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## Local Government Committee

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### ESSB 5656

**Brief Description:** Revising business licensing systems.

**Sponsors:** Senate Committee on Trade & Economic Development (originally sponsored by Senators Braun, Carrell, Rivers, Sheldon, Hobbs and Fain).

#### Brief Summary of Engrossed Substitute Bill

- Requires cities that impose a business and occupation (B&O) tax to issue and provide for the renewal of their general business licenses through the web-based Business Licensing Service or "System" (BLS) of the Department of Revenue (DOR) or a city-developed portal by July 1, 2016.
- Requires cities that require general business licenses and that do not impose a B&O tax to issue and provide for the renewal of their business licenses through the BLS or a city-developed portal by January 1, 2019.
- Authorizes delays or phasing-in of the city requirements beyond the July 1, 2016, and January 1, 2019, dates if funding or other resources are insufficient to meet the deadlines or in accordance with other provisions.

**Hearing Date:** 3/21/13

**Staff:** Ethan Moreno (786-7386).

#### **Background:**

##### Business Licenses and Fees, and Business and Occupation Taxes of Cities and Towns.

Cities and towns have general authority to license business activities occurring within their jurisdictions. In addition to general business licenses, cities and towns may also require additional business licenses, including, for example, licenses for taxi and tow truck operations.

Numerous Washington cities levy business license fees. According to the Department of Revenue (DOR), most of these business license fees are fixed-dollar fees that are paid annually, although a few are limited to an initial one-time license fee for registration. The DOR also

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indicates that the fees can vary according to the type of business activity, number of employees, or square footage of the business.

Cities and towns are also authorized to charge a business and occupation (B&O) tax that is imposed on, or measured by, the value of the business's products, gross income, or gross proceeds of sales. Forty cities in Washington impose a B&O tax.

With limited exceptions, the maximum B&O tax rate a city or town can impose on business activities that are measured by gross income or gross proceeds is 0.2 percent. A city or town, however, may increase the tax rate above this maximum through a ballot measure approved by a majority of the voters voting on the proposition. Additionally, city or town ordinances that impose a B&O tax for the first time or that increase the tax rate are subject to referendum.

#### Web Options - The Department of Revenue and Selected Western Washington Cities.

The DOR administers and operates a web-based Business Licensing Service (BLS) that allows applicants for many business-related state licenses, registrations, and permits to apply for or renew those authorizations online. Users of the BLS can also use the online service to apply for or renew business licenses issued by 56 cities that participate in the service.

Additional options for meeting business license requirements are under development. The cities of Seattle, Tacoma, Bellevue, Everett, and Bellingham are developing a web-based business license and tax portal that would enable businesses to obtain required licenses from these cities and to pay locally imposed B&O taxes. The web portal, known as the Multi-City Business License and Tax Portal, is scheduled to launch in the second quarter of 2014.

#### **Summary of Bill:**

By July 1, 2016, all cities that impose a business and occupation (B&O) tax must have their general business licenses issued and renewed, if a renewal is required, through the web-based Business Licensing Service or "System" (BLS) of the Department of Revenue (DOR) or a city-developed portal. "City-developed portal" is defined to mean a single portal with at least five participating cities that allows for the issuance or renewal of general business licenses for all participating cities.

By January 1, 2019, all cities that require general business licenses and that do not impose a B&O tax must have these licenses issued and renewed, if a renewal is required, through the BLS or a city-developed portal.

The department, an undefined term, may delay or phase-in the issuance and renewal of general business licenses beyond the July 1, 2016, and January 1, 2019, dates if funding or other resources are insufficient to enable the department to meet the deadlines. The department may also delay or phase-in the issuance and renewal of general business licenses as necessary to ensure the BLS is adequately prepared to handle all general business licenses, and to ensure that the transition to mandatory department issuance and renewal of general business licenses is as seamless as possible. Additionally, the department, working with affected cities, is authorized to establish a schedule for assuming the issuance and renewal of general business licenses in accordance with BLS provisions.

Cities may continue to issue and renew their general business licenses until those licenses have been incorporated into the BLS. A city whose general business license has been incorporated into the BLS may no longer issue and renew those licenses.

**Appropriation:** None.

**Fiscal Note:** Requested on March 20, 3013.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.