

2020 Seattle City Council Budget Action

Agenda

Tab	Action	Option	Version
FAS	100	A	1

Budget Action Title: Pass CB 119682 amending provisions related to apportionment of income in determining Business License (B&O) Tax liability to conform with State law

Ongoing: No Has Budget Proviso: No

Has CIP Amendment: No Has Attachment: No

Primary Sponsor: Budget Committee

Council Members:

Staff Analyst: Tom Mikesell

Council Bill or Resolution: CB 119682

Date		Total	LH	BH	KS	AP	DJ	MO	SB	TM	LG
	Yes	0									
	No	0									
	Abstain	0									
	Absent	0									

Budget Action Description:

This budget action recommends passage of CB 119682 which amends the City’s Business License (B&O) tax code to comply with State requirements. In 2019, the Washington State Legislature enacted Substitute House Bill (SHB) 1403, which modified the apportionment formula for local business and occupation tax as codified in RCW 35.102.130. Apportionment refers to dividing a tax base between more than one jurisdiction in which a taxpayer conducts business. The changes in SHB 1403 included:

- Simplifying the service income factor by adopting a market-based sourcing hierarchy;
- Providing for income to be excluded from the denominator of the income factor that is attributable to a jurisdiction where the taxpayer would not be subject to tax; and
- Establishing guidelines for the application of an alternative apportionment method.

Under SMC 5.45.081, the City currently requires that income from activities in more than one jurisdiction be apportioned using a two factor formula based on payroll and a complex formula for determining service income. SHB 1403 simplifies the formula for calculating service income by basing the income apportionment on customer location. A committee of City representatives worked with the Association of Washington Cities to amend the model ordinance section that apportions gross income and to incorporate the legislative changes of SHB 1403 into SMC 5.45.081.

To continue to impose the B&O tax, RCW 35.102.040 requires cities that impose the tax to adopt the changes included in CB 119682 by January 1, 2020.