Guide to The City’s Business & Occupation Tax

The pamphlet provides a basic description of Tacoma’s business and occupation (B&O) tax and focuses on common types of businesses and business activities. This material is intended for general information purposes only. It is current at the time of publication, but future changes in the City Code or State law may invalidate some of this information, and not all possible applications of tax are discussed. Additional information may be obtained in Title 6 of the Tacoma Municipal Code (TMC) or by contacting the City of Tacoma Tax and License Division at:

Phone: (253) 591-5252
Email: taxinfo@cityoftacoma.org
Website: www.cityoftacoma.org/buisnesslicense

Licensing Requirements

All businesses engaged in any business activity, including renting/leasing property in Tacoma must be registered with the City’s Tax & License Division. Taxpayer’s annual business license renewal and fee is due on January 31st of every year. Taxpayers can apply for registration and business license by mail, in person, or online through FileLocal. See the following licensing fee schedule.

<table>
<thead>
<tr>
<th>Gross Income Thresholds</th>
<th>License Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $12,000</td>
<td>$25</td>
</tr>
<tr>
<td>$12,000 - $250,000</td>
<td>$110</td>
</tr>
<tr>
<td>Over $250,000</td>
<td>$250</td>
</tr>
</tbody>
</table>

Exemption

Any person or business who does not maintain a place of business within the City and whose annual value of products, gross proceeds of sales, or gross income of the business in City is equal to or less than $2,000 shall be exempt from the general business license requirements. The exemption does not apply to regulatory license requirements.

B&O Reporting Requirements

Businesses that operate in the City of Tacoma that have an annual gross income of more than $250K are required to file and pay local B&O taxes. The $250K threshold is based on total worldwide gross income, and the tax is calculated based on the gross income generated from activities in Tacoma. Businesses that exceed the $250K threshold but have less than $20K in annual gross income from activities in Tacoma are not required to pay B&O tax, but the tax return must be filed indicating the gross income. Local B&O tax requirements are in addition to Washington State B&O tax requirements paid to the Department of Revenue.
Penalties
If a tax return is paid within one month following the due date, the penalty is $5 or 9% of the tax, whichever is greater. The second month increases to 19% of the tax and the third month increases to 29% of the tax.

Interest
The interest rate for tax returns filed after the due date has changed from 3% to 4% annually starting January 1, 2019. If the tax paid is less than the amount due, interest is added from the date of underpayment or due date until paid. You have 30 days from the notice of such underpayment to pay the balance due plus interest.

Register, File, and Pay Online

Current Tax & License customers can register, submit and pay online their City of Tacoma Annual Business Licenses and renewals, as well as Quarterly or Annual Tax Returns. To setup or access your online account visit www.filelocal-wa.gov. Please note that online payments are subject to a user convenience fee.
### 2019 B&O Tax Rates by Classification

<table>
<thead>
<tr>
<th>Classification</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailing</td>
<td>0.00153</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>0.00102</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.0011</td>
</tr>
<tr>
<td>Service &amp; Other</td>
<td>0.004</td>
</tr>
<tr>
<td>Retail Service</td>
<td>0.004</td>
</tr>
</tbody>
</table>

### Apportionment Provision for B&O Tax

If a business engages in business activity within multiple jurisdictions, the gross income can be allocated and apportioned. The allocation and apportionment will vary depending on the classification under which income is reported.

- **Manufacturing** – allocated to the location where the activity takes place
- **Retail Sales** – the activity takes place where delivery to the buyer occurs
- **Wholesale** – the activity takes place where delivery to the buyer occurs
- **Royalties from the Granting of Intangible Rights** – allocated to the commercial domicile of the taxpayer
- **Service & Other** – apportioned to a city by multiplying service income by payroll factor (Based on the payroll within the jurisdiction), plus the service-income factor. This is based on the income producing activity attributable for tax purposes within the jurisdiction, divided by two.

### Records Retention

Taxpayers are required to keep records for the most recent five year period. All books and records and business premises shall be open for examination at any time during normal business hours by the City’s Tax & License Division or designated agent.

### Gross Receipts

The gross receipts B&O tax is measured on gross proceeds of sales or gross income for the reporting period. Gross receipts include income from activity both within and outside the City of Tacoma, regardless of your businesses’ physical location. For purposes of the gross receipts tax, business activities have been divided into several classifications which are discussed below. Businesses conducting multiple activities may need to report under more than one tax classification and corresponding tax rate.

### wholesaling

Sellers of products to persons other than consumers are considered to be wholesalers. The B&O tax is calculated on the gross receipts of the wholesale selling price. The tax rate for wholesaling is 0.00102.

### Retailing

Businesses that sell tangible personal property and specific services to consumers are defined as retailers. The tax rate for retailing is 0.00153.

### Retail Service

Retail Services include the sale of or charge made for personal, business, and some professional services. This includes amounts designated as interest, rents, fees, admission, and other services. Please see TMC 6A.30.030 for a complete list of retail service activities. The tax rate for retail service is 0.004.

### 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 service and other. Any business that is not subject to another B&O tax classification must report under this “catch-all” category. The tax rate for service and other is 0.004.

### Manufacturing/Extracting

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 the selling price. If the owner of equipment or facilities furnishes materials or ingredients equal to or less than 20% of the total value of all materials or ingredients that become a part of the finished product, they will be deemed to be a processor for hire. Extracting is the taking of natural products, such as logging, mining, quarrying, etc. B&O tax is calculated on the value of products extracted, determined by selling price. The B&O tax is calculated on gross receipts of the selling price. The tax rate for manufacturing and extracting is 0.0011.

### Processing For Hire/Extracting for Hire

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. Extractor for hire means a person who performs under contract necessary labor or mechanical services for an
extractor. B&O tax is calculated on gross receipts. The tax rate for processing for hire/extracting for hire is 0.00153.

**Printing/Publishing**
Publishers of newspapers, magazines and periodicals are taxable under this classification, as well as persons who both print and publish books, music, circulars, etc. Printing includes letterpress, offset-lithography, and gravure processes as well as multi-graph, mimeograph, autotyping, and similar activities. B&O tax is calculated on gross receipts. Firms engaging in photocopying documents should report under the Retailing classification. The tax rate for printing/publishing is 0.00153.

**Deductions and Credits**
The following section discusses the most common deductions allowed for certain business activities or sources of income. This is not intended to be all inclusive. If you have questions about specific deductions, please contact the City’s Tax and License Division.

**Deductions**
Deductions are to be included in the gross receipts amounts on your City’s B&O return and then deducted when calculating the taxable amount on which the gross receipts tax rates apply. If you are taking a deduction, you are required to indicate the amount in the Tax Classification Deduction section of the B&O return. Failure to do so may result in your deductions being disallowed. If the deduction does not have a specific column, list in the “Other” column and include a note, such as “Sales Outside of Tacoma”. The most common deductions include:

- Retail or Wholesale sales delivered outside of Tacoma
- Cash discounts taken by customers
- Credit Losses or Bad Debts for accrual basis taxpayers

**Credits**
Unlike deductions, which reduce the amount of your income that is taxable, tax credits reduce the actual amount of tax owed. The most common credits include:

- Jobs Credit
- Small Business Credit
- Multiple Activities Credit (MATC)

**Jobs Credit**
Tacoma was the first city in Washington to provide a credit against your local business tax. You can receive a $500 B&O tax credit every year for 5 years if you:

- Add a full-time position to your Tacoma workforce.
- Pay that new employee at least “Family Wage” ($20.43 per hour for 2019) as developed by the Washington State Employment Security, no matter what kind of job it is.
- Keep that new position for at least 5 years. If your employee leaves the position, you have 3 months to refill it without any reduction in the credit.
Maintain records that show the growth in your employment base in Tacoma.

Take the credit against your City of Tacoma B&O taxes each year and attach a supplemental information sheet.

Additional credits are available for a total of up to $1,000 every year if you add a job as described above.

- Get an extra $500 B&O tax credit if the employee that fills the new position is a Tacoma resident.
- Get an extra $250 B&O tax credit if the position meets the definition of a “Green Job” as defined in TMC 6A.30.065.
- Get an extra $250 B&O tax credit if you 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 Tacoma within the empowerment zone or “distressed areas”, areas of high poverty and unemployment, as defined by the Washington State Department of Revenue. (For more information, call Washington State Department of Revenue’s Telephone Information Center at (800) 647-7706.)

Small Business Credit
Businesses with annual gross income from $250,001 to $300,000 will have credit available and pay only a percentage of their tax due. See the following Small Business Tax Credit Table:

<table>
<thead>
<tr>
<th>Annual Gross Income</th>
<th>Tax Credit - % of Total Tax Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>$250,001 - $260,000</td>
<td>90%</td>
</tr>
<tr>
<td>$260,001 - $270,000</td>
<td>80%</td>
</tr>
<tr>
<td>$270,001 - $280,000</td>
<td>70%</td>
</tr>
<tr>
<td>$280,001 - $290,000</td>
<td>45%</td>
</tr>
<tr>
<td>$290,001 - $300,000</td>
<td>25%</td>
</tr>
</tbody>
</table>

Multiple Activities Credit (MATC)
The MATC is available when businesses or persons engage in multiple taxable activities in one or more cities with an eligible gross receipts tax, or external credit. In order to qualify as an eligible gross receipts tax, the tax must be imposed at the local level. The MATC also applies to businesses or persons who engage in business activities that are subject to tax under two or more tax classifications on the same revenue, or internal credit. If the business or person both manufactures and sells the product, then both activities are taxable under the applicable tax classifications. The MATC form is required to be filed and accompany the corresponding tax return, for each reporting period a credit is claimed. The amount of credit for any reporting period shall not exceed the tax liability.

Other Tax & License
There are several other taxes and regulatory licenses that are administered by the City which affect businesses in Tacoma. You can find additional information at City of Tacoma Tax & License website or by reviewing TMC Title 6.
Utility Tax
This tax is similar to the gross receipts business and occupation tax except it is imposed on utility businesses. The business activities affected by this tax are telephone, cellular, gas, electric, water, sewage, drainage, cable, and garbage. The utility tax rate varies depending on the classification of utility.

Admission Tax
Admission Tax is levied upon persons who pay an admission charge for entrance to an event or establishment. It is collected for the City by the business charging the admission, similar to sales tax. The admission tax is computed on the ticket price or price of admission. The rate is 5% on each admission charge paid.

Voluntary Registration
In the case of any unregistered taxpayer doing business in the City that voluntarily registers prior to being contacted by the department, the department shall not assess back taxes or interest for more than four calendar years prior to the year of registration. In addition, the late payment penalty imposed under TMC 6A.10.110.A shall not apply.

Other Information
The City offers free Small Business Workshops to explain the business and occupation tax and to assist businesses on how to file their local tax returns. Representatives from the City of Tacoma Permitting Division are also available at these events. If you are interested in attending, please call the City's Tax & License Division at (253) 591-5252.

Please visit Department of Revenue’s website at www.dor.wa.gov for information on sales/use tax and other taxes administered by Washington State. All businesses should make every effort to be fully informed of their tax obligations, since the final responsibility for proper tax reporting rest with the taxpayer. Failure to receive a tax form does not relieve taxpayers of their tax liability.

Tacoma Data
Find out if a business is licensed and other public information through Tacoma Data at www.data.cityoftacoma.org. Tacoma Data is a free service provided for informational purposes only. Creating a list from this information for commercial purposes is prohibited by law.

Got Questions?
If you have any questions, please call the City’s Tax & License Division at (253) 591-5252. Or you can visit our website at www.cityoftacoma.org, or Email: taxinfo@cityoftacoma.org. You may also write to or visit the Tax and License Division office at 747 Market Street, Room 212; Tacoma, WA 98402, located in the City of Tacoma Municipal Building.