

Seattle Passes 5% Employer Tax on Excess Compensation

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PRACTICES Employee Benefits and Executive Compensation

Seattle voters recently approved Proposition 1A to levy a 5% payroll tax payable by employers on “excess compensation” paid to employees in Seattle whose total compensation exceeds \$1 million. Employers must determine the amount of compensation paid in Seattle by selecting one of the following two methods, which, once selected, must be followed by the employer for all employees for the entire tax year:

1. Compensation paid in Seattle includes: 100% of the compensation paid to employees who work exclusively in Seattle and for employees who work partly within and outside of Seattle, the portion of the employee’s compensation determined by multiplying the employee’s compensation by a fraction, the numerator of which is the total number of hours worked by the employee within Seattle and the denominator of which is the total number of hours worked within and outside Seattle. Companies may exclude any employees who work within Seattle less than 40 hours during the applicable tax year; or
2. All of the employee’s compensation is treated as paid in Seattle if (i) the employee is primarily assigned to work in Seattle, (ii) if the employee is not primarily assigned to any place of business for the tax period and the employee performs 50% or more of the employee’s service for the tax period in Seattle; or (iii) the employee is not primarily assigned to any place of business for the tax period, the employee does not perform 50% or more of their service in any city, and the employee resides in Seattle.

For purposes of the new tax, “employees” include individuals who are members of limited liability companies, members of professional limited liability companies, partners, other owners of pass-through entities, and sole proprietors. Additionally, “compensation” includes salary, wages, bonuses, commissions, equity compensation, severance payments, and previously accrued compensation; however, compensation does not include payments to the owner of a pass-through entity if such payment is not earned for services rendered or work performed.

The new law prohibits employers from deducting the tax from employee compensation. The tax is retroactive to January 1, 2025. For the 2025 tax year, employers must file and remit taxes due by January 31, 2026, with quarterly returns due thereafter.

Proposition 1A is available [here](#).