



INFORMATIONAL MEMORANDUM

TO: Finance Committee

FROM: Peggy McCarthy, Finance Director

BY: Laura Crandall, Finance Staff

CC: Mayor Ekberg

DATE: April 11, 2018

SUBJECT: B&O Tax; Information Only

ISSUE

This memorandum provides information on B&O tax rates, implementation, and projected revenues.

BACKGROUND

Business and Occupation (B&O) taxes are collected statewide. RCW 35A.82.020 gives cities the authority to impose a B&O on businesses operating in their city; 43 of Washington's 281 cities do so. Four classifications—Retailing, Wholesaling, Manufacturing, and Service & Other Activities—are subject to B&O.

The State's Model Ordinance for B&O requires cities to adopt an exemption threshold where businesses grossing less than the threshold would not be subject to the tax. The threshold may be set as low as \$20,000 in gross receipts; it must be consistent across all classifications.

Administering a B&O tax is complex. Some businesses may engage in multiple activities, requiring them to report in more than one classification. Rates may be set at different levels for each classification, but not within a classification. Depending on whether a business is required to file quarterly or annually, a business may be subject to taxation in one quarter, but not in others. In addition, there are multiple activities that are exempt from B&O. Tax imposed is primarily measured on gross proceeds of sales or gross income.

This memo includes:

- Revenue estimations
- Staffing and implementation information from other cities
- Considerations for implementation and administration
- Options for further inquiry

Staff interviewed Shoreline, Renton, and Kent finance staff about financial modeling, implementation timelines, initial and ongoing costs and staffing levels, and recommendations or unexpected issues regarding implementation. Burien was not interviewed, as they do not administer B&O tax in-house.

Two data sets were used: 2017 taxable sales for Tukwila from the Department of Revenue, and the City of Tukwila's own data on actual gross receipts for 2017.

DISCUSSION

Revenue Targets

A few of the factors affecting the amount of revenue collected, number of returns processed, and staff needed to support B&O are:

- Rate of Taxation
- Exemption Threshold Level
- Quarterly or Annual Filing

The lower the exemption threshold, the higher the number of returns the City could expect to process since a greater number of businesses would be subject to the tax. Consequently, a greater number of returns would require more administrative, outreach, and education work. Similarly, when businesses file quarterly, the work load shifts.

All cities queried hired additional staff for implementation and ongoing administration. The City of Kent has the highest number of returns and employs 4 B&O FTE's full-time: two field auditors, one customer service specialist, and another in-house auditor. Table 1 shows FTE's, program costs, and number of filings for three cities.

City	FTE	Program Cost	# of Filings	
			Quarterly	Annual
Kent	4	\$780,000	4,000	N/A
Renton	1	\$250,000	N/A	1,200
Shoreline	1	\$245,000 ¹	N/A	N/A

Cities surveyed established a target revenue and set taxation rates and threshold based on their projections. Both Kent and Renton collected more tax than projected; Shoreline's tax goes into effect in 2019. Once the cities had been through a budget cycle, projections became more accurate. One city's initial target revenue was \$5 million, and their actual collected was over \$9 million. Another city's target revenue of \$3 million resulted in over \$4 million collected.

Rates

Rates and threshold affect the level of revenue generated and the number of businesses taxed. How rates are applied can also shape the economic development landscape. For example, one city set rates to encourage an increase in retail businesses and reduce another type of business.

For this report four rates of taxation and two different thresholds were used for each data set. A variety of additional scenarios could be produced by varying rates between classifications and/or altering the threshold. It should be emphasized that the projections in this memorandum are an estimate; businesses not subject to the tax were not identified and removed from the scenarios. Instead, this was achieved by assuming that 75% of the total amount in each data set would be subject to B&O tax. Should the Committee wish to pursue a B&O tax further, more extensive modeling should be done, with exempt businesses and activities removed.

¹ Estimated. Source: 12/4/2017 City of Shoreline Staff Report.

Table 2. Annual Projections Based on Taxable Sales*

	\$200,000 Threshold	\$500,000 Threshold
Rate		
0.0005	\$507,593	\$332,316
0.0009	\$862,909	\$564,937
0.001	\$1,015,187	\$664,632
0.002	\$2,030,374	\$1,329,263

*Department of Revenue data set. Assumes 75% of total subject to the tax.

Table 3. Annual Projections based on Gross Receipts*

	\$200,000 Threshold	\$500,000 Threshold
Rate		
0.00050	\$629,641	\$604,282
0.00085	\$1,070,390	\$1,027,280
0.001	\$1,259,283	\$1,208,565
0.002	\$2,518,565	\$2,417,129

*Tukwila data set. Assumes 75% of total subject to the tax.

The difference in projected revenue figures in Tables 2 and 3 can be attributed the use of taxable sales figures in one table (Table 2) and gross receipts in another (Table 3). Both tables assume 75% of the total dollars from the data set are subject to the tax. This method was an expedient way to show potential revenues and should be considered an estimate requiring further refinement.

Other Considerations

In addition to increased revenues for City operations, adopting a B&O tax would increase staff workload, personnel costs, and systems costs. These and other items for consideration are shown below, in no order of importance.

- Current staffing and workload in Finance and IT/IS
- Current and near future City projects requiring additional Finance and/or IT/IS services
- Initial and ongoing costs of implementing and administering program
- Community/Business outreach and education, initial and ongoing
- Client filing methods and forms
- Filing periods; frequency, and existing reporting requirements for businesses
- Exemption Threshold
- City's current business profile and desired future profile
- Existing taxation methods and potential impacts
- Technology and systems required for filing and processing B&O

RECOMMENDATION

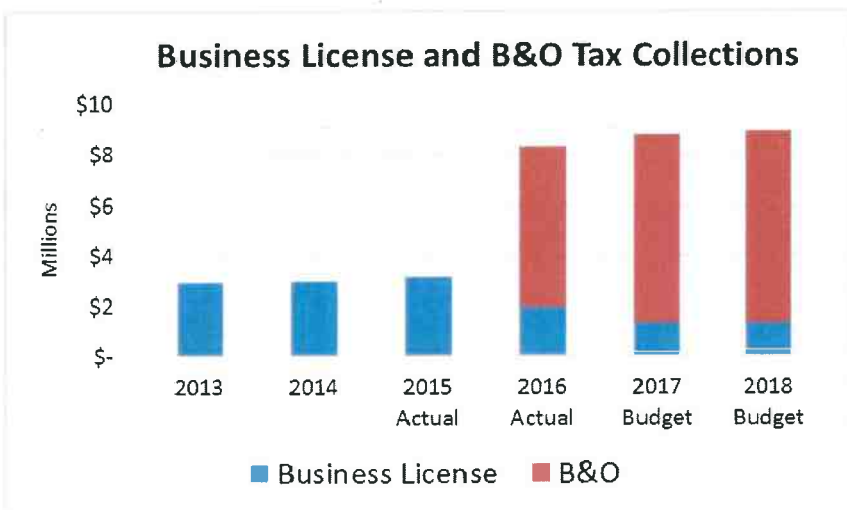
Discussion Only.

ATTACHMENTS

Renton B&O Actuals Chart
 Department of Revenue City B&O Rates, 2018

BUSINESS AND OCCUPATION TAX

- 2016 was the first year Business and Occupation Tax was collected.
 - \$6.4M in B&O tax was collected with a corresponding \$1.2M decrease in business license/head tax revenue.
- 2017 B&O tax collections have outperformed 2016 by 18% and are projected to exceed the budget by 10%.
- Upward adjustment of \$700k is being made to the 2017 and 2018 budget.



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Local Business (B&O) Tax Rates
Effective January 1, 2018

City	Phone #	Manufacturing rate	Retail rate	Services rate	Wholesale rate	Threshold	
						Quarterly	Annual
Aberdeen	(360) 533-4100	0.002	0.003 e	0.00375 e	0.003 e	\$5,000	\$20,000
Algona	(253) 833-2897	0.00045	0.00045	0.00045	0.00045	\$10,000	\$40,000
Bainbridge Island	(206) 780-8668	0.001	0.001	0.001	0.001		\$150,000
Bellevue	(425) 452-6851	0.001496	0.001496	0.001496	0.001496		\$160,000
Bellingham	(360) 778-8010	0.0017	0.0017	0.0044 e	0.0017	\$5,000	\$20,000
Bremerton	(360) 473-5311	0.0016	0.00125	0.002	0.0016		\$160,000
Burien	(206) 241-4647	0.001	0.001	0.001	0.001		\$200,000
Cosmopolis	(360) 532-9230	0.002	0.002	0.002	0.002	\$5,000	\$20,000
Darrington	(360) 436-1131	0.00075	0.00075	0.00075	0.00075		\$20,000
Des Moines	(206) 878-4595	0.002	0.002	0.002	0.002		\$50,000
DuPont	(253) 964-8121	0.001	0.001	0.001	0.001	\$5,000	\$20,000
Everett	(425) 257-8610	0.001	0.001	0.001	0.001	\$5,000	\$20,000
Everson	(360) 966-3411	0.002			0.002		\$1,000,000
Granite Falls**	(360) 691-6441						
Hoquiam	(360) 532-5700	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Ilwaco	(360) 642-3145	0.00200	0.00200	0.00200	0.00200		\$20,000
Issaquah	(425) 837-3054	0.00120	0.00120	0.00150	0.00120	\$25,000	\$100,000
Kelso	(360) 423-0900	0.00100	0.00100	0.00200	0.00100		\$20,000
Kenmore	(425) 398-8900	0.00200 *				\$5,000	
Kent	(253) 856-6266	0.00046	0.00046	0.00152	0.00152	\$62,500	\$250,000
Lacey	(360) 491-3214		0.00100	0.00200		\$5,000	\$20,000
Lake Forest Park	(206) 368-5440	0.00200	0.00200	0.00200	0.00200	\$5,000	
Long Beach	(360) 642-4421	0.00200	0.00200	0.00200	0.00200	\$5,000	
Longview	(360) 442-5040	0.00100	0.00100	0.00200	0.00100		\$20,000
Mercer Island	(206) 275-7783	0.00100	0.00100	0.00100	0.00100		\$150,000
North Bend	(425) 888-1211	0.00200	0.00200	0.00200	0.00200	\$5,000	
Ocean Shores	(360) 289-2488	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Olympia	(360) 753-8327	0.00100	0.00100	0.00200	0.00100	\$5,000	\$20,000
Pacific	(253) 929-1100	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Port Townsend****	(360) 385-2700	0.00200	0.00200	0.00200	0.00200	\$0	\$100,000
Rainier	(360) 446-2265	0.00200	0.00200	0.00200	0.00200	\$5,000	
Raymond	(360) 942-3451	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Renton****	(425) 430-6400	0.00085	0.00050	0.00085	0.00085		\$500,000
Roy	(253) 843-1113	0.00100	0.00200	0.00200	0.00100	\$5,000	\$20,000
Ruston	(253) 759-3544	0.00110	0.00153	0.00200	0.00102	\$5,000	\$20,000
Seattle***	(206) 684-8484	0.00222 v	0.00222 v	0.00427 v	0.00222 v		\$100,000
Shelton	(360) 426-4491	0.00100	0.00100	0.00100	0.00100	\$5,000	\$20,000
Snoqualmie	(425) 888-1555	0.0015	0.0015	0.0015	0.0015	\$5,000	
South Bend	(360) 875-5571	0.001	0.002	0.002	0.002	\$5,000	
Tacoma	(253) 591-5252	0.00110	0.00153	0.00400 e	0.00102		\$250,000
Tenino	(360) 264-2368	0.002	0.002	0.002	0.002	\$5,000	\$20,000
Tumwater	(360) 754-5855	0.001	0.001	0.002	0.001	\$5,000	\$20,000
Westport	(360) 268-0131	0.0025 e	0.005 e	0.005 e	0.0025 e	\$5,000	
Yelm	(360) 458-3244	0.001	0.002	0.002	0.001	\$5,000	

(v) = voter approved increase above statutory limit

(e) = rate higher than statutory limit because rate was effective prior to January 1, 1982 (i.e., grandfathered).

*Kenmore's B&O tax applies to heavy manufacturing only.

**Granite Falls repealed its B&O tax for all businesses other than extracting.

*** Seattle changed its rates effective January 1, 2018.

**** Port Tonsend and Renton changed the minimal threshold in 2018

NOTE: Tax rates may apply to businesses categories other than those above. Thresholds are subject to change.

Exemptions, deductions, or other exceptions may apply in certain circumstances. Contact the city finance

department for more information.