
Finance Committee

HB 2959

Brief Description: Concerning local business tax and licensing simplification.

Sponsors: Representatives Lytton, Nealey and Ormsby.

Brief Summary of Bill

- Establishing a Department of Revenue-led task force to evaluate and recommend legislation and options to continue simplifying the administration of local business taxes and licensing.

Hearing Date: 2/2/16

Staff: Jeffrey Mitchell (786-7139).

Background:

City Business and Occupation (B&O) Taxes.

Local B&O taxes are levied at a percentage rate on the gross receipts of a business, less some deductions. Businesses are put in different classes such as manufacturing, wholesaling, retailing, and services. Within each class, the rate must be the same, but it may differ among classes. Effective April 20, 1982, the legislature set the maximum tax rate that can be imposed by a city's legislative body at 0.2 percent (0.002), but grandfathered in any higher rates that existed on January 1, 1982. All ordinances that impose this tax for the first time or raise rates must provide for a referendum procedure. Any city may levy a rate higher than 0.2 percent, if it is approved by a majority of the voters. Forty-three of Washington's 281 cities levy this tax.

In 2003, the legislature passed a bill that required the Association of Washington Cities (AWC) to convene a committee to develop a model ordinance that would be adopted by all cities imposing a B&O tax no later than December 31, 2004. The legislature was concerned about the lack of uniformity of the local B&O tax ordinances and about allegations that some business income was subject to multiple taxation. The legislation required that the model ordinance have certain mandatory provisions: a system of credits that prevent multiple taxation of the same income, a

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gross receipts threshold for small businesses; tax reporting frequency requirements; provisions for penalties and interest, refunds, and deductions comparable with state law. Beginning January 1, 2008, cities that levied a B&O tax had to allow for allocation and apportionment of taxes between cities.

City Business Licensing.

Approximately, 212 of Washington's 281 cities require a business license for any business conducting business activities within the city. Fees associated with the business license vary from flat rate charges to fees based on some combination of employee count, square footage occupied, or business type. For cities imposing a local B&O tax, business licensing fees and filing requirements are separate and in addition to local B&O taxes.

Administration of Local B&O Tax and Local Business Licensing.

Unlike local sales and use taxes, local B&O taxes are administered exclusively at the local level.

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 and partners with 10 state agencies and facilitates the issuance of local business licenses on behalf of approximately 70 cities. Agency programs and municipalities retain full regulatory control over their registration and compliance requirements.

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.

Summary of Bill:

The bill contains legislative findings stating that despite the significant improvements to local business tax and licensing administration over the past fifteen years, legislative action is still required in several areas. More specifically, the bill directs the Department of Revenue to lead a task force during the 2016 interim 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) ways to implement data sharing and establishing a seamless state and local user interface for those cities and towns participating in FileLocal. By January 1, 2017, the task force must prepare legislation for introduction in 2017 that addresses the previously stated issues. The task force must also prepare a report that includes additional options to improve the administration of local B&O tax and licensing that are not included in the bill and an

examination of the differences in apportionment and nexus between state and local B&O taxes and how these differences impact cities and taxpayers.

The task force consists of the following seven members: Two representatives from the Association of Washington Business; one representative of the National Federation of Independent Business; one representative of the Association of Washington Cities; one representative from a Washington city or town that imposes a local business and occupation tax and has a population greater than one hundred thousand; one representative of a Washington city or town that imposes a business and occupation tax and has a population of less than one hundred thousand persons; and one representative from the Department of Revenue, who will act as chair of the task force.

Appropriation: None.

Fiscal Note: Available.

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