
Finance Committee

HB 2965

Brief Description: Developing a feasibility plan for authorizing state administration and collection of local business and occupation taxes.

Sponsors: Representatives Ericks, Orcutt, Green, Hinkle, Eddy, Alexander, Morrell, Williams, Pettigrew, Warnick, Grant, Condotta, Armstrong, Chandler, Linville, McIntire and Kessler.

Brief Summary of Bill

- Directs the Department of Revenue to review the feasibility of a uniform system for the administration and collection of local B&O taxes.

Hearing Date: 2/1/08

Staff: Don Taylor (786-7388).

Background:

Cities are authorized to tax general business activities occurring within their boundaries (County government has no such authority). Municipal business taxes are typically based on gross business receipts, although many cities impose a business license fee measured by the number of employees or a flat dollar fee for various types of activities. Some cities impose a fee according to the square footage occupied by the firm. Some cities impose multiple forms of local business taxes. Approximately 40 cities currently impose local business taxes which are measured by gross receipts. The rates of such taxes are generally limited by state law to 0.2 percent, unless a higher rate prevailed prior to 1982 or the voters have authorized a higher rate.

(Note: this bill does not address municipal taxes on utilities. There are many more cities that impose such taxes and the local utility tax rates are significantly higher than the taxes on general business activities).

Historically, there has been no statutory or administrative relationship between city business taxes and the state Business and Occupation (B&O) Tax. However, in 2003 the Legislature directed that a model local business tax ordinance be developed which provides greater ties to state B&O tax definitions. Starting in 2008 city business taxes must provide for the allocation and

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apportionment of business income derived in multiple locations, so that more than one municipality does not tax the same income.

Under current law, all of the administrative functions relating to collection of municipal business taxes remain with the imposing local jurisdiction.

Summary of Bill:

The Department of Revenue (Department) is directed to review the feasibility of a uniform system for the administration and collection of local B&O taxes. The Department's review must consider the feasibility of:

1. requiring municipal taxes to conform to state B&O tax definitions, including tax classifications and due dates for tax returns.
2. granting authority for issuing legal and interpretive rulings and handling appeals and adjudicative matters to the Department.
3. requiring that state administrative procedures for tax collection, taxpayer filing frequency, submission of returns electronically, auditing of taxpayers, filing of liens, etc. apply to municipal taxes.
4. assuring that confidentiality provisions apply equally to local taxes.
5. extending the same appeal process - to the Department, the Board of Tax Appeals and the Courts - to local business taxes as exists for the state B&O tax.
6. authorizing apportionment of gross receipts among local taxing jurisdictions.
7. establishing a January 1 effective date for adoption of new local business taxes.
8. providing distribution of local business tax receipts to levying jurisdictions by the same administrative mechanisms as local sales taxes.
9. prohibition of local "minimum" taxes on gross receipts.

The plan to be developed by the Department must address standardized local tax thresholds; consider a mitigation plan to assure revenue neutrality; review whether penalties and interest should be deposited in the state general fund; determine whether state tax classifications should apply to local business taxes; and recommend a deadline for requiring compliance with a state-administered system for local business taxes.

The Department is required to submit a final report to the House Finance Committee and the Senate Ways and Means Committee by December 1, 2008.

Appropriation: None.

Fiscal Note: Requested on January 21, 2008.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.