written off for federal tax purposes. may be deducted from the gross income for business license tax purposes.

a. _____

- b. Exemptions, deductions, and special tax rates that may apply to the client do not automatically also apply to the staffing business.

- i. _____ For example, gross income received by licensed, nonprofit adult family homes is exempt from the business license tax. However, the gross income received by a staffing business from assigning a health care worker to the licensed, nonprofit adult family home is subject to business license tax.

- ~~(c)~~ **Effective January 1, 2026, the gross income that the staffing service receives from the adult family home is subject to the business license tax under the retail sales and retail services classification. Until January 1, 2026, the gross income that the staffing service receives from the adult family home is subject to the business license tax fully taxable under the service and other business activities classification of the business license tax.**

ii. _____

- c. A staffing business cannot deduct gross income it receives for employee payroll expenses. A staffing business is the employer of temporary employees that they assign to other organizations. Its employees are in fact its employees and they are A staffing business' temporary employees do not qualify as not-independent contractors working for the —staffing business's clients. (Refer to Seattle Rule 5-039.)

- d. Bona fide advancements or reimbursements may be deducted pursuant to SMC 5.45.040 C.

9. ~~(6)~~ Documentation required to establish the services staffing business employees perform.

- a. The staffing business must keep documentation showing what services its assigned employees performed. All available information should be recorded concurrently with the assignment of the employee and the charge for the service. It is important that, prior to dispatching the employee, the staffing business describe with detail the client's labor and skill requirements are detailed upfront as much as possible prior to dispatch.

- b. Documentation may be in the form of a copy of a client order or other documented request by a client for an employee. The documentation must state the specific work to be performed, and/or the employee skills requested by the client. If the client's request comes in by telephone, the staffing business should ask exactly what type of services are required and write them down on an order form, or as a memo to the client's file. The employee can also provide a written explanation of the services actually performed. Documentation to support the business license tax classification must be sufficiently detailed to support the classification reported. If, subsequent to filing a return, it is later determined that income has been incorrectly classified, amended returns should be submitted to the Director to make the appropriate adjustment.

10. Other rules may apply.

- a. Seattle Dir. Rule 5-039 Employees Distinguished from Persons Engaging in Business
b. Seattle Dir. Rule 5-620 Hospitals, Other Medical Care Facilities and Adult Family Homes

Effective: May 15, 2007

DIRECTOR'S CERTIFICATION

~~I, Dwight D. Dively, Director of the Department of Finance of the City of Seattle, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Department of Finance.~~

DIRECTOR'S CERTIFICATION

I, Dwight Dively, City of Seattle Finance Director, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Office of City Finance.

DATED this day of October 2026.

CITY OF SEATTLE, a Washington municipality.

By: Dwight Dively, _____, City of Seattle Finance Director.

Effective date: October , 2026.