

Local Tax & Licensing Simplification Task Force

A report to the Legislature per
Engrossed House Bill 2959

December 30, 2016

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EXECUTIVE SUMMARY

This report was prepared in response to Engrossed House Bill (EHB) 2959 ([Chapter 55, Laws of 2016](#)), which created a task force to develop options for centralized and simplified administration of local business and occupation (B&O) taxes and business licensing.

OVERVIEW

The legislation created a nine-member task force comprised of city and business representatives and chaired by the Department of Revenue (Department). The legislation directed the task force to find options that provide the greatest benefit to businesses.

The task force evaluated:

- Improving the local business licensing process
- Examining the difference in nexus between the state and cities
- Examining allocation and apportionment methods
- Centralizing B&O collection (including a possible voluntary state option)
- Sharing of data between the Department and FileLocal

RECOMMENDATIONS

The task force met between May and December 2016 and was able to develop recommendations for four of the five topics.

Licensing

The state Business Licensing Service (BLS) will be the primary entry point for businesses to obtain general business licenses. During 2017, BLS will determine the rate at which they are able to add new city partners and determine what additional resources are needed in order to accelerate adding cities to BLS. The goal is to have as many cities as possible partnered with BLS by December 31, 2022.

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 minimus standard or occasional sales exemption. The definition will be available and adopted within two years.

Allocation and Apportionment of Service Income

A work group of B&O cities and Association of Washington Business representatives will be formed to draft recommended changes to [RCW 35.102.130](#). The group will report the proposed changes to the Legislature by October 31, 2017.

Centralized B&O Tax Collection

The task force was unable to make a recommendation regarding centralized B&O collection. The challenge is that businesses find that reporting B&O tax to local jurisdictions burdensome because of the complexity and lack of uniformity across jurisdictions. Conversely, cities view their ability to tailor their tax structure to businesses in their jurisdiction as being vital to their business communities and governing bodies.

Data Sharing

The task force recommends the Legislature appropriate funding for an independent feasibility study to evaluate ways for a more seamless and simplified business licensing experience. The study is to be completed by January 1, 2018.

INTRODUCTION

Local Business Tax and Licensing Simplification Task Force

Finding that a lack of uniformity in the administration of local business licenses and B&O taxes leads to confusion and places undue burden on Washington’s small businesses, the 2016 Legislature enacted, and Governor Inslee signed, Engrossed House Bill (EHB) 2959 ([Chapter 55, Laws of 2016](#)), an act relating to local business tax and licensing simplification.

EHB 2959 established a nine-member local business tax and licensing simplification task force to develop and evaluate options:

- To coordinate administration of local B&O taxes;
- To centralize administration of local B&O taxes for those cities and towns that desire to participate in a state-provided alternative;
- For all cities and towns to partner with the state Business Licensing Service (BLS); and
- For implementing data sharing and establishing a seamless state and local user interface for those cities and towns participating in FileLocal.

Focusing on options that provide the greatest benefit to businesses, the task force must prepare by January 1, 2017, a report for the Legislature that:

- Examines the differences in apportionment and nexus between state and local B&O taxes, and how these differences affect taxpayers and cities;
- Evaluates additional or alternative options to improve the administration of local business tax and licensing; and
- Provides recommendations for options evaluated by the task force.

Task Force Membership

The nine-member task force included four members representing the business community, four members representing cities, and one member from the Department, who also served as chair.

Member	Representing
Marcus Glasper, Deputy Director (Chair)	Department of Revenue
Eric Lohnes, Government Affairs Director	Association of Washington Business
Ronald Bueing, PricewaterhouseCoopers	Association of Washington Business
Patrick Connor, Washington State Director	National Federation of Independent Business
Mark Johnson, Vice President Government Affairs	Washington Retail Association
Peter King, Chief Executive Officer	Association of Washington Cities
Kim Krause, Finance Director, City of Burien	Cities with a population less than 100,000
Andrew Cherullo, Finance Director, City of Tacoma	Cities with a population greater than 100,000
Glen Lee, Finance Director, City of Seattle	FileLocal

Discussion Topics & Process

As represented by its charter (see [Appendix A](#)), the task force determined it would meet the requirements of EHB 2959 by discussing the following topics:

- Licensing
- Nexus
- Classifications
- Measure of tax
- Apportionment
- Administration
- Other options to improve the administration of local B&O taxes and licensing
- Data sharing between the Department and FileLocal

The task force agreed to approach each topic as follows:

- Provide an overview of the current state of affairs from the Department, FileLocal, a city that administers its own licensing and B&O tax, and business interests.
- Brainstorm options that would be evaluated based on its advantages, challenges, and ways the challenges could be mitigated.
- Develop one or more recommendations based on the analysis.

Task Force Efforts

The task force met 12 times between May and December 2016.

The task force encountered several challenges along the way. One challenge centered around the general theme of simplification for business. While both city and business representatives agree they want to make licensing and tax reporting at the local level easier, perspectives on how to make that happen were often vastly different.

In addition, the size and complexity of the subjects along with the timeframe of the legislation did not afford the task force sufficient time to explore some of the subjects to the required depth to make a substantial recommendation.

The task force spent considerable time discussing licensing because the task force believed this topic provided the greatest opportunity to make the most immediate difference in simplification for businesses. Much of the discussion centered around the changes and enhancements to the state's Business Licensing Service (BLS) with the launch of the Department's new system in June 2016. There was also much discussion about the benefits of FileLocal, the local licensing and tax reporting portal operated by the cities of Bellevue, Everett, Seattle, and Tacoma, which started operations during 2015.

Report Required

EHB 2959 directed the task force to report its findings and recommendations to the Legislature by January 1, 2017. Although the legislation provided for the inclusion of a minority report if the majority could not reach consensus, all task force members endorsed this report. Each recommendation was voted on separately with the Department abstaining when appropriate.

TASK FORCE RECOMMENDATIONS

LOCAL LICENSING ADMINISTRATION

Revised Code of Washington (RCW) [Title 35](#) and [Title 35A](#) grant broad authority to cities to regulate and provide a wide and diverse set of municipal services. One such power is a city's ability to license businesses. Of the 281 cities and towns (cities) in Washington state, 226¹ require businesses to obtain a local business license. There are three categories of city business licenses:

- General business license, which is to provide a city with a record of the business and ensure compliance with city ordinances and, is a flat fee.²
- Regulatory licenses for specific activities like taxis, festival vendors, and cabarets that some cities have determined warrant additional regulation, usually for code enforcement or public safety protection. The categories of these licenses vary by city.
- A revenue generating license based on specific criteria, such as the number of employees or square footage at a business location.

Currently, there is no uniform way by which a business can apply for and obtain local business licenses. Businesses apply for local licenses in one of three ways. Businesses operating in:

- One or more of the 66 cities partnering with the state's Business Licensing Service (BLS) use the state's system to apply for and renew local general business licenses. (See [Appendix B](#) for a list of cities that partner with BLS.)
- Bellevue, Everett, Seattle, and/or Tacoma apply for or renew a business license using FileLocal, a portal developed by these cities.
- One or more of the remaining 156 cities that have a business license requirement and do not partner with BLS or FileLocal must apply for or renew a general business license directly with those cities.

Business Licensing Service

The Department operates BLS, a clearinghouse for various business licenses and endorsements from 10 state agencies and 66 cities. In 2011, business licensing transferred from the Department of Licensing to the Department of Revenue.

BLS has many benefits for businesses and partnering cities.

Businesses:

- Have one location where they can obtain a state business license, register with the Department to pay taxes, and apply for over 300 state and city endorsements from BLS partners
- Receive one licensing document with all partner endorsements
- Are assigned one synchronized renewal date for all renewable endorsements
- Have the ability to self-print the licensing document

¹ The number of cities that require a local business license is based on best available data.

² Some cities such as College Place require businesses to register but do not charge a fee.

Partnering cities:

- Maintain autonomy over regulations and license approvals
- Approve general business license applications within the BLS system, which eliminates the need for cities to maintain a backend system
- Do not pay to partner with BLS
- May generate a variety of on-demand reports, including a list of businesses that did not apply for a city general business license but indicated a location in that city when applying for other licenses or endorsements
- Do not need to respond to certain public records requests since BLS is the system of record

FileLocal

Operated under an interlocal agreement among the cities of Bellevue, Everett, Seattle, and Tacoma, FileLocal allows businesses operating in these cities to obtain city business licenses and file and pay city B&O tax returns for these four cities. FileLocal started operations in 2015 and will be available to additional cities in 2017.

FileLocal offers benefits for participating cities and for businesses operating in one or more of these cities.

Businesses:

- Use an online portal to obtain or renew a general business license and report and pay local B&O tax for Bellevue, Everett, Seattle, and/or Tacoma
- May print a copy of the city license from the FileLocal site in addition to the city mailing the licensing document

Participating cities:

- Exchange data between FileLocal and the city
- Issue the general business license
- Maintain local control over local regulations and license approvals and renewals
- Approve the general business license applications and renewals within each city or town's backend system and therefore remains the system of record

Non-Partnering Cities

The remaining 156 cities that neither participate in FileLocal nor partner with BLS are responsible for administering their own business license. These cities:

- Maintain local control over application and renewal decisions
- Build relationships with business owners that apply for the general business license

In these cities, most business license applications are available online, and businesses must submit the application and payment in person at city hall, via U.S. Mail, or electronically (if available).

Businesses

Washington’s business community is frustrated with the various ways local business licenses are administered. There is no single entry point or standard process for a business to apply and pay for a business license for all cities in which they may be engaging in business activity. In addition, there is no single location where a business may identify the licensing requirements for all Washington cities. As a result, businesses must visit multiple websites or make numerous phone calls to determine licensing requirements. This can be a burden for small businesses that have business activity in more than one city.

Options for Centralized Administration of Local General Business Licenses

The task force identified four options for the administration of city general business licenses:

- Require all cities that impose licensing requirements to either participate in FileLocal or partner with BLS
- Require all cities that impose licensing requirements to partner with BLS
- Provide a robust electronic information site from which businesses can determine the licensing requirements for individual cities and how to apply for business licenses in those individual cities
- Provide a “one-stop shop” for licensing navigation through another portal, such as the BizHub Portal, which includes links to FileLocal, BLS, and other sites for information

The task force identified the advantages, challenges, and potential strategies to address the challenges associated with each option. The table in [Appendix C](#) describes these in further detail.

Recommendation

The task force unanimously recommends:

- The state BLS be the primary entry point for businesses to obtain their general business licenses, and that BLS strive to direct businesses to other licensing jurisdictions for specialty or regulatory licenses that may not exist in BLS.
- The Association of Washington Cities partner with the Department to communicate the benefits of partnering with BLS to Washington cities that require local business licenses.
- Revenue use calendar year 2017 to onboard cities that currently desire to partner with BLS and, using the experience of both Revenue and those cities, determine a reasonable rate under which additional cities can partner with BLS.
- Revenue provide a report to the Legislature by October 31, 2017, with an action plan identifying various rates at which cities can be onboarded and the funding required to onboard at each of those levels, not to exceed five years.
- Beginning no later than fiscal year (FY) 2019, the Legislature appropriate sufficient funds from the BLS account for Revenue to onboard additional cities as outlined in the action plan. Funds may be used for such purposes as increasing BLS staffing, training and technical support for municipal staff, and needs-based grants to facilitate city participation.
- When Revenue has exhausted the list of cities wanting to partner/join BLS or by January 1, 2023, whichever is sooner, Revenue submit a report to the Legislature describing its efforts to onboard cities, identifying cities that have and have not partnered with BLS, and describing any identified barriers.
- Revenue establish an advisory committee with local jurisdiction partners to provide input to the BLS on service level agreements/expectations, partner portal changes, and administration of partner change priorities.
- FileLocal cities may use FileLocal or BLS for business licensing.
- The Legislature appropriate funding to Revenue to fund an independent third party feasibility study with FileLocal on evaluating ways to create a more seamless and simplified experience for business taxpayers to apply for a business license to include:
 - Improving the user interface, interchange, and connection between BLS and FileLocal, making it easier for users to navigate between systems and obtain all necessary licenses; and
 - Utilizing BLS to license all businesses and providing appropriate data to FileLocal for B&O tax collection purposes.

The target completion date of the feasibility study is January 1, 2018. The State of Washington's Chief Information Officer must participate in the selection and oversight process of the third party vendor.

LOCAL LICENSING NEXUS

Revised Code of Washington (RCW) [35.22.280](#), [35.23.440](#), [35.27.370](#), and [35A.82.020](#) grant broad authority to cities to license businesses for the purpose of regulation and revenue. A business must obtain a city business license when it engages in business activities within one of the 226 cities that currently requires a business license.

Cities imposing a local B&O tax must follow a model ordinance that defines when there is sufficient nexus for a city to impose the tax, provides thresholds for imposing the tax, and defines and provides examples of “engaging in business.” No similar uniform approach exists for business license requirements; cities have the authority to define when a business must obtain a license to engage in business activity in their city.

Most cities require a business to obtain a business license regardless of the frequency with which an activity occurs or the income derived from the activity. For example, most cities consider that a seller who delivers goods with its own transportation equipment is engaged in business in the city without regard for the storefront location. Most cities require such businesses to obtain a business license regardless of the number of times goods are delivered within a city during a year.

Cities

Cities believe that the longstanding ability to license for purposes of revenue and regulation is a core principle of local control and are concerned about any changes to local licensing laws that would:

- Lessen the autonomy to regulate business licenses based on the needs of individual communities
- Limit the ability to know who is engaging in business activities within their jurisdictional boundaries
- Negatively impact city revenue

Business

The business community believes that the current manner under which cities require business licenses place an undue burden on small businesses that, while not physically located in one or more cities that impose business licensing requirements, conduct intermittent activities. This is because:

- Small businesses must spend time determining whether they do, in fact, engage in business activities as defined by different cities.
- There is no single online location from which to determine licensing requirements, and therefore small businesses must search individual city websites for information or call or visit cities to determine the requirements.
- For small businesses that conduct intermittent activities in several cities, the total cost to obtain licenses is frequently greater than the profit derived from such intermittent activities.

As a result, the business community believes that city licensing requirements should:

- Be uniform across the state
- Provide thresholds for intermittent activities, based either on income or the number of events
- Be reasonably related to the value of the activities conducted

Options for Local Licensing Nexus

The task force discussed one option to address local licensing nexus, which would require a business to obtain a city business license if the business:

- Is physically located in a jurisdiction
- Does business with the city
- Conducts intermittent activities and:
 - The revenue from such intermittent activities is in excess of a specified amount; or
 - The number of deliveries or service calls is more than four in a calendar year.

The task force also identified the advantages and challenges associated with this option. The table in [Appendix D](#) describes this in further detail.

Recommendation

With eight votes and the Department abstaining, the task force recommends:

- Cities establish a mandatory uniform model nexus definition of engaging in business in which cities would:
 - define when licenses would be required,
 - establish a de minimus standard or occasional sale exemption, and
 - complete and communicate the new definition for adoption by cities within two years.
- The general business license uniform definition be modeled after the language in [RCW 35.102.120](#), which establishes a list of terms and phrases that must be defined in the B&O model ordinance, including “(k) engaging in business.”
- Cities retain flexibility to provide additional exemptions in their business licenses (e.g. if they wanted to limit licenses to businesses with a physical location in the city).
- Cities retain authority to require businesses to register without a fee for those businesses below any threshold established by the uniform definition.
- The BLS allow a no-fee registration option for cities using the BLS system.
- The uniform model nexus definition be adopted using a process that includes opportunity for substantial input from business stakeholders, and input solicited from statewide business associations.

ALLOCATION AND APPORTIONMENT OF SERVICE INCOME

Apportionment refers to a method of dividing a tax base between various jurisdictions in which a taxpayer engages in business. Beginning January 1, 2008, cities that levy the B&O tax were required to start using a two-factor formula for allocating and apportioning service income, as set out in [RCW 35.102.130](#). Income earned from sales of tangible personal property is allocated to where delivery to the buyer occurs. All other income is to be sourced based on where the business activity occurs. Before 2008, cities used a cost apportionment formula for allocating and apportioning income between cities.

Washington state's unique service activity apportionment formula prescribed under state law for local taxation of service activities is difficult for municipalities to administer and businesses to understand. This is because the income factor in the formula uses customer location, which is defined using a three-part test that starts with the majority of contacts between a taxpayer and their customer. This is typically not tracked by businesses in the course of executing transactions or maintained in common business records. Both municipalities and businesses have found it challenging, costly, and cumbersome.

State Allocation and Apportionment Methods

Beginning in 1939, the state used a cost apportionment method to apportion the B&O tax for services businesses generally. This formula remained in place until 2010, when the Department suggested a change to a market-based model (also known as economic nexus).

The Department recognized that businesses had new methods of conducting business including using the internet. The Legislature enacted the change in [Second Engrossed Substitute Senate Bill 6143](#). The change was effective June 1, 2010 and requires some businesses earning apportionable income from Washington customers to be subject to taxes whether or not they maintain offices in the state or have any physical presence.

Local B&O Allocation and Apportionment Methods

Apportioning income allows businesses to proportionately divide their taxes among cities where they do business in Washington state. The statute requires cities to use a two-factor formula to apportion service income, using a payroll factor and a service-income factor. Each of these factors has a three-part test for determining the numerator for payroll in the city or service income in the city.

Two-factor formula:

$$\text{Services Income} = \text{Total Services Income} \times \frac{(\text{Payroll Factor} + \text{Service-Income Factor})}{2}$$

$$\text{Payroll Factor} = \frac{\text{Total Compensation in City}}{\text{Total Compensation Everywhere}}$$

$$\text{Service Income} = \frac{\text{Service Income in City}}{\text{Service Income Everywhere}}$$

To apportion income, businesses need the following information:

- Locations of customers, specifically where the majority of the contacts occurred between the business and the customer, or where service-income producing activity is performed
- Total gross service receipts
- Total payroll for each employee
- Office location of each employee

In 2005, the Department issued a report entitled: [Municipal Business and Occupation Tax Study and Potential Net Fiscal Impacts \(Allocation and Apportionment Study\)](#). The report highlighted an estimated revenue loss that cities with a local B&O tax would see in the first year (\$23.3 million) as a result of the switch from three- to two-factor apportionment. The cities also believe that a change to a market-based allocation (single-factor apportionment) would result in significant revenue losses.

In June 2016, a municipal B&O Tax Service Apportionment study group was voluntarily formed by B&O tax cities to review the challenges of two-factor apportionment. Eight cities are participating in the group. The goal is to develop guidelines to assist taxpayers and B&O cities with the application and administration of the two-factor apportionment formula.

Business Perspective on Local B&O Allocation and Apportionment

The historical approach to apportionment was for local B&O tax to be applied to 100 percent of the income if the city had nexus with the business and no other city taxed the income. The business perspective is that income should be taxed where the activity occurs.

Income sourcing is relatively easy to determine for most activities since the income is allocated to the location where the activity takes place or where delivery occurs. Manufacturing, wholesaling, and retailing activities use this method of income allocation.

Apportioning service income, such as architectural and legal services, can be difficult since business records/accounting programs available to small businesses do not identify where the benefit of the service was received. Businesses favor a market-based approach or an improved formula for two-factor apportionment.

Allocation and Apportionment Brainstorm options

The task force identified three options to address business concerns of allocation and apportionment of income for local B&O taxes:

- Formal change to [RCW 35.102.130](#) to address the challenges with the two-factor apportionment formula
- Establish a joint city/business group to develop a proposal on improvements to [RCW 35.102.130](#)
- Continue the municipal B&O Tax Service Apportionment study group

The task force identified the advantages, challenges, and potential strategies to address the challenges associated with each option. The table in [Appendix E](#) describes these in further detail.

Recommendation

With eight votes and the Department abstaining, the task force recommends:

- A working group be appointed to recommend changes to [RCW 35.102.130](#), and related sections if necessary, developing a method for assigning gross receipts to a local jurisdiction using a local market-based model in accordance with the intent of the 2003 legislation. The determination of tax liability should be based on information typically available in commercial transaction receipts and captured in common business record keeping systems.
- The working group consist of:
 - three members selected by the Association of Washington Cities representing municipalities that collect local B&O taxes, including at least one jurisdiction that has performed an audit where apportionment errors were discovered;
 - three members selected by the Association of Washington Business, including at least one tax practitioner or legal counsel with experience representing business clients in municipal audits that involved an apportionment error or dispute; and
 - a representative from the Department to serve as chair.
- The working group report its proposed changes to [RCW 35.102.130](#), and any related sections if necessary, no later than October 31, 2017.

CENTRALIZED LOCAL B&O COLLECTIONS

The B&O model ordinance provides additional uniformity across cities by mandating a minimum threshold; a system of credits to eliminate multiple taxation; specific definitions; and standard administrative provisions such as tax filing frequencies and penalty and interest provisions.

The model ordinance allows flexibility within its parameters by allowing cities to:

- set tax rates
- determine which of the uniform classifications they want to adopt, and
- set deductions, credits, thresholds, and exemptions

Currently 43 cities impose a local B&O tax. The four largest cities that impose a B&O tax participate in FileLocal, which allows businesses in those jurisdictions to file local B&O taxes and obtain local business licenses for those cities through one online system. Nearly 85 percent³ of the local B&O tax paid by businesses is paid to these four cities. The remaining 39 cities each have their own method for businesses to report and pay the tax.

State B&O collection

The state has 55 different B&O classifications. In 1992, the state had 18 tax classifications, and by 2012, the number of classifications had increased to the current number. The additional classifications were a result of preferential tax rates being added for certain industries.

All businesses assigned monthly and quarterly reporting frequencies are required to report and pay their taxes electronically. The state has offered an online filing and payment system (e-File) since 1998.

The Department collects several local taxes on behalf of local jurisdictions, such as:

- Local retail sales and use tax
- Lodging taxes
- Brokered natural gas

Local jurisdictions imposing these taxes are required by [RCW 82.14.050](#) to contract with the Department to collect these taxes and the Department is allowed to charge an administrative fee of up to 2 percent for this service. The taxes are collected and distributed monthly to local jurisdictions.

The Department is currently replacing its legacy tax system, including the e-File application.

Local B&O collection

Cities expressed concerns regarding their ability to retain autonomy when setting rates, classifications, deductions, thresholds, and exemptions. On average, B&O tax comprises 17 percent⁴ of all tax collections in B&O tax cities, and the cities feel their ability to tailor their tax structure to businesses in their jurisdiction is vital to their businesses and governing bodies

³ Washington State Auditor's Office, Local Government Financial Reporting System, 2015.

⁴ Washington State Auditor's Office, Local Government Financial Reporting System, 2015.

(mayors and councilmember). The city representatives indicate any major changes to their tax structure as it relates to centralizing B&O collection is beyond their scope of authority as a task force member.

Each Washington city is allowed to set their own B&O tax rates, classifications, exemptions, deductions, credits, and thresholds ([RCW 35.102](#)). The statute contains limitations in some of these areas; for example, the maximum rate that can be charged or the minimum threshold for filing. Cities are required to use the state's penalty and interest rates.

City B&O tax returns contain one to nine tax classifications compared to the state's 55 classifications. Several cities tailor the classifications to the businesses located within their city. Most cities with a B&O tax make the city's tax return available on their website. Businesses print, complete, and mail their tax return directly to the city.

In 2010, four cities (Bellevue, Everett, Seattle, and Tacoma) joined together to develop an on-line portal where businesses could apply for city business licenses and file and pay local B&O taxes for participating cities. The portal known as FileLocal became available in 2015.

Business Perspective on Local B&O collection

Business representatives indicate that reporting B&O tax to local jurisdictions is burdensome because of complexity and lack of uniformity across jurisdictions. The result is businesses are required to know varying information for cities where they conduct business. There is no central location available to businesses to determine if they owe B&O tax in the cities where they conduct business. Once a business has determined that B&O is due in a city or multiple cities, the business then must obtain the necessary forms to file and pay the tax due.

Before they file, the business must also determine when to file. While cities offer quarterly and annual filing frequencies (some cities offer monthly filing), these frequencies normally do not sync up with the filing frequency assigned by the state for state B&O tax filing.

The addition of FileLocal is a step in the direction of centralization but only solves the issue for taxes due in the four participating cities. Businesses must still file tax returns directly with any of the other 39 B&O cities where they conduct business.

Options for Centralized collection of local B&O tax

The task force identified four options to address centralized collection of local B&O tax:

- All cities with a local B&O tax are required to join FileLocal
- The Department replicates the functionality and structure of FileLocal in its current systems
- Centralized collection at the Department after harmonizing state and local B&O tax structure
- Voluntary state-provided alternative for centralized collection

The task force identified the advantages, challenges, and potential strategies to address the challenges associated with each option. The table in [Appendix F](#) describes these in further detail.

Recommendation

Due to the challenges and complexities identified above, the task force was unable to come to a recommendation regarding centralized B&O collection.

DATA SHARING

In 2012, the Department and FileLocal began discussing the possibility of the Department sharing the state's BLS data with FileLocal. As part of the planning for the FileLocal portal, the cities and the Department met several times between 2012 and 2016 to continue discussions on the possibility of sharing data.

In 2012, the Department encouraged the four FileLocal cities to consider joining BLS rather than building this function into their portal since the Department was looking to replace its aging legacy BLS system. FileLocal chose to include licensing functionality in the development of their portal when they awarded their contract in May 2013.

Due to limited resources, the Department requested that FileLocal postpone any data sharing discussions until after the Department's new licensing system was available. The Department determined that resources should not be spent on building interfaces with its legacy systems that would soon be replaced.

Department of Revenue

In 2012, the Department began work on a business licensing system replacement study. This work was done in advance of the decision to replace both the Department's legacy tax and licensing systems. The new licensing system was launched in June 2016.

State and city partners access the new BLS to review and approve licensing endorsements for their respective agencies. The BLS is designed so that the state's system is the system of record, meaning that the Department "owns" the data and partners access the system to do their licensing work. Any public records requests are the responsibility of the Department. With this structure, partners are not required to keep licensing data in a backend system. Many partners choose to have a backend system for other purposes and the BLS system provides reports that may be uploaded into those systems.

FileLocal

In July 2015, FileLocal launched its first city, Seattle. Since then Tacoma, Bellevue and most recently Everett have also become part of FileLocal.

The portal is a seamless interface between FileLocal and each city's data systems. FileLocal acts as a portal by transferring data to each city's backend system. FileLocal is designed such that it builds an interface to each city in order to onboard that city. Unlike BLS, FileLocal is not the system of record. Each city who receives data from FileLocal is considered the system of record or "owner" of the data. These cities are responsible for responding to public records requests as owners of the data.

Data sharing brainstorm options

The task force identified three options for sharing general business license data between BLS and FileLocal:

- FileLocal has real-time interface with BLS

- FileLocal and BLS remain separate systems and provide for real-time data exchange on identified common data elements
- All cities license via BLS and sends data to FileLocal for its participating cities

The task force identified the advantages, challenges, and potential strategies to address the challenges associated with each option. The table in [Appendix G](#) describes these in further detail.

Recommendation

The task force unanimously recommends:

- The Legislature appropriate funds from the BLS account for the Department to contract with an independent third party to perform a feasibility study with FileLocal on evaluating ways to create a more seamless and simplified experience for business taxpayers to apply for a business license to include:
 - improving the user interface, interchange, and connection between BLS and FileLocal making it easier for users to navigate between systems and obtain all necessary licenses; and
 - utilizing BLS to license all businesses and providing appropriate data to FileLocal for B&O tax collection purposes.
- The feasibility study be completed by January 1, 2018.
- The State of Washington's Chief Information Officer participate in the selection and oversight process of the third party vendor.

APPENDIX A

CHARTER

Local Business Tax and Licensing Simplification Task Force Charter

Background	HB 2959, enacted by the Legislature in the 2016 legislative session, directs the state, cities, towns, and identified business associations to partner in developing options for centralized and simplified administration of local business and occupation taxes and business licensing.
Purpose	<p>The task force will prepare a report to the legislature by January 1, 2017. The report must contain:</p> <ul style="list-style-type: none">• Options to coordinate administration of local business and occupation taxes• Options for centralized administration of local business and occupation taxes for those cities and towns that desire to participate in a state-provided alternative• Options for all cities and towns to partner with the state business licensing service• A method to share data and establish a seamless state and local user interface for those cities and towns participating in FileLocal• Additional or alternative options to improve administration of local business tax and licensing• An examination of the differences in apportionment and nexus between the state and local business and occupation taxes• An examination of how the differences in apportionment and nexus affect taxpayers and cities
Goal	<ul style="list-style-type: none">• Report must be adopted and approved by a majority of the members of the task force• Minority report may be generated for each topic discussed
Objective	To develop a report for the legislature that includes local B&O tax and licensing administration options that provides the greatest benefit to taxpayers.

Local Business Tax and Licensing Simplification Task Force Charter

Scope	<p>Included</p> <ul style="list-style-type: none">• Licensing• Nexus• Classifications• Measure of tax• Apportionment• Administration• Other options to improve administration of local business and occupation tax and licensing• Information sharing between Revenue and FileLocal <p>Optional</p> <ul style="list-style-type: none">• Draft legislation <hr/>
Task Force Meeting Frequency	<p>The group is required to meet at least once a month. Additional meetings may be required to satisfy the legislation.</p> <hr/>
Task Force Voting	<p>The members listed below are the official voting members of the task force. Vote by proxy will be allowed by designating in writing to another member of the task force and a copy must be provided to the task force chair. Or, an alternate may be designated by giving written notice to the task force chair 24 hours in advance of the meeting.</p> <p>The Task Force will conduct interim votes on options and recommendations for each subject matter included in the scope but the Task Force reserves the right to revisit the votes prior to finalization of the written report.</p> <p>Majority vote – means 50% plus one or more of the voting members in attendance or by proxy.</p> <hr/>

Local Business Tax and Licensing Simplification Task Force Charter

Task Force Members

Name	Representing	Role
Marcus Glasper, Deputy Director	Department of Revenue	Task Force Chair
Eric Lohnes, AWB Government Affairs Director	Association of Washington Business	Business representative
Ronald Bueing	Association of Washington Business	Business representative
Patrick Connor, NFIB/Washington State Director	National Federation of Independent Business	Business representative
Mark Johnson, WRA Vice President Government Affairs	Washington Retail Association	Business representative
Peter King, AWC CEO	Association of Washington Cities	City representative
Andrew Cherullo, Finance Director City of Tacoma	City (population > 100,000)	B&O city representative
Kim Krause, Finance Director City of Burien	City (population < 100,000)	B&O city representative
Glen Lee, Finance Director City of Seattle	FileLocal	B&O city representative








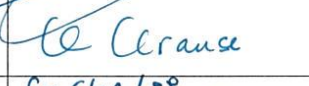

Task Force Staff

The following Department of Revenue staff will support the task force.

Name	Representing	Role
Patti Wilson, Local Government Liaison	Department of Revenue	Task force staff
Joanne Gordon, Legislative Coordinator	Department of Revenue	Task force staff

Local Business Tax and Licensing Simplification Task Force Charter

Charter Approval

Name	Representing	Signature
Marcus Glasper, Deputy Director	Department of Revenue	
Eric Lohnes, AWB Government Affairs Director	Association of Washington Business	
Ronald Bueing	Association of Washington Business	
Patrick Connor, NFIB/Washington State Director	National Federation of Independent Business	
Mark Johnson, WRA Vice President Government Affairs	Washington Retail Association	
Peter King, AWC CEO	Association of Washington Cities	
Andrew Cherullo, Finance Director City of Tacoma	City (population > 100,000)	
Kim Krause, Finance Director City of Burien	City (population < 100,000)	
Glen Lee, Finance Director City of Seattle	FileLocal	for Glen Lee 

APPENDIX B

BUSINESS LICENSING SERVICE PARTNER CITIES

Anacortes	Gold Bar	Poulsbo
Bellingham	Granite Falls	Prosser
Blaine	Ilwaco	Pullman
Bonney Lake	Issaquah	Richland
Bridgeport	Kenmore	Rockford
Buckley	Kennewick	Ruston
Carbonado	Lacey	Sammamish
Carnation	Lake Stevens	Sedro Wooley
Clyde Hill	Leavenworth	Sequim
College Place	Liberty Lake	Shoreline
Connell	Long Beach	Skykomish
Covington	Longview	Spokane
Deer Park	Maple Valley	Spokane Valley
DuPont	Marysville	Stanwood
Duvall	Millwood	Sultan
Eatonville	Milton	Sumner
Edgewood	Monroe	Tumwater
Enumclaw	Newcastle	University Place
Ephrata	North Bend	Vancouver
Fife	Olympia	Washougal
Fircrest	Port Orchard	West Richland
Gig Harbor	Port Townsend	Woodinville

APPENDIX C

OPTIONS TO SIMPLIFY LOCAL BUSINESS LICENSING

Require cities that have licensing requirements to join FileLocal or BLS		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Everyone participates in an electronic system for business licenses • Greater compliance by businesses • More revenue for cities because of increased licensing compliance by business • Simpler for businesses compared to current process • Easier to get necessary information to businesses upfront and ability to direct businesses where they need to go • Reduces cities' liability for public records requests because BLS holds the information rather than the individual cities 	<ul style="list-style-type: none"> • Staffing capacity • Lack of direct customer service, particularly for smaller cities • FileLocal participation may require infrastructure investment (BLS requires no back-end system unless city wants to load info into their system) • Delays in responding to requests for list of businesses in certain jurisdictions because it's DOR's data • Understanding the different business process models used by cities that don't participate in FileLocal or BLS • Understanding the timeline for implementation 	<ul style="list-style-type: none"> • Computer in lobby with availability of assistance from staff of small city • Increase BLS license fee to help local jurisdictions with infrastructure investment (no internet service or dial-up service) • Process engineering/mapping for cities or gather current city requirements • Survey of cities for constraints/objections/barriers • Leave current structure alone and create safe harbors • Explore incentives for cities to join versus mandate, such as "strike team" assistance
Require all cities with licensing requirements to license through BLS		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • One place for businesses (portal) • Greater compliance by businesses • More revenue for cities because of increased licensing compliance by business • Simpler for business compared to current process • Easier to get necessary info to businesses upfront – ability to direct businesses where they need to go • Reduces cities' liability for public records request because BLS holds the 	<ul style="list-style-type: none"> • Staffing capacity • Lack of direct customer service, particularly for smaller cities • Potential lack of internet access for small cities • Delays in responding to requests for list of businesses in certain jurisdictions because it's DOR's data • Understanding the different business process models used by cities that don't participate in FileLocal or BLS • Cities may not want to yield autonomy to the state 	<ul style="list-style-type: none"> • Increase general capacity (management training, software, etc.) • Survey of cities for constraints/objections/barriers • Find/explore incentives for cities to join versus mandate, such as "strike team" assistance • Strong support system and ensuring the state has the capacity to handle the needs (maybe setting up a separate entity – figuring out a cost model) • Governance structure • Disaster recovery

<p>information rather than the individual cities</p> <ul style="list-style-type: none"> • Costs easier to track • Fully integrated place for licensing • Maintenance upgrades potentially easier • Cities do not need a back end system because they work within the BLS environment 	<ul style="list-style-type: none"> • Understanding the timeline for implementation • All in one place if system crashes 	
Provide a robust information site		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • 24-7 access for business owners • Channel for cities and state to communicate changes • Helps businesses on the path to avoiding errors by omission • Increased compliance • Avoidance of penalties for not doing the right thing or enough 	<ul style="list-style-type: none"> • Ownership • Responsible party • Content decisions • Depth of robustness • Maintenance/updates • Resources • Cities provide information vs. organizers that research • Only provides info for businesses to wade through (job half done) 	<ul style="list-style-type: none"> • Legislation requiring cities to provide licensing info to centralize location • Monetizing businesses through business organizations (e.g. AWB/NFIB) by requiring them to pay for the site • AWC contract with state (fund) for maintenance • Build a city page in BizHub
One-Stop Shop for licensing (BizHub portal) BLS and FileLocal included as links & info site		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Easy to find starting point • Greater compliance by businesses • More revenue for cities because of increased licensing compliance by business • Simpler for business compared to current process • Easier to get necessary info to businesses upfront – ability to direct businesses where they need to go • Maintains local control 	<ul style="list-style-type: none"> • Another governing structure • Lack of resources/funding • More costs • Understanding the timeline for implementation 	<ul style="list-style-type: none"> • More resources/money (funding package)

APPENDIX D

OPTIONS TO SIMPLIFY LOCAL BUSINESS LICENSING NEXUS

Create local business licensing threshold		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none">• Consistency• Businesses will know the rules• Potential of increased compliance	<ul style="list-style-type: none">• Cities will not know who is coming into their city• Cities will lose revenue because some businesses not required to obtain a license (e.g. for one delivery, a business would no longer be required to obtain the city business license)	<ul style="list-style-type: none">• Establish threshold• Establish licensing requirements for businesses below the threshold

APPENDIX E

OPTIONS TO SIMPLIFY LOCAL INCOME ALLOCATION AND APPORTIONMENT

Formal change to RCW 35.102.130 to address the challenges with the numerator in the 2 factor apportionment formula		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Reduce record keeping burden on businesses to improve compliance by businesses • Expedite audits due to availability of records • Simplify administration for cities 	<ul style="list-style-type: none"> • Complexity of the issue, needs more time and right people in the room • Possible financial impact to cities and businesses 	<ul style="list-style-type: none"> • Identify records businesses currently keep • Create a model for business record keeping
Establish a joint city/business group to develop a proposal by October 1, 2017 to the legislature to make improvements to RCW 35.102.130		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Simplify administration for cities • Reduce complexity for businesses • Provides more time to jointly provide a recommendation • Legislative approval/support increases if joint recommendation 	<ul style="list-style-type: none"> • Complicated subject • Identifying correct people to address subject in short timeframe 	<ul style="list-style-type: none"> • Workgroup consists of subject matter experts • Create a model for business record keeping • Apportionment workgroup focuses on recordkeeping rather than changing tax rates/liabilities
Continue the municipal B&O Tax Service Apportionment study group formed in June 2016		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Currently in place and seeking input from stakeholders (tax practitioners) 	<ul style="list-style-type: none"> • Informal • Only includes city representatives • Limited scope • Doesn't resolve the issue because legislative action would be required 	<ul style="list-style-type: none"> • Local apportionment work group to continue with work they have currently undertaken

APPENDIX F

OPTIONS FOR CENTRALIZED LOCAL B&O TAX COLLECTION

All cities with a local B&O join FileLocal		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Infrastructure already exists • One-stop for businesses to file & pay • Central repository for providing tax reporting information and also a means of communicating information with businesses • Cities maintain autonomy by not needing to make changes to their tax structure • FileLocal already working on cost structure for bringing on additional cities 	<ul style="list-style-type: none"> • Because it maintains autonomy for cities, does not provide consistency for common classifications, deductions, exemptions, thresholds, etc. • States and cities may have different interpretations – potentially different case law • May be cost prohibitive for cities to join (lack of financial resources) • No requirement to join and no timeline exists for the other B&O cities to join FileLocal 	<ul style="list-style-type: none"> • Existing local B&O group working to harmonize reporting at the local level • FileLocal could file reports with the Legislature as to progress in conjunction with the Department's reports on BLS. • Create a timeline for cities to join • Look at grant/financial assistance for cities to join (provide financial support)
Department replicate FileLocal		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Reduce number of returns businesses would have to file for state and local B&O • Business have more familiarity with state system from filing of state tax return • Integrated licensing and tax system 	<ul style="list-style-type: none"> • Do not know what the management of local B&O by the Department would look like What would be the constraints within the current local B&O? • FileLocal and the Department have different vendors <ul style="list-style-type: none"> ○ Department vendor may not be able to replicate FileLocal • Costs to taxpayers to build the system • Department engaged in a multi-year system replacement and this would expand the scope • The timeline for bringing on cities into ATLAS for local B&O reporting 	<ul style="list-style-type: none"> • The Department identify need for additional funding and resource needs • Determine the ability of ATLAS to handle differences and possibility of more cities adding a B&O in the future

Centralized collection at Department of Revenue after harmonizing state and local B&O tax structure		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Simplicity • Consistency • Ease of compliance for businesses (one-stop reporting) 	<ul style="list-style-type: none"> • Cost of Department to build – implementation • Revenue impact on cities and businesses • Loss of local autonomy: <ul style="list-style-type: none"> ○ Cities ability to set rates ○ Cities inability to negotiate with businesses on tax structure ○ Limits cities policy options 	<ul style="list-style-type: none"> • Work group to discuss what harmonizing would look like • Focus on classification, deductions, exemptions, definitions
Voluntary state provided alternative for centralized B&O collection (assumes model ordinance remains)		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Potentially reduces burden and paperwork for businesses doing business in the cities that opt in • Potential discovery of under-reporting of businesses in some cities due to state auditing 	<ul style="list-style-type: none"> • Creates a complex programming challenge for Revenue and staffing required • Compliance risk for cities and potential revenue impact • State lacks incentive to do local audits • Revenue’s administrative fee 	<ul style="list-style-type: none"> • Encourage FileLocal to expand to as many B&O cities as possible • Ask FileLocal to identify strategies to encourage cities to participate in FileLocal

APPENDIX G

OPTIONS FOR BLS AND FILELOCAL DATA SHARING

FileLocal with real-time API to ATLAS		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Provides for businesses doing business with FileLocal cities to apply for and obtain all city and state licenses and endorsements through FileLocal • Single access point for the FileLocal businesses • Systems of Record (SOR's) are updated at the time of the transaction. • Leverages existing systems – DOR and FileLocal. • Web Interface would be between the DOR and I system – FileLocal – so one web interface versus multiple with the DOR as the SOR • Web Interface Technology is in use today. • FileLocal cities work with FileLocal to make changes to the system. 	<ul style="list-style-type: none"> • Web Service Calls <ul style="list-style-type: none"> ○ Requires ATLAS business rules be provided to FileLocal through a web service ○ FileLocal would need to replicate ATLAS business rules and collect all data necessary for FileLocal as well as ATLAS ○ FileLocal would need to push collected data from the user back to ATLAS ○ Web services for business rules and data would need to be secured • Additional bandwidth and computing capabilities would need to be established to ensure adequate performance • Additional complexity requires additional funding to build and maintain • As described, there would be two entry points for businesses depending on where they do business. Businesses operating in FileLocal cities may use FileLocal to obtain all business licenses and endorsements. Businesses that do not operate in FileLocal cities would access ATLAS to obtain all business licenses and endorsements. This may lead to confusion for businesses not knowing which system to use. • Maintains higher cost per transaction for businesses in FileLocal cities to apply for a business license (\$4 FileLocal fee per city plus \$19 BLS fee). 	<ul style="list-style-type: none"> • Conduct feasibility study • Develop combined communication strategies to educate businesses

FileLocal and ATLAS are separate systems; provide for some real-time data exchange; Users would come to ATLAS for state license and Non-FileLocal City licenses		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Relatively simple to implement 	<ul style="list-style-type: none"> • Business will need to use both ATLAS and FileLocal to obtain all licenses and endorsements • Increased taxpayer learning curve from using two systems. 	<ul style="list-style-type: none"> • To improve experience, we could provide additional instruction to users and better mechanism to link (cross-link) between ATLAS and FileLocal
License via DOR; data sent to FileLocal (cities in FileLocal added as BLS partners)		
Advantages/Opportunities	Challenges	Strategies to Address Challenges
<ul style="list-style-type: none"> • Businesses would have a single entry point for state and city business licensing and renewals • This is the BLS model today; proven solution that supports multiple city partners and state agencies • Partners control business rules; data provided to partners to load into their separate systems; secured partner portal provided to cities and agencies as an added convenience • Could decrease license fees for businesses that require an annual renewal with the state. 	<ul style="list-style-type: none"> • Concern by FileLocal cities that ATLAS (DOR) may not be able to respond to the various changes that cities make in licensing rules, fees, etc. • Mandates the FileLocal business user uses two systems (one for B&O and one for licensing) • Manual process for loading data into the cities Systems of Record (SOR). If web interfaces are used to bridge this issue, then a web interface will need to be developed/maintained for all FileLocal cities versus a single interface into the FileLocal system. • This solution only solves for city general business licenses while most other city regulatory licenses and taxes must be maintained outside of the DOR system. • May increase license fees for businesses doing business with FileLocal cities and don't require an annual renewal with the state. 	<ul style="list-style-type: none"> • DOR could consider incorporating more regulatory licenses based on economies of scale. (e.g. DOR had many partner cities with Home Occupation licenses and that that regulatory license was added) • Build more web interfaces to support data needs of partners

APPENDIX H

GLOSSARY

Allocation

A method of determining where a taxable activity occurs.

Apportionment

A method of allocating income between jurisdictions when a service-taxable activity occurs in more than one location.

Association of Washington Business (AWB)

An organization that represents the interests of large and small businesses, by serving as both the state's chamber of commerce and the manufacturing and technology association.

Association of Washington Cities (AWC)

An organization that represents Washington's cities and towns before the state legislature, the state executive, and regulatory agencies.

Automated Tax and License Administration System (ATLAS)

The Department's new tax and licensing system. Funded by the legislature, the project is commonly known as the Tax and License System Replacement (TLRS).

Business Licensing Service (BLS)

An online clearinghouse for licenses and endorsements offered by 10 state agencies and local business licenses and endorsements offered by 66 cities (as of December 2016).

Local Business & Occupation (B&O) Tax

A locally-imposed tax measured by the value of products, the gross income of the business, or the gross proceeds of sales, as the case may be, and that is the legal liability of the business. See [RCW 35.102.030](#).

B&O Tax Model Ordinance

A uniform methodology for imposing a local gross receipts tax on businesses that engage in business activities within cities that impose such a tax. Cities that impose a local B&O tax must adopt the mandatory provisions of the model ordinance. See [RCW 35.102.040](#). The [B&O tax model ordinance](#) is posted on the MRSC website.

Cities

[RCW 35.01.010](#) and [35.01.020](#) establish first class and second class cities while [Title 35A RCW](#) provides for charter and noncharter code cities. Cities are granted broad legislative authority to require business licenses for purposes of revenue and regulation.

Department of Revenue (Department)

The state agency authorized under [chapter 82.01 RCW](#) to assess and collect all taxes and administer all programs relating to taxes under its responsibility. It is also the state agency tasked with operating the Business License Center under [chapter 19.02 RCW](#).

FileLocal

An online portal operated by the cities of Bellevue, Everett, Seattle, and Tacoma through which businesses operating in one or more of those cities apply for and renew general business licenses and report and pay local B&O tax.

General Business License

A license required of all persons that engage in business activities within a city or town that imposes business licensing requirements.

Municipal Research and Services Center (MRSC)

A nonprofit organization that helps local governments across Washington state better serve their citizens by providing legal and policy guidance.

National Federation of Independent Businesses (NFIB)

An advocate for small businesses across the country whose mission “to promote and protect the right of [its] members to own, operate and grow their businesses”.

Nexus

The level of activities conducted by a business that are sufficient for a city to impose its tax requirements under the standards established for interstate commerce under the commerce clause of the United States Constitution. See [RCW 35.102.050](#).

Onboarding

The process the department uses to add cities as licensing partners, which includes gathering local licensing requirements and programming that information, along with a list of the city’s currently licensed businesses, into the BLS data base.

Regulatory Business License

A license required of certain types of businesses that a city has determined warrants additional regulation, such as taxicabs, door-to-door solicitations, vending machine operators, amusement device operators, home-based businesses, adult entertainment businesses, cabarets, seasonal fruit stands, pawnbrokers, etc. Regulatory licenses are in addition to the general business license. Cities have the authority to determine which, if any, regulatory business licenses are required within their jurisdictions.

Two-factor Apportionment

For local B&O tax purposes, the generally acceptable method of apportioning service-taxable income when an activity occurs in more than one jurisdiction. See [RCW 35.102.130](#) and Association of Washington Cities [Model Ordinance Discussion](#)

Town

Established by [RCW 35.01.040](#), a town is not a city, but similar to cities, towns have broad legislative authority to require business licenses for purposes of revenue and regulation. All references to city or cities in this report includes towns.

Washington Retail Association (WRA)

An organization whose mission is to “advocate for the retail industry to the public and at all levels of government and provide members programs of value”.

APPENDIX I

LOCAL BUSINESS LICENSING & BUSINESS AND OCCUPATION TAX TIMELINE⁵

1976	SSB 3271 (Chapter 68, Laws of 1976, 2nd Ex. Sess.) established the Business Coordination Act as a pilot project under which the then Department of Commerce and Economic Development administered a master application process for new grocery stores beginning July 1, 1976, and the renewal of permits for existing grocery stores beginning January 1, 1977. By January 1, 1977, the agency was required to report on the pilot project, and provide recommendations for consolidating inspections, expanding the program to include other types of businesses, and improving procedures.
1977	SHB 120 (Chapter 319, Laws of 1977, 1st Ex. Sess.) expanded the Business Coordination Act by establishing a Business Registration and Licensing Center within the then Department of Motor Vehicles to “provide a convenient, accessible, and timely system for the business community to acquire and maintain the necessary state registrations and licenses to conduct business . . .” The legislation, which required the participation of certain agencies, established goals and target dates for meeting the goals, objectives, and duties.
1982	SHB 878 (Chapter 182, Laws of 1982) expanded the scope and requirements of what became known as the Master License Program, changed the name of the Business Registration and Licensing Center to Business License Center, and revised the goals of the Business License Program to 1) make information available concerning all state licensing and regulatory requirements and include, as feasible, local and federal information, and 2) aid businesses by “instituting a master license system that will reduce the paperwork burden on business, and promote the elimination of obsolete and duplicative licensing requirements by consolidating existing licenses and applications.”
1989	SB 6152 (Chapter 9, Laws of 1989, 1st Ex. Sess.) established the Department of Health and the requirement for shopkeepers to register through the master license system.
1990	SSB 6664 (Chapter 264, Laws of 1990) provided certain authority with respect to the collection of fees and directed the Legislative Budget Committee to conduct a performance audit of the Master Licensing Program to “determine program effectiveness and efficiency.”
1992	SSB 6461 (Chapter 107, Laws of 1992) established a license information packet along with a \$5 fee for such packets, increased the master application fee from \$12 to \$15, established a \$9 fee for renewal applications, established a master license delinquency fee, created the master license fund, directed the deposit of master application, renewal, delinquency fees, and trade name registration fees to the master license fund beginning July 1, 1992.
1995	ESHB 1010 (Chapter 403, Laws of 1995), the Regulatory Reform Act of 1995, eliminated the \$5 fee for license information packets. This legislation also required the Department of Licensing to meet certain deadlines. By December 31, 1995, there was a requirement to develop a plan for a statewide license information management system and combined licensing program. By December 31, 1996, there was a requirement to expand the license information management system to provide

⁵ This timeline does not include minor technical changes that occurred in 1979, 1985, 1993, 1994, and 1999.

	online local, state, and federal business registration and licensing requirements. By December 31, 1997, there was a requirement to have a combined licensing project fully operational in at least two cities.
1997	SSB 5483 (Chapter 391, Laws of 1997) required whitewater river outfitters to obtain a whitewater river outfitters license from the Department of Licensing, directed fees for the license to be deposited in the master license account, and directed the Parks and Recreation Commission to participate in Business License Program.
1997	Two cities join the Master License Program.
2001	<p>Governor Locke established the Washington Competitiveness Council and directed it to identify proposals for making the state more business friendly. In addition to other issues, the Council was directed to look at the disparity of taxes among different cities. The Council's December 2001 final report, recommended the enactment of legislation during the 2002 Legislative Session to embody areas of agreement by the Municipal Tax Workgroup, a sub-workgroup formed to look issues related to a lack of uniformity in the local tax structure, the complexity and cost of compliance, and the potential for the multiple taxation of income. The report also recommended continued discussion on areas of disagreement with the goal of additional legislation for the 2003 Legislative Session.</p> <p>Governor Locke directed Revenue to lead the Municipal Tax Workgroup. The Governor also directed Revenue to make its own recommendations if the parties could not reach agreement. Revenue's recommendations appear in Appendix A of the final report.</p>
2002	As a result of recommendations by the Municipal Tax Workgroup, Governor requested legislation (HB 2658) during the 2002 legislative session. Others also introduced bills to reform local municipal B&O taxes.
2002	Business and Occupation (B&O) tax cities developed a voluntary model ordinance, which was subsequently revised to meet the requirements of EHB 2030 (Chapter 79, Laws of 2003). All of the existing B&O tax cities ultimately adopted the model ordinance.
2003	EHB 2030 (Chapter 79, Laws of 2003) required cities working through the Association of Washington Cities (AWC) to adopt a model ordinance with certain stipulations and required cities imposing a local B&O tax to comply with the model ordinance. The intent was to provide a more uniform system of municipal B&O taxes with the intent of eliminating multiple taxation while continuing to allow local control and flexibility. The legislation also required cities to adopt allocation and apportionment by January 1, 2008. The legislation also required the Department of Revenue (Revenue) to study and report on the potential net fiscal impacts of the bill by November 30, 2005 with progress reports required by November 30, 2003 and 2004. By December 31, 2004, Revenue was also required to evaluate defined terms in the model ordinance and provide the net fiscal impact occurring as a result of the defined terms.
2003	Revenue submitted the Engrossed House Bill 2030 Study Progress Report and cover letter , which summarized the first meeting with the report advisory committee and described challenges faced by Revenue in conducting the two studies required by EHB 2030 (c 79, Laws of 2003).
2004	Revenue submitted the Municipal Business and Occupation Tax Studies 2004 Progress Report and cover letter required by EHB 2030 (c 79, Laws of 2003).
2004	Revenue submitted the Municipal Business and Occupation Tax Baseline Study , which required Revenue to compare definitions used in the AWC model ordinance with

	state B&O tax definitions contained in chapter 82.04 RCW, explain the reason for any deviations, and estimate the deviations. The study found that certain model ordinance definitions deviated from definitions found in chapter 82.04 RCW. It also estimated that businesses would pay \$4.6 million more in municipal B&O tax under the model ordinance definitions than under the state B&O tax definitions, but based on what the cities reported as their actual audit practice, the impact would be \$748,000.
2005	HB 2131 (Chapter 201, Laws of 2005) established a performance-based grant program to assist and encourage additional cities and state agencies to participate in the Master License Program. Five cities participated before the grant program.
2005	Revenue submitted the final Municipal Business and Occupation Tax Study of Potential Net Fiscal Impacts (referred to as the Allocation and Apportionment Study) to Governor Gregoire and chairs of the House Finance and Senate Ways & Means Committees. The report concluded that the allocation and apportionment provisions of EHB would result in a \$23.3 million revenue loss in the first year (based on 2004 revenues) for cities that imposed a municipal B&O tax and presented eight options for mitigating the potential losses.
2008	Section 13 of EHB 2030 (Chapter 79, Laws of 2003) delayed implementation of allocation and apportionment, including two-factor apportionment for services and destination-based allocation for retail and wholesale until January 1, 2008.
2010	2ESSB 6143 (Chapter 23, Laws of 2010) provided that for certain state business and occupation tax classifications, an economic nexus standard, rather than a physical presence standard, determines whether a business has substantial nexus for purposes of determining tax liability. Businesses deriving income from performing apportionable activities for Washington customers, such as activities taxable under the service and other activities or royalty B&O tax classifications, owe the tax when certain conditions exist regardless of whether the business has any physical presence in Washington. The income is apportioned to Washington based on a receipts factor.
2010	Governor Gregoire signed Executive Order 10-05 – Improving the Way State Government Serves Small Business, which called upon Revenue to explore, evaluate, and recommend tax simplification solutions. The order required the Department to consult with small businesses, local governments, and other interested stakeholders and to report its finding and recommendations to the Governor by June 30, 2011.
2011	SHB 2017 (Chapter 298, Laws of 2011) transferred administration of the Master License Service (MLS) program from the Department of Licensing to the Department of Revenue, provided that application and renewal fees may not exceed \$19 and \$11, respectively, authorized the issuance and renewal of licenses and registrations for participating local governments, and provided a single set of rules governing the public disclosure of licensing information. Forty-four cities partner with MLS at the time of the transfer.
2011	Revenue completed the Small Business Tax Simplification Report in response to the Governor’s Executive Order 10-05. Based on discussions and other feedback from small business owners, business associations, tax practitioners, and local governments, Revenue recommended centralized administration of state and local B&O tax reporting, and continued work to address feedback on administrative processes, integration of state systems, and a single business portal for small businesses.
2011	The cities of Bellevue, Bellingham, Everett, Seattle, and Tacoma issued the Five-City License and Tax Portal Feasibility Study , “to determine whether a common web

	portal is a possible means to meet the goal of simplified business license registration and local tax collection across the geography.”
2012	HB 2490 and SB 6176 , Relating to improving the business climate in this state by simplifying state and local tax and licensing systems, introduced by the request of Governor Gregoire. These companion bills sought to increase uniformity between state and local B&O taxes, simplify local business licensing, reduce state B&O tax classifications, and centralize the administration of city B&O taxes. Other related bills were introduced during the 2012 and 2013 Legislative Sessions.
2013	2SSB 5688 and ESSB 5656 , The Association of Washington Business proposed legislation to align state and local B&O definitions and administration. Bill 5656 required cities to partner with BLS and 5688 gave control over the model ordinance to Revenue and required cities to use the state B&O classifications.
2013	ESHB 1403 (Chapter 111, Laws of 2013) expanded the list of state agencies required to participate in the MLS program.
2013	SHB 1568 (Chapter 144, Laws of 2013) officially changed the name of the program from Master Licensing Service to Business Licensing Service (BLS) and made other technical changes to business licensing and trade name laws.
2016	EHB 2959 (Chapter 55, Laws of 2016) established a nine-member task force to evaluate and recommend options for the continued simplification of local business and occupation (B&O) taxes and licensing, and required the task force to submit a report to the Legislature by January 1, 2017.
2016	The Department rolled out its new online licensing system , My DOR, the first of three phases in a multi-year project to replace core tax and licensing systems.

APPENDIX J

ACKNOWLEDGEMENTS

This report would not have been possible without contributions from the members of the Local Business Tax and Licensing Task Force and others who assisted the task force.

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