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**ENGROSSED HOUSE BILL 2959**

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**State of Washington 64th Legislature 2016 Regular Session**

**By** Representatives Lytton, Nealey, and Ormsby

AN ACT Relating to local business tax and licensing simplification; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  (1) The legislature finds that over forty cities currently impose local business and occupation taxes and that approximately two hundred twelve cities require a business license. The legislature further finds that, unlike sales and use taxes and property taxes, the state has had little involvement in the administration of local business taxes. The legislature further finds that the business community has expressed concerns for decades with respect to local tax compliance and licensing obligations in numerous cities, which often tax and license similar transactions very differently. This lack of local uniformity, in conjunction with any lack of centralized administration, has created confusion and an undue burden on Washington businesses, especially smaller businesses that lack the financial wherewithal to seek sophisticated tax and licensing assistance.

(2) The legislature further finds that over the past fifteen years, the state and cities have made the following substantial inroads with respect to bringing uniformity to local business and occupation tax provisions and streamlining the collection of both local taxes and business licenses:

(a) In 2003, the legislature enacted Engrossed House Bill No. 2030 that provided for a more uniform system of municipal business and occupation taxes. It required the cities, working through the association of Washington cities, to form a committee to adopt a model ordinance for municipal business and occupation taxes. Engrossed House Bill No. 2030, through the model ordinance, establishes uniform local definitions, tax classifications, and apportionment methodology.

(b) In 1977, the legislature created a master license service to streamline business licensing and renewal. The program transferred to the department of revenue on July 1, 2011. The master license service was renamed to the business licensing service to better reflect the program's purpose: The business licensing service is the clearinghouse for business licensing, offering more than two hundred endorsements from ten state agency partners, and issuing local business licenses on behalf of approximately seventy cities, with more cities joining every year. Agency programs and municipalities retain full regulatory control over their registration and compliance requirements.

(c) In 2010, the governor signed Executive Order No. 10-05 – improving the way state government serves small business. The order outlined priorities to make it easier to do business in Washington state. In the executive order, the department was specifically charged with exploring, evaluating, and recommending tax simplification solutions as a way to assist small businesses, draw businesses to the state, and keep Washington competitive. The order called for a business process with findings and recommendations due to the governor by June 30, 2011. Based on extensive feedback from small businesses, there was consensus that the top priority to simplify their tax burden is to have a single way to file taxes across the state. To meet this need, the department of revenue recommended centralizing administration of state and local business and occupation tax reporting, as is done with sales tax reporting today. In addition, the department recommended continued work to address feedback on administrative processes and ongoing efforts to look at integration of state systems, working towards a goal of a single business portal for small businesses to use to interact with the state. As part of the feedback provided to the department of revenue, local governments pointed out the following benefits of centralized administration, if it was revenue neutral and retained local flexibility regarding local tax rates, exemptions, deductions, and credits:

(i) Reduce cities' administrative costs;

(ii) Allow cities that cannot afford administration to have the option of enacting a local business and occupation tax;

(iii) Increase statewide economic data;

(iv) Reduce cities' employee workloads;

(v) Potentially increase enforcement and broaden compliance;

(vi) Eliminate redundant processes; and

(vii) Provide an opportunity for state and local government to look at tax structure, reporting, etc., holistically.

(d) The cities of Seattle, Tacoma, Bellevue, and Everett have been working together since 2010 to simplify the process of local business licensing and business and occupation tax filing. In 2014, these cities signed an interlocal agreement to establish a "one-stop" system for tax payment and business license application filing to make it easier and more efficient for businesses to apply for local business licenses and file local taxes, while the cities retain local control over local licensing and tax collection functions and policies. This joint effort to create an internet web application gateway where tax collection and business licensing functions can be collectively administered, and where businesses operating in multiple cities can use a one-stop system for tax payment or local business license application filing, began operations in 2016 and is known as FileLocal.

(3) The legislature finds that despite the significant improvements to local business tax and licensing administration over the past fifteen years legislative action is still required. The legislature directs the state, cities, towns, and identified business associations to partner in developing options for centralized and simplified administration of local business and occupation taxes and business licensing, and in particular to evaluate the following:

(a) Options to coordinate administration of local business and occupation taxes;

(b) Options for centralized administration of local business and occupation taxes for those cities and towns that desire to participate in a state-provided alternative;

(c) Options for all cities and towns to partner with the state business licensing service; and

(d) Implementing data sharing and establishing a seamless state and local user interface for those cities and towns participating in FileLocal.

(4)(a) By January 1, 2017, the task force established in subsection (5) of this section must prepare legislation for introduction in 2017 that addresses the issues described in subsection (3) of this section.

(b) In conjunction with the legislation prepared by the task force under (a) of this subsection (4), the task force must also provide a report to the legislature by January 1, 2017, with the following:

(i) Additional or alternative options to improve the administration of local business tax and licensing that are not described in subsection (3) of this section; and

(ii) An examination of the differences in apportionment and nexus between state and local business and occupation taxes, and how these differences affect taxpayers and cities.

(5)(a) A task force for local business tax and licensing simplification is established. The task force must consist of the following nine members:

(i) Two representatives of the association of Washington business;

(ii) One representative of the national federation of independent business;

(iii) One representative of the association of Washington cities;

(iv) Two representatives from Washington cities or towns that impose a local business and occupation tax and have a population greater than one hundred thousand persons using the most recent official population estimate determined under RCW 43.62.030 prior to the effective date of this section;

(v) Two representatives from Washington cities or towns that impose a business and occupation tax and have a population of less than one hundred thousand persons using the most recent official population estimate determined under RCW 43.62.030 prior to the effective date of this act; and

(vi) One representative from the department of revenue.

(b) The task force may seek input or collaborate with any other parties it deems necessary. The department must serve as the task force chair and must staff the task force.

(c) Beginning in the first month following the effective date of this section, the task force must meet no less than once per month until it reports to the legislature as provided under subsection (4) of this section.

(d) The task force should focus on options that provide the greatest benefit to taxpayers. From these options, the task force must produce the report and legislation described in subsection (4) of this section. The legislation and report must be adopted and approved by a majority of the members of the task force, and the report must include a minority report if the task force does not reach consensus. If a member or a group to be represented in the task force does not participate in the task force or the task force's voting, the task force must adopt and approve the legislation and report described in subsection (4) of this section by a majority of those representatives participating.

(e) The task force terminates February 1, 2017, unless legislation is enacted to extend such termination date.

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