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**Finance Committee**

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**HB 2033**

**Brief Description:** Modifying municipal business and occupation taxation.

**Sponsors:** Representatives McIntire, Orcutt, Conway, Hunter, Chase and Santos.

**Brief Summary of Bill**

- Modifies the apportionment requirements with respect to gross income earned from printing and publishing activities for cities that impose business and occupation taxes as of 2008.

**Hearing Date:** 3/1/05

**Staff:** Mark Matteson (786-7145).

**Background:**

*Municipal business and occupation taxes.* Thirty-seven cities impose business and occupation (B&O) taxes on the gross receipts of activities conducted by businesses without any deduction for the costs of doing business. The Legislature limited city B&O taxes to a maximum rate of 0.2 percent in 1982, but higher rates are allowed if approved by the voters in the city, or if a higher rate was in effect prior to January 1, 1982. Cities imposing a B&O tax for the first time after April 22, 1983, and cities increasing tax rates, must provide for a referendum procedure to apply to the ordinance imposing or increasing the tax.

In 2003, legislation was enacted that requires the Association of Washington Cities (AWC) to adopt a model ordinance that provides a more uniform system of municipal B&O taxes. Cities imposing B&O taxes after 2004 must adopt the provisions of the ordinance.

The model ordinance that AWC adopted pursuant to the 2003 legislation includes several business activity classifications for the purpose of applying the tax, including: extracting; manufacturing; wholesaling; retailing of goods; retailing of services; printing or publishing; processing or extracting for hire; or other (service) activities.

In addition to the model ordinance requirement, the 2003 legislation requires that all cities that impose gross receipts B&O taxes must allow for the apportionment of business income by January 1, 2008. For activities other than services or income from royalties, income is allocated based on location of the activity. For sales of tangible personal property, the location is based on the location of delivery to the buyer. With respect to income from royalties, income is allocated to the commercial domicile of the taxpayer. Under the Department of Revenue's rules and tax law in

general, the commercial domicile is the principal place from which the trade or business of the taxpayer is directed or managed.

*Printing and publishing.* Many publishers receive income from readers' subscriptions. Under subscription agreements, the newspaper or periodical is generally delivered to the reader at a location specified by the reader, often the residence or place of business of the reader.

**Summary of Bill:**

Requires cities that impose B&O taxes after 2007 to allocate income from the activities of printing or publishing to the commercial domicile of the taxpayer, for the purposes of apportioning income under the city B&O tax..

**Appropriation:** None.

**Fiscal Note:** Requested on February 18, 2005.

**Effective Date:** The bill takes effect on January 1, 2008.