

HOUSE BILL REPORT

ESSB 5656

As Reported by House Committee On:
Local Government

Title: An act relating to revising business licensing systems.

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 History:

Committee Activity:

Local Government: 3/21/13, 3/28/13 [DPA].

**Brief Summary of Engrossed Substitute Bill
(As Amended by Committee)**

- Requires cities to issue and provide for the renewal of their general business licenses through the web-based Business Licensing Service or "System" of the Department of Revenue (DOR) or a city-developed portal by July 1, 2019.
- Authorizes delays or phasing-in of the city requirements beyond the July 1, 2019, date if funding or other resources are insufficient for the DOR or cities to meet the deadline.
- Requires the DOR to report to the Legislature by July 1, 2017, on actions and costs associated with the license issuance requirements.
- Expires all provisions on July 1, 2018, and provides intent provisions for the expiration.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass as amended. Signed by 6 members: Representatives Takko, Chair; Kochmar, Assistant Ranking Minority Member; Buys, Liias, Springer and Upthegrove.

Minority Report: Do not pass. Signed by 1 member: Representative Taylor, Ranking Minority Member.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 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 Amended Bill:

By July 1, 2019, cities must have their general business licenses issued and, if a renewal is required, renewed through the Business Licensing Service or "System" (BLS) of the Department of Revenue (DOR) or through a city-developed portal, a term 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. The DOR or the cities may delay or

phase-in the issuance and renewal of general business licenses beyond July 1, 2019, if funding or other resources are insufficient to enable the DOR or the cities to comply with the 2019 deadline.

The DOR, working with affected cities, may establish a schedule for assuming the issuance and renewal of general business licenses for cities choosing to use the BLS. 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 must utilize the business licensing system and may not directly issue or renew those licenses.

By July 1, 2017, the DOR must provide a report, prepared in consultation with cities and other affected or interested parties, to the appropriate committees of the House of Representatives and Senate indicating:

- what actions the DOR has taken to comply with the city license issuance requirements and what the costs of those actions were;
- what actions the DOR anticipates taking between July 1, 2017, and July 1, 2019, to comply with the city license issuance requirements and what the anticipated costs of those actions will be;
- what actions the DOR has taken to comply with the diverse and differing needs of small, medium, and large cities subject to the license issuance requirements; and
- whether, in the agency's judgment, the DOR believes it will be able to comply with the July 1, 2019, deadline.

All provisions expire July 1, 2018. The express intent of this expiration is to afford the Legislature a full opportunity to review and revise the city license issuance requirements to ensure that compliance with associated provisions occurs in a timely, thoughtful, and appropriate manner that best meets the needs of businesses and cities throughout Washington state.

Amended Bill Compared to Engrossed Substitute Bill:

In comparison to the underlying bill, the striking amendment:

- changes the deadline for cities that impose a business and occupation (B&O) tax from July 1, 2016, to July 1, 2019;
- changes the deadline for cities that do not impose a B&O tax from January 1, 2019, to July 1, 2019;
- defines "department" to mean the Department of Revenue (DOR), and "business licensing system" to mean the business licensing system or service established in accordance with specific statutory provisions;
- modifies delayed implementation provisions by specifying that the DOR or the cities may delay or phase-in the issuance and renewal of general business licenses beyond July 1, 2019, if funding or other resources are insufficient to enable the DOR or the cities to comply with requirements for utilizing the business licensing system or a city-developed portal;
- requires the DOR to provide a report to the Legislature by July 1, 2017, that indicates its progress, costs, and assessments in complying with the city license issuance requirements;

- expires all provisions on July 1, 2018, and provides associated intent language; and
 - makes technical changes.
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Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

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

Staff Summary of Public Testimony:

(In support) This is an important bill to the business community; it results from a Department of Revenue (DOR) report and associated feedback from 1,100 businesses. This bill is a top priority of the business community and it relates to their request to make complying with business and occupation (B&O) tax and licensing requirements easier. The bill is a simplified version of a more complicated bill from the Governor last year. The bill moves business licensing functions for cities that impose a B&O tax to the Business Licensing Service (BLS) or a city portal by 2016 and all other cities by 2019. The bill has been modified to address city concerns, including establishing a later date. The BLS is already online. The electronic BLS system is more efficient and much preferable to a paper-based filing system. An adopted Senate floor amendment was offered in recognition of the concerns and investments of cities that are preparing the multi-city portal.

This bill reflects a 1970s goal, but it has been a battle to centralize licensing and B&O taxes that businesses want to pay in an easy, transparent way. One city is being added to the BLS each year; this slow rate is unacceptable. Washington cities have 220 business licenses in the state; this means we have as many as 220 licensing systems. The DOR has done a great job managing the BLS and has discovered that the state did not have records for 15,000 businesses, perhaps 5,000 of which owe taxes. Spokane indicated that moving to the BLS has been a significant improvement for the city. The bill brings the DOR into the collection process and gives the Legislature a voice in the implementation. This is a mandate, but one with a significant "out" for cities. The Legislature needs to consolidate actions and develop a licensing platform that makes sense and that can be used in the future.

(Opposed) Cities have concerns about this bill, but cities love their businesses and regularly work with them. Nearly 220 cities issue business licenses, but only 59 use the BLS. This bill forces cities to use one of two options: the state portal, which may or may not work; or the city portal that is under development. This is a mandate, and cities do not like mandates that are, at best, premature. The costs of implementing the bill are unclear, and the costs of abandoning current city systems are unclear. The DOR authority in the bill should be retained by the Legislature so that the Legislature can review implementation efforts and modify requirements.

Small cities with limited staff and resources use the application for a business license as an opportunity to inform applicants of local requirements. Mandatory licensing through the

state would eliminate these opportunities for communication between cities and applicants. Cities are opposed to the state taking over the licensing and collection of business fees. The current system helps cities to keep track of taxes owed. The City of Cosmopolis issues businesses licenses on the day of application. This bill will not help the city or other smaller, rural cities.

This bill anticipates that, if implemented, things will be better for businesses. But this bill will not simplify the process for Everett, as Everett, for example, requires a one-time business license. The state BLS system does not work for all cities. Investments by individual cities for online transactions would be lost under this bill. The multi-city portal is currently being designed for B&O transactions, with license issuances to occur later.

The City of Auburn annually issues 4,300 business licenses, most of which are about \$50. Some downtown Auburn businesses pay an additional business improvement area fee. This bill might lead to businesses being required to fill out two forms: one with the state and one with the city. The state probably will not provide services to cities under this bill for free, so business license costs may increase. There are other opportunities to promote economic development besides this bill.

Persons Testifying: (In support) Senator Braun, prime sponsor; Senator Mullet; and Amber Carter, Association of Washington Business.

(Opposed) Dave Williams, Association of Washington Cities; Mayor Vickie Raines, City of Cosmopolis; Doug Levy, Cities of Everett and Kent; and Carolyn Robertson, City of Auburn.

Persons Signed In To Testify But Not Testifying: None.