

Director's Rule 5-013

Business License Tax Threshold and Standard Deduction

- (1) **Introduction.** Effective January 1, 2026, this rule explains the application of the City of Seattle business license tax threshold and standard deduction and provides examples.
- (2) **Definitions.** The definitions in this section apply throughout this rule.
 - (a) "Gross amount" or "gross income" means "gross income of the business" as defined in SMC 5.30.035 D.
 - (b) "General deductions" means all deductions identified in SMC 5.45.100 except the \$2 million standard deduction identified in SMC 5.45.100 W.
 - (c) "Standard deduction" means the \$2 million standard deduction available to all businesses effective January 1, 2026. SMC 5.45.100 W.
 - (d) "Taxable revenue" or "Taxable revenue before standard deduction" means gross income of the business as defined in SMC 5.30.035 D. minus amounts for applicable general deductions but before the \$2 million standard deduction.
 - (e) "Tax threshold" means the minimum amount of taxable revenue in a calendar year a business must have to be subject to the tax.
- (3) **Business license tax threshold.**
 - (a) SMC 5.55.040.D identifies the City of Seattle business license tax threshold. A taxable threshold means the minimum amount of taxable revenue in a calendar year a business must have to be subject to the tax. A business with gross income less allowable deductions excluding the standard deduction, that is under the threshold amount, owes no tax. A business with gross income less allowable deductions excluding the standard deduction, that is equal to or greater than the threshold amount is subject to tax.
 - (b) Any person whose annual value of products, gross proceeds of sales, or gross income of the business in the City is less than the tax threshold is still required to file a business license tax return. Taxpayers under the threshold shall report their gross income less any applicable deductions, excluding the standard deduction, and report \$0 tax due for the tax year.
 - (c) Effective January 1, 2026, the business license tax threshold will increase from \$100,000 to \$2 million per calendar year.
- (4) **Business License Tax Standard Deduction.**
 - (a) Effective January 1, 2026, taxpayers with taxable revenue more than the threshold amount may take a standard deduction of up to \$2 million.
 - (b) The city shall allocate the standard deduction to the applicable classification(s) starting with the classification with the highest tax rate and then to classifications with lower tax rates until the total \$2 million standard deduction is used or taxable revenue is zero.

Under no circumstances will the standard deduction result in a credit.

- (c) Taxpayers filing business license tax returns on a quarterly installment basis shall apply the entire \$2 million standard deduction toward taxable amounts commencing with the earliest quarter in the calendar year that the taxpayer has taxable revenue until the \$2 million standard deduction amount is reached or the taxpayer's taxable amount is zero. Any standard deduction amount that remains after first applicable quarter may be applied toward taxable revenues in the next quarter of the same calendar year and so forth until the standard deduction is exhausted or the calendar year ends.
- (d) A taxpayer must apply their standard deduction to the taxable revenue generated in the current tax year. A taxpayer may not carry forward to a subsequent tax year amounts of their \$2 million standard deduction that they were unable to apply during the current tax year.

(5) Examples.

Examples included in this rule identify facts and then state a 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. All examples apply to tax year 2026 and after, unless the example expressly identifies a different tax year.

Example 1: Business X has been engaged in business in the City of Seattle and has been registered for several years. Business X engages in business activities classified under the retail sales and retail services classification. For calendar year 2026, Business X files quarterly. On its first quarter return in 2026, X reports \$5.1 million in gross income from retail sales, from which Business X deducts \$3.6 million in amounts derived from the sales of tangible personal property that is delivered to a location outside of Washington State (interstate sales deduction).

After subtracting amounts for their interstate sales deduction, Business X's taxable revenue before standard deduction is \$1.5 million. In Q1, Business X will deduct \$1.5 million of the \$2 million standard deduction from its Q1 taxable revenue. For Q1, Business X's taxable amount will equal 0. In Q1, Business X will owe 0 business license tax.

Business X Quarter 1 Business License Tax Return					
Tax Classification	Gross Income	General Deduction Amounts	Taxable Revenue	Standard Deduction	Taxable Amount
Retail Sales	\$5,100,000	\$3,600,000	\$1,500,000	\$1,500,000	\$0

In Q2, Business X has \$6 million in gross income from retail sales and deducts \$4 million of interstate sales leaving \$2,000,000 of taxable revenue. Business X has \$500,000 left of its

\$2,000,000 annual standard deduction. Business X will report gross income (\$6 million), subtract general deduction amounts (\$4 million), calculate taxable revenue (\$2 million) and will deduct its remaining \$500,000 from their \$2 million annual standard deduction.

Business X Quarter 2 Business License Tax Return					
Tax Classification	Gross Income	General Deduction Amounts	Taxable Revenue	Standard Deduction	Taxable Amount
Retail Sales	\$6,000,000	\$4,000,000	\$2,00,000	\$500,000	\$1,500,000

In Q3 and Q4, Business X will continue to report its gross income less applicable deductions other than the standard deduction to arrive at its taxable revenue for each quarter. Since their \$2 million annual standard deduction has already been exhausted, Business X will no longer have any standard deduction amount available to report in Q3 and Q4.

Example 2: Business Y has been engaged in business in the City of Seattle and has been registered for several years. The Director has assigned Business Y to an annual tax reporting period. Business Y derives gross income from activities classified under the service and other business activities classification and the retail sales and retail services classification. For a calendar year after 2025, Business Y reported \$2 million in gross income, \$1.2 million under the service and other business activities classification and \$800,000 under the retail sales and retail services classification.

On their annual business license tax return, Business Y subtracts \$80,000 from their retail sales and retail services gross income for cash discounts taken by purchasers. After subtracting amounts for general deductions, Business Y reports annual taxable revenue equal to \$1.92 million. Since Business Y's gross income after subtracting allowable deductions excluding the standard deduction is less than the \$2 million annual business license threshold, Business Y owes no business license tax. Further, for the current calendar year, the \$2 million standard deduction is not applicable to Business Y. Business Y will file an annual business license tax return, report \$1.92 million of taxable revenue and will report \$0 tax due.

On their annual business license tax return, Business Y will report as follows:

Tax Classification	Gross Income	General Deduction Amounts	Taxable Revenue	Standard Deduction	Taxable Amount
Service	\$1,200,000	\$0	\$1,200,000	N/A	\$0
Retail Sales	\$800,000	\$80,000	\$720,000	N/A	\$0
Total	\$2,000,000	\$80,000	\$1,920,000	N/A	\$0

Example 3: Business AA has been engaged in business in the City of Seattle and has been registered for several years. Business AA engages in the business of transporting freight for hire. Business AA picks up tangible personal property in in Seattle and transports the freight to locations both inside and outside the city. The Director assigned Business AA to

an annual reporting period.

In 2026, Business AA had annual gross income equal to \$5 million of which \$2.9 million was from freight AA transported to locations outside of Washington State. Business AA is allowed an interstate deduction equal to \$2.9 million. After subtracting for the interstate deduction, Business AA calculates taxable revenue equal to \$2.1 million. For the current calendar year Business AA is subject to business license tax because its taxable revenue is more than the tax threshold. After taking their \$2 million standard deduction Business AA calculates an annual taxable amount of \$100,000.

Business AA will report as follows:

Tax Classification	Gross Income	General Deduction Amounts	Taxable Revenue	Standard Deduction	Taxable Amount
Transporting freight for hire	\$5,000,000	\$2,900,000	\$2,100,000	\$2,000,000	\$100,000

Business AA multiplies its annual taxable amount (\$100,000) by the business license tax rate applicable to transporting freight for hire (.00658) and reports and pays their business license tax due ($\$100,000 \times .00658 = \658.00).

Example 4. In 2026, Business Y has gross income from apportionable service and other business activities and files on an annual basis. In 2026, Y had world-wide service receipts of \$10,000,000. Using the prescribed two-factor method, Y determines its apportioned gross income in Seattle is \$3,000,000. On Y's 2026 return, Y will report its gross income in Seattle of \$3,000,000 and subtract its \$2,000,000 standard deduction to arrive at its taxable amount of \$1,000,000.

(6) Other Rules May Apply.

Seattle Dir. Rule 5-002 Business License Tax Requirements

Seattle Dir. Rule 5-006 Tax Returns – Filing and Payment

Seattle Dir. Rule 5-031 Measure of Tax – Retailers and Wholesalers

Seattle Dir. Rule 5-032 Measure of Tax – Service and Other Business Activities

Seattle Dir. Rule 5-033 When Tax Liability Arises

Seattle Dir. Rule 5-047 Apportionment of Service Receipts

DIRECTOR'S CERTIFICATION

I, Jamie Carnell, Director of the Office of City Finance, 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, Office of City Finance.

DATED this _____ day of December, 2025.

CITY OF SEATTLE, a Washington municipality

By: _____

Jamie Carnell, Director
Office of City Finance