



Task force on local business tax & licensing simplification

During the 2016 legislative session, lawmakers passed [HB 2959](#), establishing a task force to evaluate options to continue local business tax and licensing simplification. On December 30, 2016, the task force released its final report on local tax and licensing simplification with four main recommendations. The task force did not recommend that all cities with a business license be required to participate in the state’s Business Licensing Service nor did it recommend any centralized collection of city B&O tax at the state level. However, some of the items recommended represented a significant compromise on the part of cities.

In the 2017 session, two bills [HB 2005](#) and [SB 5777](#) have been introduced that reflect several of the committee’s recommendations and each includes different approaches to requiring more cities to administer their business license through the state’s Business Licensing System (BLS). Both bills include provisions establish a licensing threshold. Below is a chart with a comparison of the major provisions of the bills.

The Legislature is considering two bills with impacts to city business licenses or taxes, HB 2005 and SB 5777.

	HB 2005	SB 5777
Licensing	Nearly every city with a business license would be required to join BLS. DOR would onboard at least six cities each year through 2021. The remaining cities would be required to join by 2027	With certain exceptions, every city with a business license would be required to join BLS. DOR would onboard at least six cities each year through 2021. The remaining cities would be required to join by 2027
Exceptions	A city can decline BLS if it participates in FileLocal as of 7/1/17, or has a population less than 500 and the city determines that partnering would cause significant hardship due to lack of fiscal or technical ability. DOR may delay if insufficient funds, unforeseen circumstances, or DOR determines delay necessary.	A city can decline BLS if it participates in FileLocal; determines partnering would cause hardship; or continuing to partner with BLS is not practicable, with 60 days notice. Hardship includes: lack fiscal or technical ability, lack support from city legislative authority, preference for local system, or other hardships identified by the city. DOR may delay if insufficient funds, unforeseen circumstances, or DOR determines delay necessary.
License fee	A city’s business license fee must be a structure that BLS can accommodate according to DOR’s sole discretion, and city licenses cannot be renewed more than once per year.	Same as HB 2005 (but cities may leave BLS under certain circumstances)
Model ordinance for local business licenses – minimum threshold	Cities, with input from business associations, will develop and adopt a model ordinance for business licensing which must include a mandatory definition of “engaging in business” and a minimum threshold or occasional sale exemption to establish a threshold for when out of town or transient businesses will be required to be licensed.	Same as HB 2005

	HB 2005 (cont)	SB 5777 (cont)
Work group on B&O tax allocation and apportionment of service income	A workgroup of cities with a B&O tax and business representatives will recommend changes to the apportionment of services income under RCW 35.102.130.	Same as HB 2005
Data sharing between FileLocal and BLS	Does not address	Does not address

What is AWC’s position on tax and licensing simplification?

AWC recognizes individual cities have different perspectives on city B&O taxes and business licensing. With that in mind, the task force’s city representatives developed principles to evaluate any recommendations for centralization and simplification. These principles were (1) revenue neutrality to cities; (2) maintaining local authority and flexibility; (3) no increase in administrative costs; and (4) benefits to the end users (local businesses).

What did the task force consider?

The legislation required the task force to develop options for centralized and simplified administration of city business licenses and B&O taxes. With more than 230 cities issuing local business licenses and 43 cities imposing a B&O tax, the task force’s recommendations have the potential to impact nearly every city in the state.

What did the task force recommend?

On December 30, 2016, the task force released its final report on local tax and licensing simplification. The task force did not recommend that all cities with a business license be required to participate in the state’s Business Licensing Service nor did it recommend any centralized collection of city B&O tax at the state level. However, some of the items recommended represent a significant compromise on the part of cities. The four recommendations are:

- **Licensing:** The state’s Business Licensing Service (BLS) will be the primary, but not exclusive, entry point for businesses to obtain general business licenses. AWC and DOR will partner to communicate the benefits of joining BLS to cities with a business license. By January 1, 2023, AWC and DOR will each submit a report to the Legislature describing efforts to onboard cities, identifying those cities that have not joined, and describing any identified barriers.
- **Local business licensing nexus:** Cities, with input from business associations, will develop and adopt a mandatory model definition of engaging in business that includes a de minimis standard or occasional sales exemption. This will establish a threshold for when out-of-town or transient businesses will be required to obtain a city business license.
- **Allocation and apportionment of service income:** A work group of cities with a B&O tax and businesses will be formed to draft changes to the apportionment of service income under RCW 35.102.130.
- **Data sharing:** The task force recommends the Legislature appropriate funding for an independent feasibility study to be conducted that will evaluate ways to create a more seamless and simplified experience for businesses to apply for a business license between BLS and the city tax and licensing portal, FileLocal.

The full report is available at <http://dor.wa.gov/docs/reports/LocalTax&Licensing.pdf>

Who served on the task force?

The nine-member task force was chaired by a representative of the Department of Revenue (DOR) and included four city representatives and four business representatives. Representing cities on the task force were AWC’s CEO Peter King, FileLocal Executive Board Member and Seattle’s Finance Director Glen Lee, Tacoma’s Finance Director Andy Cherullo, and Burien’s Finance Director Kim Krause.

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