Tax & License Workshop
Business and Occupation Tax

Fred Hall
What is Business and Occupation Tax?

• B&O tax is a gross receipts tax.
  • Unlike many other states with income tax, Washington has a gross receipts tax.

• Gross receipts are measured on the value of products, gross proceeds of sales, or gross income of the business.

• There are no deductions from the B&O taxable income for labor, materials, or other costs of doing business.
City Business & Occupation Tax Facts

• 44 of Washington’s 281 cities and towns impose a city Business & Occupation (B&O) tax.
  • Many more cities impose a city public utility tax.
• Of the 11 Large cities, 6 impose a city B&O tax.
• More information can be found on www.awcnet.org
How is City B&O Tax Revenue Used?

- State law does not restrict the manner in which city B&O tax revenues may be used.
- Most cities use these revenues for general fund purposes.
- The general fund pays for city services and operations such as:
  - Police
  - Fire
  - City Streets
  - Parks & Recreation
  - Economic Development
Other City Taxes

Gambling Tax
• Approximately 50 gambling establishments in Tacoma.
• Deductions:
  • Amounts paid out for prizes.
• Exemptions:
  • Nonprofit organizations.

Communications Tax
• Also known as Utility Tax.
• This tax is in lieu of B&O tax for the following activities:
  • Cable Services
  • Cellular or Pager
  • Telephone Business

City of Tacoma Tax & License
Workshops for Business Owners and Tax Preparers
Things to Consider

1. Successor / Quitting Business
2. Charitable Organizations (Nonprofit Organizations)
3. Nexus
1. Successors/ Quitting Business

• If a taxpayer (transferor) quits business and sells out to a successor, any tax payable becomes due immediately. The transferor must file a return and pay the tax due amounts within 10 days.

• Successor is a person to whom the business property is sold or transferred.

• Successor may be liable to pay the transferor’s tax liability, because a successor is jointly and severally liable with the transferor to pay the tax.

• For more information, refer to Tacoma Tax Rule 216.
2. Charitable Organizations

- Any organization recognized as a nonprofit corporation under the provisions of RCW 24.30.
  - Formed under the Washington nonprofit corporation act,
  - Qualifies as a nonprofit for federal tax purposes under 501(c)3, or
  - A church, charity, or benevolent organization.

- Charitable organizations are **required** to register and obtain a business license with City of Tacoma.
2. Charitable Organizations – Cont’d

• Amounts derived from program and service fees, government grants and/or contract receipts, and private foundation grants by any organization organized and operated for charitable, educational, or other purposes which is exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1954, are not taxed by Tacoma.

• Nonprofit organizations are allowed to take the deductions for the following:
  • Nonprofit fundraising activities
  • Donation
2. Charitable Organizations – Cont’d

- Qualifying nonprofits conducting fundraising activities are exempt from B&O tax on income earned from fundraising activities.

- Nonprofit organizations that conduct for profit business activities at a regular place of business are subject to B&O tax.
  - For Example: A nonprofit operates a gift shop at a regular business location with established hours. The gift store sales are business activities at a regular place of business and are subject to B&O Retail tax.
3. Nexus

- The local B&O tax applies to businesses that have “nexus” within the taxing jurisdiction, whether the business is physically located in that city or not.

- For businesses that provide services, “nexus” exists if services are performed within the city.
3. Nexus – Cont’d

• For businesses that sell goods, “nexus” exists if the business conducts activities within the city that are associated with the businesses ability to establish or maintain a market for the sale of its products.

• 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 would have an unfair advantage over businesses located within city limits.
Tacoma B&O Tax Overview

- Administration
- Due Dates
- General Provision
- Tax Threshold
- Tax Classifications and Rates
- Deductions
- Exemptions
- Credits

City of Tacoma Tax & License
Workshops for Business Owners and Tax Preparers
Administration of City B&O Tax

• Tacoma collects its own city B&O tax along with business license fees. Businesses must report to the jurisdiction, where the tax or fee is owed.

• Businesses can file B&O tax returns:
  • On FileLocal.com
  • By Mail
  • In Person
Due Dates

Annual B&O Tax Returns
• Due on January 31

Quarterly B&O Tax Returns
• April 30 - Quarter 1
• July 31 - Quarter 2
• October 31 - Quarter 3
• January 31 - Quarter 4
General B&O Tax Provisions

• **Statute of Limitations**
  - Assessments and Voluntary Registration
    - 4 years plus current year
  
  - Involuntary Registration
    - 10 years plus current year for untimely unregistered businesses

• **Refunds**
  - Taxes paid 4 years prior to January 1 of application year
  - Alternative limitations for taxes other than B&O tax
General B&O Tax Provisions – Cont’d

• Interest & Penalties (RCW 82.32.050)
  • Current Interest Rate: 3%
  • Current Penalty Rates: 9%, 19%, 29%
Tacoma Tax Threshold

Companywide Gross Income less than $250,000 = NO TAX!

- Effective January 1, 2011, the annual threshold was raised from $75,000 to $250,000.
- There is a $20,000 annual threshold for companies located outside of the City of Tacoma.
  - If a company has a companywide gross income more than $250,000, but does not generate more than $20,000 within City of Tacoma; the company is not subject to B&O tax in the City of Tacoma.
# Tacoma B&O Tax Classifications & Rates

## Classification

- Manufacturing
- Retailing
- Wholesale
- Service & Other
- Service Retail
- Service & Other Apportioned

## Tax Rate

<table>
<thead>
<tr>
<th>Classification</th>
<th>Tax Rate</th>
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</thead>
<tbody>
<tr>
<td>Manufacturing</td>
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<tr>
<td>Retailing</td>
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<tr>
<td>Wholesale</td>
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<td>Service &amp; Other</td>
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</tr>
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Tacoma B&O Tax Classifications

• **Manufacturing**
  • Producing a new, different, or useful substance or article of tangible personal property by applying labor or mechanical services.

• **Processor for Hire (Use the same tax rate as retailing)**
  • When the owner of equipment or facilities sells to a customer ingredients that are equal to or less than 20% of the total value of all materials that become a part of the finished product, the owner of the equipment is a processor for hire.
Tacoma B&O Tax Classifications

• Retailing (Sales at retail/Retail sales to consumers)
  • Any person who sells at retail – ex) a sale of a pen at a retail shop
  • Any person who installs, repairs, cleans, alters, imprints, improves, constructs, or decorates real or personal property of or for consumers, if such tangible personal property becomes an ingredient or component of such real or personal property without intervening use by such person.
  • It also includes construction contractors.
Tacoma B&O Tax Classifications – Cont’d

• Service and 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 the Service and Other classification.

  • Also, any businesses that are not subject to another B&O tax classification must report under this “catch-all” category.
Tacoma B&O Tax Classifications – Cont’d

• **Retail Service**
  - Includes the sale of or charge made for personal, business, or professional services received by persons engaged in the following business activities:
    - Amusement and recreation services (example: golf, pool, billiards, skating, bowling, ball games)
    - Abstract, title insurance, and escrow services
    - Credit bureau services
    - Automobile parking and storage garage services
    - Landscape maintenance and horticultural services
    - Service charges associated with tickets to professional sporting events
    - Personal services (example: physical fitness, tanning salon, tattoo parlors, steam baths, and dating services)
    - Renting or leasing tangible personal property
Tacoma B&O Tax Classifications – Cont’d

• Service and Other Apportioned
  • When companies engage in Service and Other business activities in more than one B&O city, they are required to apportion revenue between the cities.

  • Revenues are apportioned based on a two-factor formula:

\[
\text{Taxable Service Income} = \frac{\text{Payroll Factor} + \text{Service Income Factor}}{2} \times \text{Total Service Income}
\]
Tacoma B&O Tax Classifications – Cont’d

• Two factors in a formula are:
  
  a) Payroll Factor
  
  b) Service Income Factor

• Payroll Factor = \( \frac{\text{Total Compensation in Tacoma}}{\text{Total Compensation Everywhere}} \)

• Service Income Factor = \( \frac{\text{Service Income in Tacoma}}{\text{Service Income Everywhere}} \)
Tacoma B&O Tax Classifications – Cont’d

• Taxable Service & Other Apportioned income in Tacoma is calculated as below:

\[ \text{Total Service Income} \times \frac{(\text{Payroll Factor} + \text{Service Income Factor})}{2} \]
Common Business Activities & Tax Classifications

• Construction
  • Retail
  • Wholesale

• Computer Services
  • Retail
  • Wholesale
  • Service & Other-Apportioned

• Rental/Leasing of Tangible Personal Property
  • Retail Service

City of Tacoma Tax & License
Workshops for Business Owners and Tax Preparers
Business & Occupation Tax Continued

Nuri Song
B&O Deductions

- **Interstate sales** – All goods delivered outside the state
- **Goods delivered outside the city**, but within the state that are taxed under retail, retail service, or wholesale
- 501(c)3 organizations – all service income
- Bona fide initiation fees, tuition fees, dues, endowments, and charges
- Charges for privately operated kindergartens
- **Cash discounts**
- **Credit losses** of accrual taxpayers
- Sales of precious metal and monetized bullion
B&O Exemptions

• Insurance business – 2% premium tax paid to WA state
• Certain fraternal & beneficiary organizations
• Credit unions
• Nonprofit health care organizations except for organizations with taxable income more than $30M
• International banking facilities
• Farmers
• Athletic exhibitions
• Racing
• Employees
B&O Exemptions – Cont’d

• Sale of real estate
• Motor vehicle fuel – if fuel tax has been paid
• Liquor
• Casual & isolated sales
• Taxes collected as trust funds
• Companywide gross income less than $250,000 annually
• License to use grave sites
• And others; see Tacoma Municipal Code 6A.30.090
Small Business Credit

- Businesses with annual gross income between $250,000 and $300,000 will have a credit available and pay only a percentage of the tax due.

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<tr>
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<td>70%</td>
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Jobs Tax Credit

• This credit is available for businesses located in Tacoma. This credit is designed to stimulate business, reward businesses for creating good-paying jobs, and put our citizens to work.

• For the current year plus 4 more years, you can get a credit against the B&O tax of up to $1,500 annually if you add qualifying positions to your Tacoma workforce.
Jobs Tax Credit – How It Works

• **$500** Base Credit – Qualifying Position
  • Add a new full time (35 or more hours/week) job to your Tacoma workforce.
  • Pay that new employee the minimum hourly family wage.
  • Keep that new position for at least five years.
  • Maintain records that show the growth in your employment base in Tacoma.
  • The credit must be taken within 365 days after filling the new position.
Jobs Tax Credit – How It Works

• **Additional $500 credit as of January 1, 2018**
  • You can receive an additional $500 B&O tax credit every year for five years if the person hired to fill the new qualifying position is a resident of Tacoma.

• **Additional $250 credit as of January 1, 2018**
  • You can receive an additional $250 B&O tax credit every year for five years if the new qualifying position is considered a “green job” as defined in Tacoma Municipal Code 6A.30.065.
Jobs Tax Credit – How It Works

• Additional **$250** credit if you add a qualifying position that meets the following criteria:
  • Do business in international services, such as computer services, engineering, business consulting or other ventures that reach outside the country’s borders; and

• Add the new job to your workforce in the City of Tacoma within the community empowerment zone or distressed areas, which are areas of high poverty and unemployment as defined by the Washington State Department of Revenue.
Multiple Activities Tax Credit

• Prevents multiple taxation on a product being manufactured and then sold at wholesale or retail by the same business.

Example:

When the company manufactures in Tacoma and sells in Seattle, Seattle allows the MATC.

When the company manufactures in Seattle and sells in Tacoma, Tacoma allows the MATC.
Contact Us!
Tax and License Division

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