

FINAL BILL REPORT

EHB 2959

C 55 L 16
Synopsis as Enacted

Brief Description: Concerning local business tax and licensing simplification.

Sponsors: Representatives Lytton, Nealey and Ormsby.

House Committee on Finance
Senate Committee on Trade & Economic Development
Senate Committee on Ways & Means

Background:

City Business and Occupation Taxes.

Local Business and Occupation (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 maximum tax rate that can be imposed by a city's legislative body was set at 0.2 percent (0.002), but any higher rates that existed on January 1, 1982 were grandfathered. 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 Association of Washington Cities (AWC) was required to convene a committee to develop a model ordinance that had to be adopted by all cities imposing a B&O tax no later than December 31, 2004. The model ordinance was required to have certain mandatory provisions: a system of credits that prevent multiple taxation of the same income; a gross receipts threshold for small businesses; tax reporting frequency requirements; and 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

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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 Master License Service was created to streamline business licensing and renewal. The program transferred to the Department of Revenue on July 1, 2011. The Master License Service was renamed the Business Licensing Service; it 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 B&O 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 website 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:

The Department of Revenue must lead a task force during the 2016 interim to evaluate the following: (a) options to coordinate administration of local B&O taxes; (b) options for centralized administration of local B&O 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 a report that assesses these options, as well as any other options to improve the administration of local B&O tax and licensing. The report must also include 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 nine members: two representatives from the Association of Washington Business; one representative of the National Federation of Independent Business; one representative of the AWC; one representative from a Washington city or town that imposes a local B&O tax and has a population greater than 100,000; one representative from a Washington city or town that imposes a B&O tax and has a population of less than 100,000 persons; one representative from FileLocal; one representative from the Washington Retail Association; and one representative from the Department of Revenue, who will act as chair of the task force.

Votes on Final Passage:

House	93	4	
Senate	43	6	(Senate amended)
House	96	0	(House concurred)

Effective: June 9, 2016