


**FISCAL SUSTAINABILITY
TASK FORCE**

Revenue – Business &
Occupation Tax Overview
August 7, 2013


Meeting 4

8/8/2013

OFFICE OF MANAGEMENT AND BUDGET 1 

OVERVIEW

- Meeting 3 Review
- Business & Occupation Tax (B&O)

OFFICE OF MANAGEMENT AND BUDGET 2 

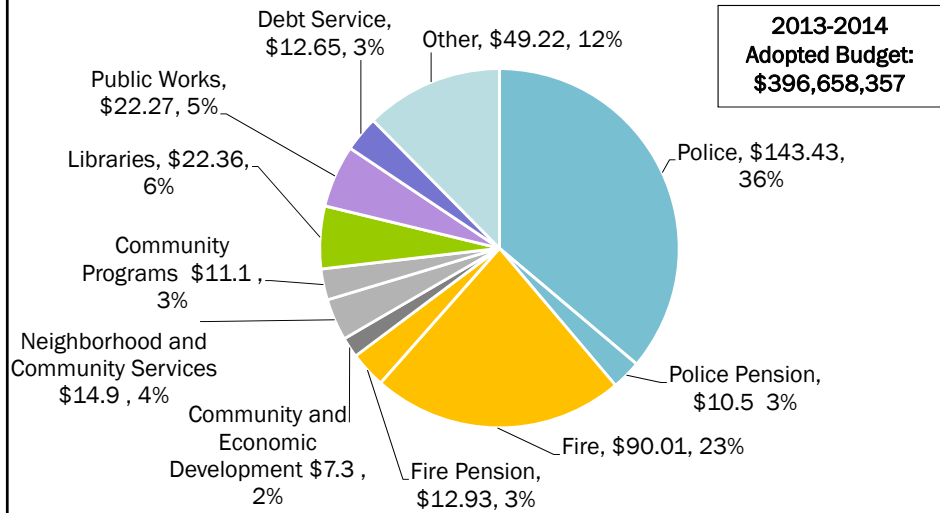
MEETING 3 REVENUE OVERVIEW

OFFICE OF MANAGEMENT AND BUDGET

3



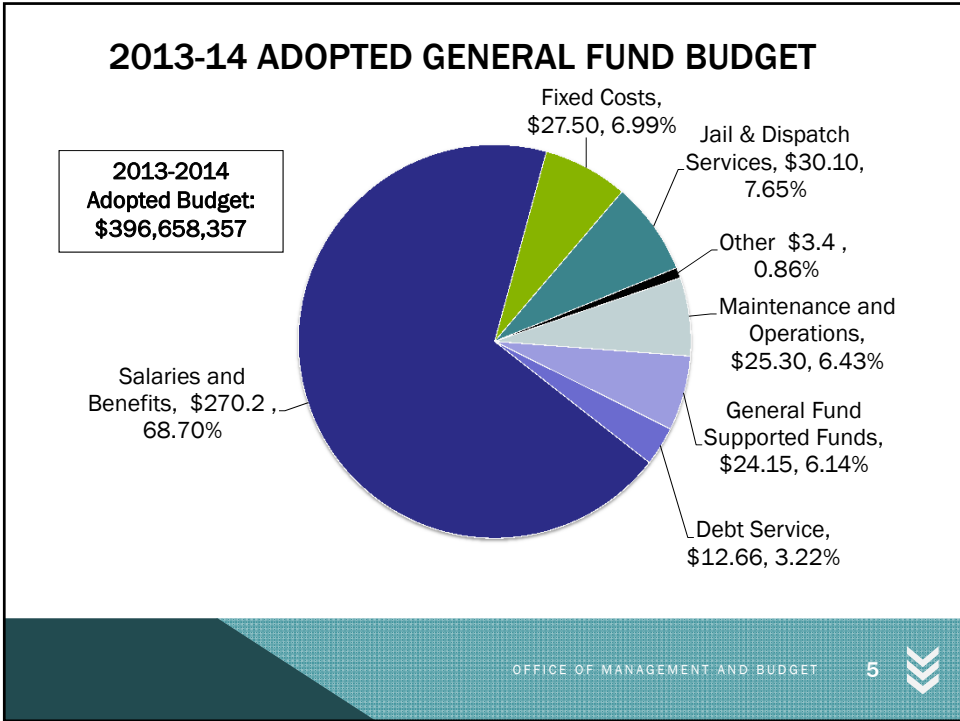
2013-14 ADOPTED GENERAL FUND BUDGET



OFFICE OF MANAGEMENT AND BUDGET

4





EXPENDITURE SUMMARY

2015-2018 Average Annual Growth	
Revenues	2.3%
Expenditures	6.3%

- **Projection assumes existing service levels**
- **Cost drivers include:**
 - Personnel Costs – Salaries, healthcare, and retirement benefits
 - Debt Service
 - General Fund Supported Funds (Streets, Traffic Enforcement, Mountain Rail, Permitting, Parking, and Public Assembly Facilities)
 - Deferred Maintenance
- **Some costs are more easily changed than others**
- **One time reductions are not sustainable**

OFFICE OF MANAGEMENT AND BUDGET 6

GENERAL FUND REVENUE OVERVIEW

- Revenues are regulated at the state, county and municipal levels
- Directives that most commonly govern the City of Tacoma’s revenues include:
 - [Washington State Constitution](#)
 - [Revised Code of Washington \(RCW\)](#)
 - [Washington Administrative Code \(WAC\)](#)
 - [Tacoma Municipal Code \(TMC\)](#)
- In Washington, cities must be given the authority by the state to collect taxes



2013-14 BIENNIUM REVENUE BREAKDOWN

Revenue Source	Biennial Budget (Millions)	Percent of Total
Property Taxes	\$103.67	26.1%
Business Taxes	83.02	20.9%
Sales Taxes	80.28	20.2%
Gross Earnings (Utility) Taxes	90.07	22.7%
Other Revenues	39.62	10.1%
Total	\$396.66	100.0%



SUMMARY

	Revenue Alternatives
City Council Vote	<ul style="list-style-type: none"> B&O – could increase to 0.02% limit on wholesaling, manufacturing, retailing and grain and would raise \$9M annually
Citizen Vote	<ul style="list-style-type: none"> Sales Tax – Local Criminal Justice would increase sales tax by 0.1% and would raise approx. \$4M annually Property Tax Levy Lid Lift – could increase by amount up to \$3.60 maximum annually GET Tax – could increase power, natural gas and telephone increase to 8% (limit of City Charter) would raise \$10-11M annually GET Tax – could increase beyond City Charter for all or specific utilities B&O Tax – could increase beyond 0.02%
State Legislative Approval	<ul style="list-style-type: none"> Sales Tax – state approval for new dedicated sales tax increases or increase in General Fund funding, could require City Council vote or Citizen Vote Property Tax – change to 1% limit or \$3.60 levy rate limit, change to the authority to collect for EMS or other special levies State Distributed Revenues – could modify the amount distributed to cities, such as liquor revenues, or criminal justice revenues Additional Authority – for example increased vehicle tab fee authority or street utility



SUMMARY

- Revenues are forecasted to grow at a lower rate than expenditures
- Tacoma’s four main General Fund revenue sources are property tax, gross earnings tax on utilities, sales tax and business and occupation tax (B&O)
- Ability to assess and collect revenues is regulated by a combination of state/county/city laws, rules and regulations
- Diversified revenues mean that the City’s revenues are likely more stable than if the City relied on a single or few sources of revenues




BUSINESS & OCCUPATION TAX

OVERVIEW

OFFICE OF MANAGEMENT AND BUDGET 11 

BUSINESS AND OCCUPATION TAX OVERVIEW

- B&O tax is measured on gross receipts or gross income.
- In effect since 1950's.
- Several exemptions, deductions and credits are provided for certain business activities or sources of income, including a \$250,000 gross income threshold before tax is due.
- B&O Tax is projected to grow at 1.6%
- B&O revenues are 14% of General Fund Revenues

OFFICE OF MANAGEMENT AND BUDGET 12 

BUSINESS AND OCCUPATION TAX AUTHORITY

- **Statutory Authority**
 - Washington Constitution Article XI section 12 and RCW 35.22.280(32) gives municipalities the authority to license for revenue.
- **Council may approve an increase in B&O tax rates up to a maximum of 0.2% for any classifications that are currently under the 0.2% rate. The ordinance must include a referendum procedure as provided in RCW 35.21.706.**
- **An increase of B&O tax rates above the maximum of 0.2% requires a vote of the people.**



BUSINESS & OCCUPATION TAX OVERVIEW

- **HB 1030 - Model Ordinance – effective 2005**
 - Created uniform tax classification and definitions across B&O cities
 - Created system of credits that prevents multiple taxation of the same income
 - Established \$20k income threshold before cities can assess B&O tax
 - Administrative provisions same as the State
 - Apportionment of income effective 2008



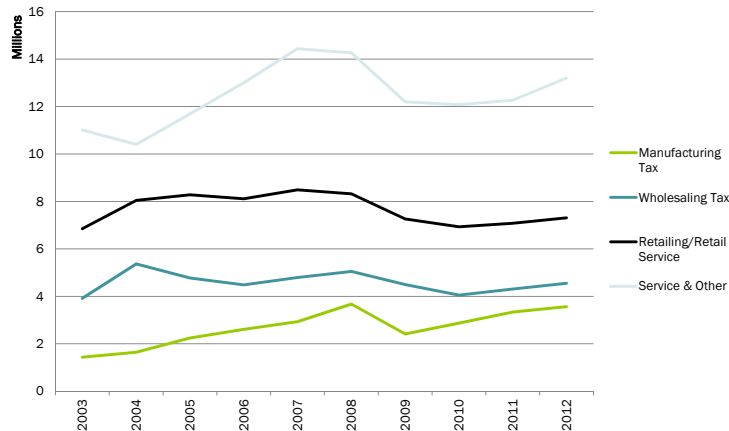
BUSINESS AND OCCUPATION TAX REVENUES

B&O Category	Current Rate	2013 Budgeted Revenues	Limits - State of WA
Wholesaling	0.102%	\$ 4,509,077	0.2%
Manufacturing	0.11%	3,250,214	0.2%
Retailing	0.153%	6,054,300	0.2%
Retail Services	0.4%	448,000	Above maximum, rate grandfathered
Service and Other	0.4%	13,463,719	Above maximum, rate grandfathered
Grain	0.1%	149,000	0.2%
	Total	27,874,310	



BUSINESS & OCCUPATION TAX REVENUE

GRAPH OF REVENUE BY CLASSIFICATION for 2003-2013



WHO IS REQUIRED TO PAY?

NEXUS

- The local B&O tax applies to a business that conducts business activity in Tacoma whether they are located in Tacoma or outside of Tacoma.
- This provides for fair competition. If a city only levied the tax on businesses physically located within the city, businesses located outside of the city could have an unfair advantage over businesses located within the city limits.



WHO IS REQUIRED TO PAY?

- Business with a physical location inside the city limits of Tacoma that make sales or provide services in Tacoma pay Tacoma B&O tax.
 - Tacoma business who provides software programming services will pay Tacoma B&O tax on activity conducted in Tacoma.
 - Tacoma business that sells groceries will pay Tacoma B&O tax on their sales.



WHO IS REQUIRED TO PAY?

- **Businesses with a physical location outside of the city limits of Tacoma that make sales or provide services for customers in Tacoma pay Tacoma B&O tax.**
 - Fife engineering firm has a job at a property in Tacoma and physically comes into Tacoma to provide engineering services will pay Tacoma B&O tax on the amount of activity done in Tacoma.
 - Seattle firm that sells doors and windows and installs the doors and windows at a building in Tacoma will pay Tacoma B&O tax.




WHO IS NOT REQUIRED TO PAY?

- **Businesses with annual gross income less than \$250,000**
- **Non-profit 501c(3) organizations, except healthcare services**
- **Government entities**
- **Rental property owners on rental of real estate income**
- **Certain business activities are offered exemptions, deductions and credits to reduce their tax liability**



**BUSINESS &
OCCUPATION TAX**

**DEFINITIONS
AND RATES**


OFFICE OF MANAGEMENT AND BUDGET 21 

B&O TAX DEFINITIONS AND RATES

WHOLESALING

Sellers of products to persons other than consumers are considered to be wholesalers. The B&O tax is calculated on the wholesale selling price.

B&O tax is calculated on gross receipts at the rate of 0.00102 or .102%.

OFFICE OF MANAGEMENT AND BUDGET 22 

WHOLESALE BUSINESS

- **Grocery Distributor**
 - Supervalu sells merchandise to grocery stores for resale
- **Restaurant Supplier**
 - Sysco Seattle sells meats, seafood, poultry, desserts, and beverages to restaurants



B&O TAX DEFINITIONS AND RATES

MANUFACTURING

Manufacturing is the business of producing articles for sale from raw or prepared materials by giving these materials new forms or qualities, such as fabricating, processing, refining, mixing, packing, canning, etc. B&O tax is calculated on the value of products manufactured, determined by selling price.

Processing for hire means the performance of labor and mechanical services upon materials or ingredients belonging to others so that as a result a new, different or useful product is produced for sale or commercial or industrial use.

B&O tax is calculated on gross receipts at the rate of 0.0011 or .11%.



MANUFACTURING BUSINESS

- **Lumber Company**
 - Simpson Lumber debarks and saws logs to create 2x4 lumber
- **Oil & Gas Refining**
 - US Oil receives crude oil, refines it into motor vehicle fuel for sale to distributors and retail outlets
- **Boat Manufacturing**
 - Safe Boats International makes boats out of raw materials



B&O TAX DEFINITIONS AND RATES

RETAILING

Businesses that sell products to consumers are defined as retailers. B&O tax is calculated on gross receipts at the rate of 0.00153 or .153%.

RETAIL SERVICES

Businesses that sell specific services to consumers are defined as a retailer by the State. Taxable retail services include amusement and recreation services like golf or bowling, landscape services, personal services like tanning salons or tattoo parlors and renting or leasing of personal property to consumers.

B&O tax is calculated on gross receipts at the rate of 0.004 or .4%.



RETAILING & RETAIL SERVICES BUSINESS

Retailing

- **Department Store/Grocery Store**
 - Sears, JC Penney's, Wal-Mart, 7-11, Safeway
- **Construction Company/Contractor**
 - General contractor – the person charging sales tax to the customer

Retail Services

- Landscapers
 - Blue Ribbon Lawn
- Rental Cars
 - U-Haul, The Hertz Corporation
- Parking lots
 - Republic & Diamond Parking



B&O TAX DEFINITIONS AND RATES

SERVICE & OTHER

Businesses that provide personal and professional services, such as lawyers, doctors, financial institutions, real estate brokers, and accountants, are subject to the B&O tax under this classification. Also, any business that is not subject to another B&O tax classification must report under this “catch-all” category.

B&O tax is calculated on gross receipts at the rate of 0.004 or .4%.



SERVICE & OTHER BUSINESS

- **Professional Firms**
 - Architects, Engineers
- **Personal Services**
 - ABC Cleaning
- **Administrative Service Providers**
 - DaVita Inc



BUSINESS & OCCUPATION TAX

RATE COMPARISONS



BUSINESS & OCCUPATION TAX CITY COMPARISON

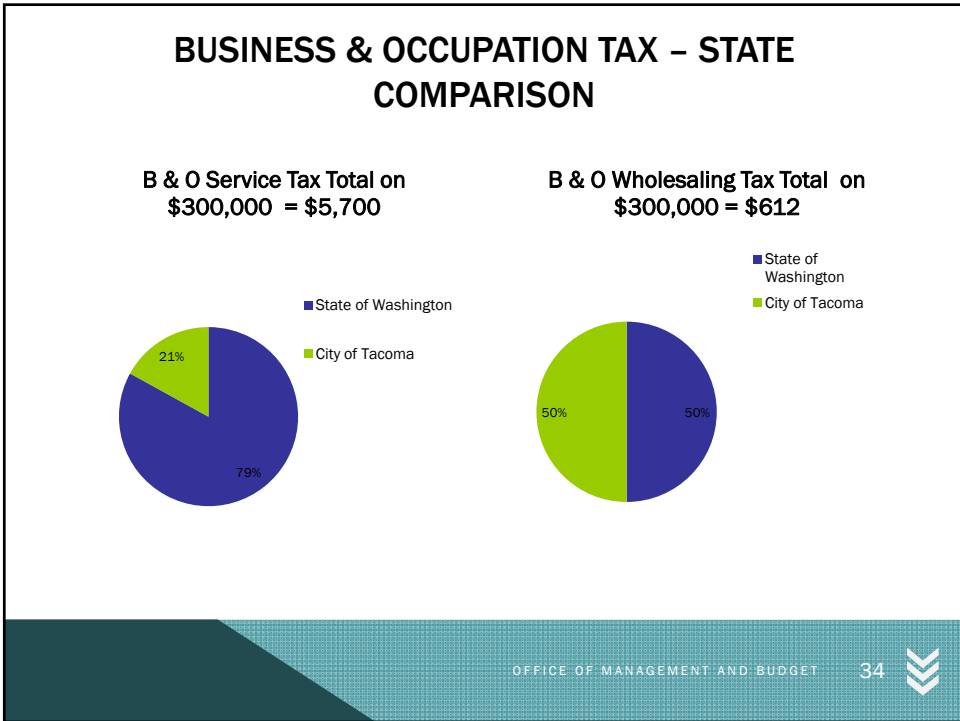
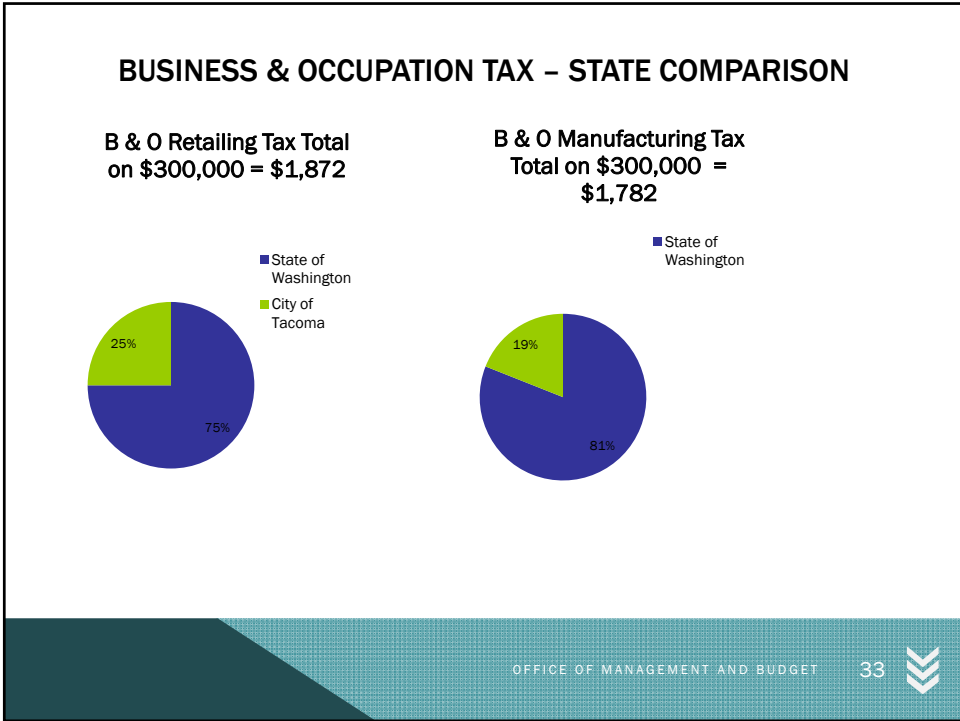
	Manufacturing	Retailing	Service & Other	Wholesale
Tacoma	0.11%	0.153%	0.4%	0.102%
Bellevue	0.1496%	0.1496%	0.1496%	0.1496%
DuPont	0.1%	0.1%	0.1%	0.1%
Kent	0.046%	.046%	0.152%	0.152%
Olympia	0.1%	0.1%	0.2%	0.1%
Ruston	0.11%	0.153%	0.2%	0.102%
Seattle	0.215%	0.215%	0.415%	0.215%
Lacey	None	0.1%	0.2%	None
Puyallup	None	None	None	None
Lakewood	None	None	None	None
Federal Way	None	None	None	None
Fife	None	None	None	None



BUSINESS & OCCUPATION TAX – STATE COMPARISON


B&O Tax Classifications	City	State	City tax on \$300,000 gross income	State tax on \$300,000 gross income
Retailing	.00153	0.00471	459	1,413
Retail Services	.004	0.00471	1,200	1,413
Manufacturing	.0011	0.00484	330	1,452
Service & Other Activities	.004	0.015	1,200	4,500
Wholesaling	.00102	0.00102	306	306






**BUSINESS &
OCCUPATION TAX**

**DEDUCTIONS,
EXEMPTIONS
AND CREDITS**

OFFICE OF MANAGEMENT AND BUDGET 35 

DEDUCTIONS/EXEMPTIONS/CREDITS

- Exemptions and Deductions are a reduction of a business’s taxable income
- Credits are applied to tax due after taxable income is multiplied by the effective tax rate
- Majority of local B&O tax deductions and exemptions are mandated by State and Federal law
- Some of local B&O tax deductions, exemptions and credits are created through City Council legislation

OFFICE OF MANAGEMENT AND BUDGET 36 

DEDUCTIONS/EXEMPTIONS/CREDITS

MANDATED BY STATE OR FEDERAL LAW

- **Interstate and out of City sales** - all goods delivered outside City of Tacoma
- **Interest on loans secured by first mortgages or deeds of trusts** - financial institutions with less than 10 branches deduct interest received
- **Cash discounts** - provided to customers who pay early or with cash



DEDUCTIONS/EXEMPTIONS/CREDITS

MANDATED BY STATE OR FEDERAL LAW

- **Credit losses of accrual basis taxpayers** - bad debt already billed and tax paid on
- **Assisted Living** - 26% of gross monthly billings - percentage determined to be “rental of real estate” for room rented
- **Radio & Television broadcasting**- advertising fees



DEDUCTIONS/EXEMPTIONS/CREDITS

MANDATED BY STATE OR FEDERAL LAW

- **Professional Employer Services** - fee charged by employer services for the cost of wages and benefits
- **Constitutional/Federal or State prohibitions**
- **Insurance business – RCW 48.14.020** - income received from gross premiums subject to state “gross premium tax”
- **Investments** – dividends from subsidiary corps
- **Employees** - can't tax a person's salary/wages



DEDUCTIONS/EXEMPTIONS/CREDITS

MANDATED BY STATE OR FEDERAL LAW

- **Sale of Real Estate**
- **Sale of Motor Vehicle Fuel**
- **Liquor Sales**
- **Tax collected on trust funds**
- **Credit unions**
- **International banking facilities**



DEDUCTIONS/EXEMPTIONS/CREDITS

MANDATED BY STATE LAW

- **Multiple Activities Tax Credit (MATC)**
 - Prevents multiple taxation on a product being manufactured and then sold at wholesale or retail by the same business
 - US Oil makes motor vehicle fuel from oil, then sells the motor vehicle fuel to gas stations to sell to customers.
 - Schnitzer Steel purchases scrap metal from customers, manufactures a new product from the scrap and then sells the new product to a customer.



NEW REVENUE AT NEW RATES WITH MATC

B&O Classification	Current Rate	2013 Budgeted Revenues	Raise to WA state limit	Additional Revenue 0.2%
Manufacturing	0.110%	\$3,250,214	0.2%	\$2,659,266
Multiple Activities Tax Credit	0.110%	(1,427,000)	0.2%	(1,167,545)
Retailing	0.153%	6,054,300	0.2%	1,859,818
Wholesaling	0.102%	4,509,077	0.2%	4,332,250
Service	0.4%	13,463,719	0.4%	n/a
Retail Services	0.4%	448,000	0.4%	n/a
Grain	0.1%	149,000	0.2%	149,000
Total		\$26,447,310		\$7,832,789



DEDUCTIONS/EXEMPTIONS/CREDITS

CITY IMPLEMENTED

- Casual and isolated sales
- Licenses to use grave sites
- All service income by a 501(c)3 organization, except income derived from healthcare services.
- Bona fide initiation fees, tuition fees, dues
- Non-profit organization trade show space
- Private operated kindergartens
- Precious metal and monetized bullion sales



DEDUCTIONS/EXEMPTIONS/CREDITS

CITY IMPLEMENTED – 1999 - 2009

- 1999, the City cut the Service & Other B&O tax rate by 17% over a four year period.
- 1999, a jobs tax-credit was added. If a workforce is expanded, a business gets credit for each family-wage job of up to \$750 per year for five years.
- 2008, raised the B&O tax threshold from \$50,000 to \$70,000 with an increase of an additional \$2,500 each subsequent year.
- 2009, International Investment Management Services classification phased out from 2009 - 2012.



DEDUCTIONS/EXEMPTIONS/CREDITS

CITY IMPLEMENTED - 2011

Gross Income threshold raised from \$75,000 to \$250,000

City	Threshold
Tacoma	\$250,000
Kent	250,000(62,500/qtr)
Bellevue	125,000
Seattle	80,000
Bremerton	60,000
Bellingham	20,000
Olympia	20,000
Everett	20,000



DEDUCTIONS/EXEMPTIONS/CREDITS

CITY IMPLEMENTED - 2011

- **Small Business Phased Tax Credit**
 - Businesses with annual gross income from \$250,001 to \$300,000 have credit available and pay only a percentage of their tax due.

Annual Gross Income	Tax Credit - % of Total Tax Due
\$250,001 - \$260,000	90%
\$260,001 - \$270,000	80%
\$270,001 - \$280,000	70%
\$280,001 - \$290,000	45%
\$290,001 - \$300,000	25%



DEDUCTIONS/EXEMPTIONS/CREDITS

CITY IMPLEMENTED – 2012/2013

- Non-profit healthcare services with annual gross income over \$30,000,000
 - 25% of the deduction repealed in March 2012
 - 100% of the deduction repealed in December 2012



BUSINESS & OCCUPATION TAX CHANGES

Year	Type	Change in Annual Revenue	Who Implemented
1999	New Jobs Credit	(168,000)	City Council
2005	Multiple Activities Tax Credit	(1,427,000)	State Mandated
2008	Apportionment/Allocation	(2,000,000)	State Mandated
2009	International Investment Services Mgt classification phased out 2009-2012	(1,250,000)	City Council
2011	\$250,000 B&O Threshold	(1,200,000)	City Council
2011	Small Business Phased Tax Credit	(50,000)	City Council
2012	Non- profit healthcare exemption repealed	3,700,000	City Council
	Total	\$(2,395,000)	



**BUSINESS &
OCCUPATION TAX**


**OTHER
TAXES**

OFFICE OF MANAGEMENT AND BUDGET 49 

OTHER TAXES

GAMBLING

- Authority provided by RCW 9.46
- Approx. 50 gambling establishments
- Deductions – amounts paid out for prizes
- Exemptions - nonprofit organizations
- 2013 budgeted revenue - \$378,000

OFFICE OF MANAGEMENT AND BUDGET 50 

OTHER TAXES

GAMBLING

Activity	Tax Rate	Maximum Rate Allowed	2012 Revenue	Additional Revenue at maximum rate
Amusement	2%	2%	25,000	-
Bingo	5%	5%	-	-
Punchboard & Pull-Tabs	5% on net receipts	5% on gross receipts or 10% on net receipts	350,000	350,000
Raffles	5%	5%	-	-
Social Card Games	11%	20%	-	-



OTHER TAXES

ADMISSION

- Authority provided by RCW 35.21.280
- Maximum rate of 5% tax on the admission charge to places such as theaters, dance halls, clubs with cover charges, stadiums and other recreation and entertainment venues
- Exemptions (required) – elementary or secondary school activities
- Exemptions (city) – public performance or exhibition of arts, historical objects or scientific works sponsored by nonprofit
- 2013 budget – \$474,000



SUMMARY

- B&O tax is measured on gross receipts or gross income
- B&O tax is regulated by the Model Ordinance across all 40 cities to provide uniformity
- Several exemptions, deductions and credits are provided for certain business activities or sources of income, some state mandated and some city implemented
- B&O tax is expected to grow at 1.6%
- B&O tax is 14% of the general fund



SUMMARY

B&O Classification	Current Rate	2013 Budgeted Revenues	Additional Revenue 0.15%	Additional Revenue 0.2%
Manufacturing	0.110%	\$3,250,214	\$1,181,896	\$2,659,266
MATC	0.110%	(1,427,000)	(518,909)	(1,167,545)
Retailing	0.153%	6,054,300	n/a	1,859,818
Wholesaling	0.102%	4,509,077	2,121,919	4,332,250
Service	0.4%	13,463,719	n/a	n/a
Retail Services	0.4%	448,000	n/a	n/a
Grain	0.1%	149,000	74,500	149,000
Total		26,447,310	2,859,406	7,832,789



ADDITIONAL TAX PER BUSINESS AT NEW RATES

B&O Classification	Current Rate	Tax @ Current Rate on \$500,000	Raise to WA state limit	Additional Tax @ 0.2% on \$500,000
Manufacturing	0.11%	\$550	0.2%	\$450
Retailing	0.153%	\$765	0.2%	\$235
Wholesaling	0.102%	\$510	0.2%	\$490

Council may approve an increase in B&O tax rates up to a maximum of .2% for any classifications that are currently under the .2% rate. The ordinance must include a referendum procedure as provided in RCW 35.21.706.



SUMMARY

	Revenue Alternatives
City Council Vote	<ul style="list-style-type: none"> B&O – could increase to 0.02% limit on wholesaling, manufacturing, retailing and grain and would raise \$7.8M annually with the MATC factored in City implemented deductions, credits, exemptions – could repeal all or some
Citizen Vote	<ul style="list-style-type: none"> B&O Tax – could increase beyond 0.02%



FISCAL SUSTAINABILITY TASK FORCE

Revenue – Business &
Occupation Tax Overview
August 7, 2013

Meeting 4

8/8/2013

OFFICE OF MANAGEMENT AND BUDGET

57

