



Please strike Section 1801 from SSB 6143

(B&O Exemption for On-Site Property Management Salaries)

SECTION 2601 WILL RESULT IN A LOSS OF JOBS

The current B & O tax exemption exists due to the fact that the wages paid to personnel who work exclusively or primarily on-site for an owner are simply a pass through operating expense from the owner of the property. If changed, this will have a material consequence to both the management company and the owner and will increase expenses correspondingly. However, the real losers will be the on-site staff and renters. **Owners will quickly weigh the cost benefits of having an on-site manager and decide the cost is too high and either fire people and/or raise rents.**

SECTION 2601 WILL RESULT IN HIGHER RENTS

Property management companies do not operate on high margins. If this exemption is repealed, the fee paid to a property management company from the owner will have to increase. **This will result in higher rents across Washington State.**

PROPERTY MANAGEMENT COMPANIES ARE NOT EMPLOYMENT AGENCIES

Property management companies assist in hiring staff for an owner for each site they manage and process the employee's payroll, billing back the owner for the cost of wages and benefits. **Employment agencies mark up the employee's wages for a profit and property management companies do not.** By eliminating this exemption the State will require property management companies to pay B & O taxes on the wages paid to people who are not their employees. Property management companies typically incorporate the cost to process payroll into their management fee. The property management firm then pays B & O tax on the management fee.

RULE 111 OF THE DEPARTMENT OF REVENUE RECOGNIZES THIS LEGITIMATE EXEMPTION

The Department of Revenue has adopted an administrative rule recognizing that certain "pass through" expenses should not be included in determining gross income. **Rule 111 excludes from the definition of gross income certain advances and reimbursements for which the taxpayer i.e. management company, assumes only agent liability.** The wage payments made by property management companies are exactly such "pass through" expenses and should not be taxed.



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- Compensation management companies receive for on-site staffing costs are a direct reimbursement of an operating expense from the owner of the property.
- Owners are reimbursing management companies for direct wages and benefits and this reimbursement should not be subjected to B&O tax. The current law recognizes this.
- If SSB 6143 is passed without removing the section on property management salaries, property owners will be forced to make cuts, and the largest expense they have control over is staffing. This is where the cuts will be made and jobs will be lost.
- If SSB 6143 is passed and an owner does choose to keep their on-site personnel then the owner will need to make up that cost somewhere else. Rents will have to increase across Washington State.

EXAMPLES OF HOW THIS WILL AFFECT BUSINESSES:

One company provides that projected annual payroll transfers (reimbursements) for their portfolio of 2,000 multifamily units. Calculating the B&O tax at 1.5% of total and budgeted management fees for the entire portfolio and assumed profit margin for the management company's apartment division at 10% of gross management fee. **If Section 2601 passes to apply B&O tax to reimbursable on-site payroll transfers totals 32% of their net profit.** The market cannot support recovery of such a loss from either the owner or the tenant.

Another company, located in Renton, pays approximately 150 on-site employees at the more than 50 multifamily properties that it manages in Washington state each month. In making these payroll payments, the company passes through to the on-site staff the money that belongs to the owners of each property. **Section 1801 of SB 6143 would require the company to pay B & O taxes on the wages it pays to each of the 150 on-site workers even though the workers are not company employees and even though the company makes no income from the payment arrangement.** We estimate that this potential change in the law will **cost the company at least \$80,000 per year in additional B & O taxes, 34% of the net profit.** This is money the company does not have and which it will have to ask the property owners to pay if it wants to remain in business. **The unfortunate result will be loss of jobs or increased rents or both.**

Please strike section 1801 of Senate Bill 6143

If you have further questions please feel free to contact:

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