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HOUSE BILL 2959

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State of Washington                      64th Legislature                      2016 Regular Session

By Representatives Lytton, Nealey, and Ormsby

Read first time 02/01/16. Referred to Committee on Finance.

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

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

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

18            (2) The legislature further finds that over the past fifteen  
19   years, the state and cities have made the following substantial  
20   inroads with respect to bringing uniformity to local business and

1 occupation tax provisions and streamlining the collection of both  
2 local taxes and business licenses:

3 (a) In 2003, the legislature enacted Engrossed House Bill No.  
4 2030 that provided for a more uniform system of municipal business  
5 and occupation taxes. It required the cities, working through the  
6 association of Washington cities, to form a committee to adopt a  
7 model ordinance for municipal business and occupation taxes.  
8 Engrossed House Bill No. 2030, through the model ordinance,  
9 establishes uniform local definitions, tax classifications, and  
10 apportionment methodology.

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

22 (c) In 2010, the governor signed Executive Order No. 10-05 -  
23 improving the way state government serves small business. The order  
24 outlined priorities to make it easier to do business in Washington  
25 state. In the executive order, the department was specifically  
26 charged with exploring, evaluating, and recommending tax  
27 simplification solutions as a way to assist small businesses, draw  
28 businesses to the state, and keep Washington competitive. The order  
29 called for a business process with findings and recommendations due  
30 to the governor by June 30, 2011. Based on extensive feedback from  
31 small businesses, there was consensus that the top priority to  
32 simplify their tax burden is to have a single way to file taxes  
33 across the state. To meet this need, the department of revenue  
34 recommended centralizing administration of state and local business  
35 and occupation tax reporting, as is done with sales tax reporting  
36 today. In addition, the department recommended continued work to  
37 address feedback on administrative processes and ongoing efforts to  
38 look at integration of state systems, working towards a goal of a  
39 single business portal for small businesses to use to interact with  
40 the state. As part of the feedback provided to the department of

1 revenue, local governments pointed out the following benefits of  
2 centralized administration, if it was revenue neutral and retained  
3 local flexibility regarding local tax rates, exemptions, deductions,  
4 and credits:

5 (i) Reduce cities' administrative costs;

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

8 (iii) Increase statewide economic data;

9 (iv) Reduce cities' employee workloads;

10 (v) Potentially increase enforcement and broaden compliance;

11 (vi) Eliminate redundant processes; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28 (iv) One representative from a Washington city or town that  
29 imposes a local business and occupation tax and has a population  
30 greater than one hundred thousand persons using the most recent  
31 official population estimate determined under RCW 43.62.030 prior to  
32 the effective date of this section;

33 (v) One representative of a Washington city or town that imposes  
34 a business and occupation tax and has a population of less than one  
35 hundred thousand persons using the most recent official population  
36 estimate determined under RCW 43.62.030 prior to the effective date  
37 of this act; and

38 (vi) One representative from the department of revenue.

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

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

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

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

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