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**ENGROSSED HOUSE BILL 2005**

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**State of Washington 65th Legislature 2017 Regular Session**

**By** Representatives Lytton, Nealey, Kagi, and Ormsby

AN ACT Relating to improving the business climate in this state by simplifying the administration of municipal general business licenses; adding a new chapter to Title 35 RCW; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Business licensing service," "business licensing system," and "business license" have the same meaning as in RCW 19.02.020.

(2) "City" means a city, town, or code city.

(3) "Department" means the department of revenue.

(4) "General business license" means a license, not including a regulatory license or a temporary license, that a city requires all or most businesses to obtain to conduct business within that city.

(5) "Partner" means the relationship between a city and the department under which general business licenses are issued and renewed through the business licensing service in accordance with chapter 19.02 RCW.

(6) "Regulatory business license" means a license, other than a general business license, required for certain types of businesses that a city has determined warrants additional regulation, such as taxicab or other for-hire vehicle operators, adult entertainment businesses, amusement device operators, massage parlors, debt collectors, door-to-door sales persons, trade-show operators, and home-based businesses.

NEW SECTION. **Sec.**  (1) Except as otherwise provided in subsection (7) of this section, a city that requires a general business license of any person that engages in business activities within that city must partner with the department to have such license issued, and renewed if the city requires renewal, through the business licensing service in accordance with chapter 19.02 RCW.

(a) Except as otherwise provided in subsection (3) of this section, the department must phase in the issuance and renewal of general business licenses of cities that required a general business license as of July 1, 2017, and are not already partnering with the department, as follows:

(i) Between January 1, 2018, and December 31, 2021, the department must partner with at least six cities per year.

(ii) Between January 1, 2022, and December 31, 2027, the department must partner with the remaining cities.

(b) A city that imposes a general business license requirement and does not partner with the department as of January 1, 2018, may continue to issue and renew its general business licenses until the city partners with the department as provided in subsection (4) of this section.

(2)(a) A city that did not require a general business license as of July 1, 2017, but imposes a new general business license requirement after that date must advise the department in writing of its intent to do so at least ninety days before the requirement takes effect.

(b) If a city subject to (a) of this subsection (2) imposes a new general business license requirement after July 1, 2017, the department, in its sole discretion, may adjust resources to partner with the imposing city as of the date that the new general business licensing requirement takes effect. If the department cannot reallocate resources, the city may issue and renew its general business license until the department is able to partner with the city.

(3) The department may delay assuming the duties of issuing and renewing general business licenses beyond the dates provided in subsection (1)(a) of this section if:

(a) Insufficient funds are appropriated for this specific purpose;

(b) The department cannot ensure the business licensing system is adequately prepared to handle all general business licenses due to unforeseen circumstances; or

(c) The department determines that a delay is necessary to ensure that the transition to mandatory department issuance and renewal of general business licenses is as seamless as possible.

(4)(a) In consultation with affected cities and in accordance with the priorities established in subsection (5) of this section, the department must establish a biennial plan for partnering with cities to assume the issuance and renewal of general business licenses as required by this section. The plan must identify the cities that the department will partner with and the dates targeted for the department to assume the duties of issuing and renewing general business licenses.

(b) By January 1, 2018, and January 1st of each even-numbered year thereafter, the department must submit the partnering plan required in (a) of this subsection (4) to the governor; legislative fiscal committees; house local government committee; senate agriculture, water, trade and economic development committee; senate local government committee; affected cities; association of Washington cities; association of Washington business; national federation of independent business; and Washington retail association.

(c) The department may, in its sole discretion, alter the plan required in (a) of this subsection (4) with a minimum notice of thirty days to affected cities.

(5) When determining the plan to partner with cities for the issuance and renewal of general business licenses as required in subsection (4) of this section, cities that notified the department of their wish to partner with the department before January 1, 2017, must be allowed to partner before other cities.

(6) A city that partners with the department for the issuance and renewal of general business licenses through the business licensing service in accordance with chapter 19.02 RCW may not issue and renew those licenses.

(7) A city may decline to partner with the department for the issuance and renewal of a general business license as provided in subsection (1) of this section if:

(a) The city participates in the online local business license and tax filing portal known as "FileLocal" as of July 1, 2018. For the purposes of this subsection (7)(a), a city is considered to be a FileLocal participant as of the date that a business may access FileLocal for purposes of applying for or renewing that city's general business license and reporting and paying that city's local business and occupation taxes. A city that ceases participation in FileLocal after July 1, 2018, must partner with the department for the issuance and renewal of its general business license as provided in subsection (1) of this section; or

(b) The city has an estimated population of fewer than five hundred as of July 1, 2017, and the city determines that partnering with the department would cause an undue hardship because the city lacks the fiscal or technical ability to participate in the partnering process. For the purposes of this subsection (7)(b), population is based on the most recent estimates produced by the office of financial management. A city that declines to partner with the department for the issuance and renewal of its general business license as provided in this subsection must provide written notice to the department within sixty days of the date that a city appears on the department's biennial partnering plan as provided in subsection (4) of this section. Such written notice must include an explanation of the nature of the hardship.

(8) By January 1, 2019, and each January 1st thereafter through January 1, 2028, the department must submit a progress report to the legislature. The report required by this subsection must provide information about the progress of the department's efforts to partner with all cities that impose a general business license requirement and include:

(a) A list of cities that have partnered with the department as required in subsection (1) of this section;

(b) A list of cities that have not partnered with the department;

(c) A list of cities that are scheduled to partner with the department during the upcoming calendar year;

(d) A list of cities that have declined to partner with the department as provided in subsection (7) of this section;

(e) An explanation of lessons learned and any process efficiencies incorporated by the department;

(f) Any recommendations to further simplify the issuance and renewal of general business licenses by the department; and

(g) Any other information the department considers relevant.

NEW SECTION. **Sec.**  (1) A general business license that must be issued and renewed through the business licensing service in accordance with chapter 19.02 RCW is subject to the provisions of this section.

(2)(a) A city has broad authority to impose a fee structure as provided by RCW 35.22.280, 35.23.440, and 35A.82.020. However, any fee structure selected by a city must be within the department's technical ability to administer. The department has the sole discretion to determine if it can administer a city's fee structure.

(b) If the department is unable to administer a city's fee structure, the city must work with the department to adopt a fee structure that is administrable by the department. If a city fails to comply with this subsection (2)(b), it may not enforce its general business licensing requirements on any person until the effective date of a fee structure that is administrable by the department.

(3) A general business license may not be renewed more frequently than once per year except that the department may require a more frequent renewal date as may be necessary to synchronize the renewal date for the general business license with the business's business license expiration date.

(4) The business licensing system need not accommodate any monetary penalty imposed by a city for failing to obtain or renew a general business license. The penalty imposed in RCW 19.02.085 applies to general business licenses that are not renewed by their expiration date.

(5) The department may refuse to administer any provision of a city business license ordinance that is inconsistent with this chapter.

NEW SECTION. **Sec.**  The department is not authorized to enforce a city's licensing laws except to the extent of issuing or renewing a license in accordance with this chapter and chapter 19.02 RCW or refusing to issue a license due to an incomplete application, nonpayment of the appropriate fees as indicated by the license application or renewal application, or the nonpayment of any applicable penalty for late renewal.

NEW SECTION. **Sec.**  Cities whose general business licenses are issued through the business licensing system retain the authority to set license fees, provide exemptions and thresholds for these licenses, approve or deny license applicants, and take appropriate administrative actions against licensees.

NEW SECTION. **Sec.**  Cities may not require a person to obtain or renew a general business license unless the person engages in business within its respective city. For the purposes of this section, a person may not be considered to be engaging in business within a city unless the person is subject to the taxing jurisdiction of a city under the standards established for interstate commerce under the commerce clause of the United States Constitution.

NEW SECTION. **Sec.**  A general business license change enacted by a city whose general business license is issued through the business licensing system takes effect no sooner than seventy-five days after the department receives notice of the change if the change affects in any way who must obtain a license, who is exempt from obtaining a license, or the amount or method of determining any fee for the issuance or renewal of a license.

NEW SECTION. **Sec.**  (1)(a) The cities, working through the association of Washington cities, must form a model ordinance development committee made up of a representative sampling of cities that impose a general business license requirement. This committee must work through the association of Washington cities to adopt a model ordinance on general business license requirements by July 1, 2018. The model ordinance and subsequent amendments developed by the committee must be adopted using a process that includes opportunity for substantial input from business stakeholders and other members of the public. Input must be solicited from statewide business associations and from local chambers of commerce and downtown business associations in cities that require a person that conducts business in the city to obtain a general business license.

(b) The department, association of Washington cities, and municipal research and services center must post copies of, or links to, the model ordinance on their internet web sites. Additionally, a city that imposes a general business license requirement must make copies of its general business license ordinance or ordinances available for inspection and copying as provided in chapter 42.56 RCW.

(c) The definitions in the model ordinance may not be amended more frequently than once every four years, except that the model ordinance may be amended at any time to comply with changes in state law or court decisions. Any amendment to a mandatory provision of the model ordinance must be adopted with the same effective date by all cities.

(2) A city that imposes a general business license requirement must adopt the mandatory provisions of the model ordinance by January 1, 2019. The following provisions are mandatory:

(a) A definition of "engaging in business within the city" for purposes of delineating the circumstances under which a general business license is required;

(b) A uniform minimum licensing threshold under which a person would be relieved of the requirement to obtain a city's general business license. A city retains the authority to create a higher threshold for the requirement to obtain a general business license but must not deviate lower than the level required by the model ordinance.

(3)(a) A city may require a person that is under the uniform minimum licensing threshold as provided in subsection (2) of this section to obtain a city registration with no fee due to the city.

(b) A city that requires a city registration as provided in (a) of this subsection must partner with the department to have such registration issued through the business licensing service in accordance with chapter 19.02 RCW. This subsection (3)(b) does not apply to a city that is excluded from the requirement to partner with the department for the issuance and renewal of general business licenses as provided in section 2 of this act.

NEW SECTION. **Sec.**  Cities that impose a general business license must adopt the mandatory provisions of the model ordinance as provided in section 8 of this act by January 1, 2019. A city that has not complied with the requirements of this section by January 1, 2019, may not enforce its general business licensing requirements on any person until the date that the mandatory provisions of the model ordinance take effect within the city.

NEW SECTION. **Sec.**  Cities must coordinate with the association of Washington cities to submit a report to the governor; legislative fiscal committees; house local government committee; and the senate agriculture, water, trade and economic development committee by January 1, 2019. The report must:

(1) Provide information about the model ordinance adopted by the cities as required in section 8 of this act;

(2) Identify cities that have and have not adopted the mandatory provisions of the model ordinance; and

(3) Incorporate comments from statewide business organizations concerning the process and substance of the model ordinance. Statewide business organizations must be allowed thirty days to submit comments for inclusion in the report.

NEW SECTION. **Sec.**  (1) The legislature directs cities, towns, and identified business organizations to partner in recommending changes to simplify the two factor apportionment formula provided in RCW 35.102.130.

(2)(a) The local business and occupation tax apportionment task force is established. The task force must consist of the following seven representatives:

(i) Three voting representatives selected by the association of Washington cities that are tax managers representing municipalities that impose a local business and occupation tax, including at least one jurisdiction that has performed an audit where apportionment errors were discovered.

(ii) Three voting representatives selected by the association of Washington business, including at least one tax practitioner or legal counsel with experience representing business clients during municipal audits that involved apportionment errors or disputes.

(iii) One nonvoting representative from the municipal research and services center.

(b) The task force may seek input or collaborate with other parties, as it deems necessary. The municipal research and services center must serve as the task force chair and must staff the task force.

(c) Beginning in the first month following the effective date of this section, the task force must meet no less frequently than once per month until it reports to the legislature as provided under subsection (3) of this section.

(3) By October 31, 2018, the task force established in subsection (2) of this section must prepare a report to the legislature to recommend changes to RCW 35.102.130 and related sections, as needed, to develop a method for assigning gross receipts to a local jurisdiction using a market-based model. The task force must focus on methods that rely on information typically available in commercial transaction receipts and captured by common business recordkeeping systems.

(4) The task force terminates January 1, 2019, unless legislation is enacted to extend such termination date.

NEW SECTION. **Sec.**  Sections 1 through 10 of this act constitute a new chapter in Title 35 RCW.

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