



Subject: Apportionment Factor Guidance for Q2 2020

Introduction

Service income is apportioned to a city using a two-factor formula where the payroll factor and income factor are summed and then divided by two to arrive at an apportionment percentage that is applied against the business's total service income. The payroll factor is computed by dividing compensation paid in the city during the tax period by total compensation paid everywhere during the tax period. Compensation is considered paid in a city:

- If the employee is primarily assigned within the city; or
- If the employee is not primarily assigned a business for the tax period; then to where the employee performs 50% or more of his or her service for the tax period; or
- If the employee is not primarily assigned to any place of business and does not perform 50% or more of his or her service in any location, then to where the employee resides.

“Primarily assigned” means “the business location of the taxpayer where the individual performs his or her duties” and the “tax period” means “the calendar year during which tax liability is accrued.”

Impact of COVID-19

The impact of the COVID-19 pandemic, the emergency “Stay Home, Stay Healthy” statewide order and continued public health guidance to avoid gatherings has caused many employees to work from home since mid-March. Prior to the statewide order, in many instances the location where an employee performed their duties was the business location of the employer.

Issue

In light of recent changes in where employees perform their duties, the City of Seattle has received questions on how taxpayers should determine their payroll factor percentage for the second quarter of 2020.

Payroll Factor during the Emergency Order

The current conditions under the COVID-19 pandemic and the stay-at-home order may make it difficult to determine where employees will be performing their duties for the entire year. To assist taxpayers on how to report payroll under these current conditions, the License and Tax Administration offers the following guidance:

- To utilize the prior year's payroll factor percentage to calculate the current year's quarterly payroll factor percentage and true up the payroll factor at the end of the year, when the complete current calendar year's information is available.
- If the taxpayer prefers to use more current data and believes their work-from-home arrangements during the pandemic will last less than six months of the year, they may use the Q1 2020 payroll factor percentage.
- Regardless of how the taxpayer determines their payroll factor for the quarter, they must review the payroll factor and make the appropriate adjustments at the end of the year when information is available for the complete current calendar year.

If you have questions about any specific COVID-19 or apportionment factor issues, please e-mail us at tax@seattle.gov.