Local Government Partnership Meeting
Western Washington
May 29, 2019

8:30 – 9:00  Registration

9:00 – 9:10  Welcome
   Vikki Smith, Director

9:10 – 9:40  Economic & Revenue Forecast Council
   Steve Lerch, PhD., Executive Director & Chief Economist

9:40 – 10:00 Joint Legislative Audit and Review Committee
   Dana Lynn & Rachel Murata

10:00 – 10:20 Break
   Attendees are welcome to join Revenue employees in a celebration of Memorial Day

10:20 – 10:50 Local Tax
   Ashley Boss & Jessica Hicks, Taxpayer Account Administration managers

10:50 – 11:10 Marketplace Fairness Update
   Patti Wilson, Remote Seller Legislation Project Manager

11:10 – 11:40 2019 Legislation
   Miki Gearhart & Andre Unicume, Legislation and Policy specialists

11:40 – 12:00 Protecting Confidential Taxpayer Info
   Cliff Magness, Privacy Officer

12:00 – 12:15 Leasehold Excise Tax
   Andy Van Gerpen, Miscellaneous Tax manager

12:15 – 12:30 Business Licensing Service Partnership Update
   Eric Jones, Partnership Services
Washington State Economic Update

Presented to
Local Government Partnership Meeting

Steve Lerch
Executive Director

May 29, 2019
Tumwater, Washington
ERFC
- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990

Economic and Revenue Forecast Council Organization Chart

Office of the Governor
- Director, OFM
- Director, DOR

Economic and Revenue Forecast Council

- Member, Democratic Caucus
- Member, Republican Caucus
- State Treasurer
- Member, Democratic Caucus
- Member, Republican Caucus
- House of Representatives
- Senate
The national economic forecast is based on a modified version of the IHS Markit model of the U.S. economy.
Summary

- U.S., WA forecasts similar to the November forecast
- Baseline forecast has slowing growth but no recession
- Wage growth and inflation remain moderate
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns and a maturing economic expansion
- Potential impact of 737 MAX grounding adds a new downside risk
- The Near General Fund-State forecast is increased by $307 million for the 2017-19 biennium and by $554 million for 2019-21 biennium
Selected forecast risks

Labor markets
- Unemployment rate, initial UI claims low
- Job growth dipped in February but bounced back

737 MAX
- Currently, impact on WA employment and personal income unclear

International trade policy
- China – U.S. trade deal remains uncertain
Consumer confidence dipped in late 2018 but has partially recovered, remains strong.

Sources: University of Michigan, Conference Board; data through April 2019
Small business optimism has weakened recently but remains strong

Source: National Federation of Independent Business; data through Mar. 2019
WA, U.S. unemployment rates are below pre-recession levels

U.S. job growth slowed in February but picked up in March and April
Nominal wage growth has averaged 3.3% - 3.4% in last 12 months regardless of educational level.

Source: Federal Reserve Bank of Atlanta, data through Apr. 2019
Exports to China have declined for four consecutive quarters

On a year-over-year basis, WA exports declined in 2018 Q4 and 2019 Q1.
Home price growth is slowing

The Case-Shiller index for Seattle grew more slowly than the U.S. index in the last two months.

Source: Case-Shiller, data through February 2019
Relative to population, WA residential construction activity is stronger than the U.S.

Source: U.S. Census Bureau, ERFC; data through 2018 Q4

Total
-1%

Information
6%

Constr.
5%

Educ/Health Services
4%

Leisure/Hosp.
3%

Prof/Business Services
2%

Manufacturing
1%

Retail Trade
0%

WA personal income growth has outpaced the U.S. in 26 of last 36 quarters

WA personal income growth is expected to average 4.8% per year for 2019 - 2023

Source: U.S. Bureau of Economic Analysis, data through 2018 Q4
U.S. retail sales growth slowed in last half of 2018, may be bouncing back

Source: U.S. Census Bureau data through Mar. 2019 advanced release
Leading economic indexes for U.S. dipped recently but do not suggest a recession in near term.

Besides WA, five other states had negative index values in February.

Source: Federal Reserve Bank of Philadelphia, data through Feb. 2019
An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor.

Although not apparent with the monthly averages shown here, the yield curve inverted from Mar. 22\textsuperscript{nd} until Mar. 28\textsuperscript{th}.

Source: Federal Reserve Bank of St. Louis, monthly data through Apr. 2019

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL
Timing of next recession: National Assoc. of Business Economists survey

Wall Street Journal economists’ survey shows recession probability rising but still relatively low

GCEA members (Mar. 2019):
Average probability of recession in next 12 months = 36%

Source: Wall Street Journal economists’ survey, data through Apr. 2019
U.S. real GDP growth slowed then picked up in 2019 Q1

First quarter 2019 growth due in part to inventory accumulation that is unlikely to be repeated in the second quarter.

Source: U.S. Bureau of Economic Analysis. Data through Q1 2019
Many forecasters expect U.S. economic growth is to slow further.

Sources: U.S. Bureau of Economic Analysis, ERFC Mar. 2019 preliminary forecast, IHS-Markit, Federal Reserve Board, Economy.com
Oil prices are slightly lower than in the November forecast.

Source: Energy Information Administration, IHS Markit, ERFC; data through Q4 2018
Note: Vertical black line indicates last actual
The Federal Reserve is not expected to raise interest rates as high as anticipated in November.

Source: ERFC March 2019 Preliminary forecast; historical data through Q4 2018
By the end of 2023, employment is 0.1% higher than in the November forecast.

Source: IHS Markit, ERFC; data through Q4 2018

Note: Vertical black line indicates last actual
Washington personal income is slightly lower than in November.
Washington employment forecast is slightly lower than in November

Washington Nonfarm Payroll Employment

Source: ERFC March 2019 forecast; historical data through Q4 2018
Permits forecast for 2019 – 2023: average unchanged, timing slightly different compared to November.

Washington Housing Permits

Source: ERFC March 2019 forecast; historical data through 2018
Revenue Act collections growth has been strong

Adjusted year-over-year collections growth (by quarter of activity):

2017Q4: 8.3%
2018Q1: 8.2%
2018Q2: 8.8%
2018Q3: 7.6%
2018Q4: 7.4%

* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through January 2019 activity
Taxable REET activity declined in February but remained strong

There were $1.0 billion in large commercial sales (> $10 million) in February, down from $1.87 billion in January.
Assessed value on existing properties increased between November, March forecasts.

November forecast for growth in Market Value: 10.9%

Actual growth: 12.6%

Every 1.0 percentage point increase in Market Value growth adds between $30-$40 million in revenue per year.

Source: ERFC March 2019 forecast; historical data through 2018
Cannabis revenue growth is expected to moderate

Source: ERFC March 2019 forecast; historical data through February 2019
Near GF-S forecast changes by source

Source: ERFC March 2019 forecast
Conclusion

- Economic forecasts are only slightly changed from November.

- Washington’s economy is continuing to outperform the nation but not as dramatically as in past.

- Threats to economic expansion include concerns about international trade and fiscal policy, geopolitical risks and a maturing expansion.

- GF-S revenues are expected to grow 15.3% between the 2015-17 and 2017-19 biennia and 12.3% between the 2017-19 and 2019-21 biennia.

- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks.
Working with others to answer Legislative questions (or what is JLARC and why should I care?)
JLARC: the Legislature’s auditor

- **Answer Legislature’s questions**
  - Legislature sets policy, JLARC evaluates it

- **Performance audits since 1973**
  - JLARC office and Legislative Auditor position established in statute

- **Nonpartisan staff use professional audit standards**
  - Evidence-based
Equal members from legislative branches and parties
JLARC examines a variety of programs

- Ongoing tax preference performance reviews
- Specific study assignments from the Legislature
- Ongoing data collection/reporting assignments
For each study, we look to partners that have:

- Data and details
- Knowledge and expertise
- Local perspective
Tax preference reviews

County treasurers & assessors
- 2019 - Commuter Air Carriers (Property Tax)
- 2016 - Data Center Equipment (Sales/Use Tax)
- Online data for property tax exemptions

Public utility districts
- 2017 - Electricity for Electrolytic Processors (Public Utility Tax)
- 2014 - Aluminum Smelter Power Purchases (Public Utility Tax)

Public facilities districts
- 2015 - Public Facilities Districts (Leasehold Excise Tax)

Multi-family property tax exemption
- 2019 - Contacted city planners for city goals, execution detail; county assessors for data on exempt properties
Specific study assignments

Fees Assessed for Forest Fire Protection
- How assessments are done, whether any parcels are not taxed
- JLARC staff worked with assessors - built a 2 million parcel database to answer questions
- 2019 bill made process for locals to annex land

Local Infrastructure Financing Tool
- Effectiveness of the financing tool, status of projects
- How does it fit into overall financing?
- Currently working with cities, ports and counties

Public Records Training, Consultation and Grant programs
- Effectiveness of programs to help local governments manage records
- Work with local agencies that have used the services
- Are they meeting agencies’ needs, and what changes are being implemented by users?
Legislature tasked JLARC with collecting and reporting – not analyzing

Lodging tax expenditures – 198 entities reported $56 million in work

Public records information – agencies spending over $100,000
Partner Portal
Ashley Boss, Tax Administration Manager
Jessica Hicks, Tax Administration Manager
Taxpayer Account Administration
May 2019
Access to the Partner Portal

• How to request access to the Partner Portal
  o Confidentiality Affidavit
  o Inactivity Lockout
Local Tax Reports

Summary Report

[Image of a summary report interface with fields for Jurisdiction and Distribution Period set to April 2018]
Distribution Detail

- Detail Report

- Results downloaded
Enhancements to the Reports

- Taxable amounts added
- Transient Rental detail report coming soon
- Email notifications regarding updates
Differences in Detail Reports

- Displays only what accumulates to your jurisdiction
  - Previous reports displayed city/county share

- Separate lines for Regular and Optional taxes
  - Previous reports combined into single line

- Detail reports available for most tax components
Research requests

• Account specific questions

• Portal access questions

• Contact us
  - 360-705-6179
  - Secure web message to Local Sales Tax topic
Resources

• Dor.wa.gov/localjurisdiction
  o Local Tax Reference Guide
  o Partner Portal access instructions

• Statistics and Reports
Questions?
Threshold

• Effective October 1, 2018
• Remote sellers & facilitators
• Requires sales tax collection
• >$100,000 or 200 transactions*

*200 transactions threshold eliminated on March 14, 2019 (SSB 5581)
SSB 5581

• Codify
  - $100,000/200 transactions thresholds
  - Effective date (10/1/18)
  - Prospective only

• Eliminate
  - 200 transactions
  - Import exemption
  - Election
  - SSUTA sourcing mitigation “true-up” provision is repealed
Mitigation Payments as of March 2019

• Total mitigation payments to date: $232.4 million

• 42nd mitigation payment since December 2008

• Fourth payment including Marketplace Fairness revenue gains

• Quarter one payments were $1.99 million, compared to $2.3 million in December 2018

• Fifteen local jurisdictions received a payment compared to the nineteen in December 2018
Mitigation Payments

<table>
<thead>
<tr>
<th>Payment #</th>
<th>Total Payment</th>
<th># of Receiving Jurisdictions</th>
<th>Top 5 Jurisdiction Payments</th>
<th>Top 5 Percentage of Total</th>
<th>Payment Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>$1,992,480.62</td>
<td>15</td>
<td>$1,787,689.36</td>
<td>90%</td>
<td>03/2019</td>
</tr>
<tr>
<td>41</td>
<td>$2,304,670.72</td>
<td>19</td>
<td>$1,991,372.98</td>
<td>86%</td>
<td>12/2018</td>
</tr>
<tr>
<td>40</td>
<td>$2,442,641.89</td>
<td>23</td>
<td>$2,064,421.29</td>
<td>85%</td>
<td>09/2018</td>
</tr>
<tr>
<td>39*</td>
<td>$2,488,103.14</td>
<td>26</td>
<td>$2,087,229.89</td>
<td>84%</td>
<td>06/2018</td>
</tr>
<tr>
<td>38</td>
<td>$3,543,825.82</td>
<td>51</td>
<td>$2,460,949.23</td>
<td>69%</td>
<td>03/2018</td>
</tr>
<tr>
<td>37</td>
<td>$3,547,581.07</td>
<td>51</td>
<td>$2,461,833.54</td>
<td>69%</td>
<td>12/2017</td>
</tr>
<tr>
<td>36**</td>
<td>$3,550,226.20</td>
<td>49</td>
<td>$2,461,002.61</td>
<td>69%</td>
<td>09/2017</td>
</tr>
</tbody>
</table>

*EHB 2163 revenue gains impact payments

**Transportation authorities, RTAs and PTBAs no longer receive mitigation payments
On the Horizon

- Enforcement plan
- SSB 5581 implementation
- Consumer refund process
Questions?

Contact Info:

DORMarketplaceFairness@dor.wa.gov
2019 Excise Tax Legislation

Andre Unicume
Tax Policy Specialist
Bills Passed – Excise Tax & Administration

2SHB 1059
Extending the business and occupation tax return filing due date for annual filers.

HB 1301
Exempting certain leasehold interests in arenas with a seating capacity of more than two thousand from the leasehold excise tax.

SHB 1403
Simplifying the administration of municipal business and occupation tax apportionment.
SHB 1406
Encouraging investments in affordable and supportive housing.

SHB 1746
Incentivizing the development of commercial office space in cities in a county with a population of less than one million five hundred thousand.

SHB 1798
Concerning short-term rentals.
Bills Passed – Excise Tax & Administration

ESHB 1839
Requiring eligible arena projects to fully pay the state and local sales tax within ten years of commencing construction.

SSB 5025
Creating sales and use and excise tax exemptions for self-help housing development.

ESSB 5183
Concerning relocation assistance for manufactured/mobile home park tenants.
Bills Passed – Excise Tax & Administration

**ESSB 5272**
Increasing the maximum tax rate for the voter-approved local sales and use tax for emergency communication systems and facilities.

**ESSB 5998**
Establishing a graduated real estate excise tax.
Questions?
2019 Property Tax Legislation
Miki Gearhart
Tax Policy Specialist
Bills Passed – Property Tax

E2SHB 1105
Protecting taxpayers from home foreclosure

HB 1107
Concerning nonprofit homeownership development

HB 1634
Requiring property sold in tax lien foreclosure proceedings to be sold as is
Bills Passed – Property Tax

SHB 1746
Incentivizing the development of commercial office space in cities in a county with a population of less than one million five hundred thousand

HB 1852
Concerning property tax refunds more than three years after the due date resulting from certain manifest errors
Bills Passed – Property Tax

SHB 2044
Concerning the deannexation of a portion of land from a park and recreation district or metropolitan park district

HB 2072
Authorizing county treasurers to contract with other treasurers for services

SSB 5010
Concerning protected lands not being assessed local fire district levies
Bills Passed – Property Tax

ESSB 5131
Regarding foreclosure and distraint sales of manufactured, mobile, or park model homes

SB 5132
Addressing noncollection of taxes by county treasurers

ESSB 5160
Concerning property tax exemptions for service-connected disabled veterans and senior citizens
Bills Passed – Property Tax

ESSB 5183
Concerning relocation assistance for manufactured/mobile home park tenants

SSB 5894
Clarifying that the firefighters' pension levy may continue to be levied to fund benefits under the law enforcement officers' and firefighters' retirement system
Questions?
Ten Things You Need to Know About Protecting Confidential Tax & Licensing Information
1. Most DOR information is confidential
2. Tax and Licensing Information is exempt under the Public Records Act.
3. Limited information is public.
4. Data-sharing or Partnership Agreements protect confidentiality.
5. Confidentiality Agreements are required.
6. Process for Confidentiality Agreement
7. Data security requirements apply.
8. Let us know if there’s a breach.
9. Penalties for a breach of confidentiality are severe for individuals.
10. Help is available.

DOR Information Governance
(360) 534-1624

Send an email to: DORDataSharing@dor.wa.gov
Leasehold Excise Tax

Andy Van Gerpen, Program Coordinator
Topics for Discussion

• Overview of Leasehold Excise Tax (LET)
• Common Adjustments Found in Audits
• Changes Made to the Distribution Reports
LET Overview

- Tax on private use of public property.
- Paid in lieu of property tax.
- Tax on lessee.
- Total rate of 12.84%
  - 6.84% - State
  - 6.00% - Local
- Tax Code Area (TCA)
Exemptions

• Most common:
  o Taxable rent less than $250
  o Leases for less than 30 days

• Other exemptions (20+ found in WAC 458-29A-400)
  o Student housing at public schools, colleges, or universities
  o Public facilities districts
  o Electronic vehicle battery charging stations
Common Adjustments Found in Audits

• Rent not at market value
• Imputing tax
• Unreported contract rent
• LET reported on exempt properties
Distribution Report Changes

- System change effective November 2018 (first report in December 2018)
- New delivery method
- New file format
- Issue with “Other” TCA codes
Questions?
Agenda

• 2020 & 2021 partnership plan
• BLS Wizard update
• BLS application updates
• Q&A
50+ cities set to join by 2021
80 cities to decide by 2022
New online application June 17
Business License Wizard

State of Washington
Business Licensing Service

Selling to Washington customers from out-of-state?
See if you need to register

Other resources
- Learn how to sign up for My DOR
- Washington Small Business Fair
- Determine business registration requirements
- Search for or register a corporation
- Report fraud or make a complaint
- Get a certificate of good standing
- Business.ws.gov
- Find a state agency
- Small Business Liaison (pdf)
- Read the small business guide

Apply
- Get a Washington state business license
- Get a customized business license wizard guide sheet
- Specialty licenses
- More

Renew
- Renew your state/city license
- More

Search
- Business licenses
- License information
- More

Proudly Served Our Country
Now Proudly Serving Our Community
Internet/Government Award Winner
Registered with Washington Department of Veteran Affairs
Better user experience

• Feedback & usability drove improvements
• Less content on each screen
• Updated screen titles & progress bar
• One click to add a city license
• Simplified activity & license type choices
• Easy-to-read summary page
Activity selection

Online Business License Application

Section 2 of 5

ABOUT YOUR BUSINESS

LOCATION

Physical Location
Mailing Address
Business Info
Additional Bus. Info
City Selection
Additional Cities
Non-Resident Nonprofit
Business Info Cont’d
City License
Other City Info
Business Items
Activity Search

LOCATION

Activity Search

What is the primary business activity or activities for this business in the State of Washington? The business activity selected will help us determine the state endorsements that may be required.

Enter keyword(s) and select activities that apply

Filter
Selected Activities (maximum of 5)
No activities selected

Select 3rd Party Administrator
Select Academy
Select Accident Investigations
Select Accident Reconstruction Service
Select Acoustical - Install, Repair
Select Activity Planning
Select Actor
Select Actress
Select Actuary
Select Acupressure

None of the activities listed above describes the business.
What is the primary business activity or activities for this business in the State of Washington? The business activity selected will help us determine the state endorsements that may be required.

Enter keyword(s) and select activities that apply

- **book**
  - Selected Activities (maximum of 5)
    - Bakery, Retail
    - Used Book Store

- Select Bookkeeping
- Select Bookstore - Test
- Select Children Books

- None of the activities listed above describes the business.
Business Activity

Online Business License Application

Section 2 of 5

LOCATION

Activity Search

What is the primary business activity or activities for this business in the State of Washington? The business activity selected will help us determine the state endorsements that may be required.

None of the activities listed above describes the business.
Business Activity

Online Business License Application

Section 2 of 5

LOCATION

Business Activity

- Indicate the business activities in Washington (check all that apply)

- Services
- Retail
- Wholesale
- Manufacturing

Describe the principal products you sell or services you provide in Washington (limit of 150 characters)

Required
Business Activity

Indicate the business activities in Washington (check all that apply)

- [ ] Services
- [x] Retail
- [ ] Wholesale
- [ ] Manufacturing

Do you need to add additional information about the business activity?

Yes  No

Limit of 150 characters
SELL BAKED GOODS AND BOOKS
Resident city

### Tumwater License

Based on your business address, we have added the Tumwater license. Review the City of Tumwater requirements to complete the questions.

First date of business in Tumwater

Estimate your gross annual income for the coming 12 months in this city

[Required]

No Income

Estimated number of employees working in this city in the next 12 months

How many rental units at this location?

Does the business qualify for a fee exempt license in this city?

Yes  
No
Non-resident cities

Online Business License Application

LOCATION

Will you be traveling to do business in a city other than the one you are located in?

Yes  No

City Selection

Select each city where you'll be doing business. For cities not listed, contact the city directly for more information.

You cannot select cities listed in gray. The business either does not qualify or already has the endorsement.

Available Cities

- Airway Heights
- Anacortes
- Bainbridge Island
- Battle Ground
- Bellingham
- Black Diamond
- Blaine
- Bonney Lake
- Bridgeport
- Buckley
- Burlington
- Eatonville
- Edgewood
- Edmonds
- Ellensburg
- Enumclaw
- Ephrata
- Fife
- Fircrest
- Friday Harbor
- Gig Harbor
- Gold Bar
- Marysville
- Millwood
- Milton
- Monroe
- Moses Lake
- Mount Vernon
- Mukilteo
- Napavine
- Newcastle
- Normandy Park
- North Bend
- Ruston
- Sammamish
- SeaTac
- Sedro Woolley
- Sequim
- Shelton
- Skykomish
- Snohomish
- Spokane
- Spokane Valley
- Springdale
Non-resident cities, continued

Online Business License Application

### Location

**Vancouver**
- Review the City of Vancouver requirements to complete the questions.
- In Vancouver, first date of business
  - **Required**
- In Vancouver, estimated gross income in the next 12 months
  - **Required**

**Washougal**
- Review the City of Washougal requirements to complete the questions.
- In Washougal, first date of business
  - **Required**
- In Washougal, estimated gross income in the next 12 months
  - **Required**
- In Washougal, estimated number of employees
  - 0
## Business Information Continued

Does this business have any of the following?

<table>
<thead>
<tr>
<th>Option</th>
<th>Yes</th>
<th>No</th>
<th>Required?</th>
</tr>
</thead>
<tbody>
<tr>
<td>An automatic smoke detection system or fire sprinkler system installed</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Any compressed gases (oxygen, helium, acetylene, propane, nitrous oxide, etc.)</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Discharges to sewer from the business or business processes other than domestic sanitary discharges</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Any flammable/hazardous/toxic materials (gasoline, oil, cleaning solvents, pesticides, etc.)</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Average gallons or pounds kept on premises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Floor drains other than in restroom/shower facilities</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>An emergency alarm monitoring service</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>
Updated selection screens

Online Business License Application

LOCATION

Are you a general or specialty contractor?
Yes No

Do you have a Washington State professional or occupational license?
Yes No

Do you provide utility service (telephone/cellular/ISP, cable, gas, electric, garbage)?
Yes No

Is this business a 501 (c) nonprofit?
Yes No
## Review and Pay

### Endorsements

<table>
<thead>
<tr>
<th>Endorsement Type</th>
<th>Begin</th>
<th>End</th>
<th>Quantity</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tumwater General Business</td>
<td>May-17-2019</td>
<td>May-31-2020</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Cordago Motor</td>
<td>May-17-2019</td>
<td>May-31-2020</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Tax Registration</td>
<td>May-17-2019</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Vancouver General Business - Non-Resident</td>
<td>May-17-2019</td>
<td>May-31-2020</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Washougal General Business - Non-Resident</td>
<td>May-17-2019</td>
<td>May-31-2020</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

5 Rows

### Fees

<table>
<thead>
<tr>
<th>Fee Type</th>
<th>Begin</th>
<th>End</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLS Processing Fee</td>
<td>May-17-2019</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Vancouver Employee</td>
<td>May-17-2019</td>
<td></td>
<td>24</td>
</tr>
</tbody>
</table>

2 Rows

**Grand Total:**
dor.wa.gov/BusinessLookup

Business License Lookup

Search for business license endorsements issued through the Washington State Business Licensing Service.

General search

Governing people search

Trade name search

Business name

Street address

UBI/Account ID

City

License no.

County

Endorsement type

Search
Business Licensing Service (BLS) and local licensing

Make business licensing easier for your local business community

Did you know more than 90 percent of businesses apply for and renew their licenses online?

BLS offers a "one-stop" local licensing solution to relieve the workload of license renewals. We serve 90+ cities with more joining BLS each year.

Partnership with BLS supports your city staff and business community by removing roadblocks. This saves your local businesses time when they apply for and renew city and state licenses. Your staff, meanwhile, get fast turnaround, detailed reporting, and increased compliance – with no added cost.

Our revenues increased 15 percent in the first year. With BLS, we are able to identify our businesses and their employees more easily.
~ Carrie Lewellen, Treasurer, City of Vancouver

More information

- BLS brochure (pdf)
- Map of BLS Cities
- FY 2019 City Partner Plan
- Onboarding timeline (pdf)
- Secrecy Clause (pdf)
- Standard reports list (pdf)
- Sample BLS-City contract (pdf)
- FAQ (pdf)
BLS Support

• **Business Licensing Call Center**
  - 800.451.7985 & bls@dor.wa.gov

• **Specialty Licensing**
  - 360.705.6744 & faxbls@dor.wa.gov

• **12 offices statewide**
  - dor.wa.gov & bls.dor.wa.gov

• **BLS Partnership Services – Katie Early, Manager**
Contact

BLS Partnership Services
(360) 705-6777
dorblspartner@dor.wa.gov
Questions?
Today's Topics

• B&O Tax Overview
  o Retailing; Wholesaling; and Service and Other

• Common Deductions

• Retail Sales Tax

• Enterprise Activities vs. Non-Enterprise Activities

• Public Utility Tax

• Use Tax
Ask questions at any time
Overview of B&O Tax

- Tax for act of engaging in business
- Measured by gross income or gross proceeds of sales
- 30 classifications; some lines have multiple classifications
- 12 different tax rates (from .138% to 1.63%)
Retailing B&O

Includes all sales to consumers of goods and retail services

- Examples of retail sales:
  - Custom construction/repair
  - Charges for Public Pool Use
  - Certain Amusement and Rec Fees

- Casual Sales are B&O tax exempt
  - Sale of unclaimed property by police dept.
  - Sale of surplus equipment

- Although B&O tax exempt, no comparable exemption for sales tax
Wholesaling

- For reporting sales of products or labor to persons who resell the same without intervening use
- Obtain the purchasers resellers permit
RESELLER PERMIT
Washington State Department of Revenue

Issued to: 600 600 600 John Doe John Doe Inc 1234 Nowhere Rd Anywhere, WA 99999
Permit Number: A14 8694 13
Effective Date: 01-01-2010
Expiration Date: 12-31-2013

Business Activity: Miscellaneous Wholesale

This permit can be used to purchase:
• Merchandise and inventory for resale without intervening use
• Ingredients, components, or chemicals used in processing new articles of tangible personal property produced for sale
• Feed, seed, seedlings, fertilizer, and spray materials by a farmer
• Materials and contract labor for retail/wholesale construction
• Items for dual purposes (see Purchases for Dual Purposes on back)

This permit cannot be used to purchase:
• Items for personal or household use
• Items used in your business that are not resold, such as office supplies and equipment
• Promotional items or gifts
• Tools, equipment, or equipment rentals
• Materials and contract labor for public road construction or U.S. government contracting (see Definitions on back)
• Materials and contract labor for speculative building

The business named on this permit acknowledges:
• It is solely responsible for all purchases made under this permit
• Misuse of the permit:
  − Subjects the business to a penalty of 50 percent of the tax due, in addition to the tax, interest, and penalties imposed (RCW 82.32.291)
  − May result in this permit being revoked

Notes (optional):

Important: The Department of Revenue may use information from sellers to verify all purchases made with this permit were qualified.

Reseller: Keep this original permit on file. Provide copies to sellers from which you make purchases.
Service & Other Activities

For the revenues of taxpayers that provide personal and professional services not otherwise classified:

- Cemetery plot sales, internment fees
- Solid Waste Collection
- Also subject to Solid Waste Collection Tax
- Sewer – (interception, transfer, storage, treatment and disposal of sewage)
- Storm Drain Fees
- Services prior to receiving service – new customers
Common Activities Subject to Service Other B&O Tax

- User fees for lockers
- Moorage/License to use RE – less than 30 days
- Pre-Utility Charges (Connection Charges)
  - Activities performed for customers prior to sale of a public utility service are considered a “new customer”
    - Line Extensions
    - Connection fees,
    - Pole contact charges
    - Testing
    - Load factor charges
    - Meter reading fees
New Customer Defined

- A “new customer” is a customer who previously has not received utility services, such as water, gas, electricity, at the location where the charge for a specific service was provided.

- For example, a customer of a water supplier who currently receives water at a residence constructs a new residence a short distance from the first location. This customer will be considered a “new customer” with respect to any charges for services performed at the new location until the customer actually receives water at the new location, even though this customer may be receiving services at a different location.
B&O Tax Deductions

Income should be reported then deducted on the tax return

Examples:

- Bad debts
- Cash and trade discounts
- Casual sales
- Tax in gross
Service Other Exemptions/Deductions

- RCW 82.04.4297 provides deduction for governmental grants received for rendering health & social welfare services.

- RCW 82.04.4291 provides deduction for income received by a local government for rendering services taxable under the service other classification to other local governments.

- RCW 82.04.432 allows municipal sewer utilities to deduct payments to other cities or governmental agencies for interception, treatment or disposal of sewage.
B&O Tax Exemptions

Exempt income does not have to be reported

Examples:

- Certain fundraising activities for nonprofit and social services organizations
- Sales or rental of real estate (more than 30 days)
- Purely Governmental Activities provided by a Fire District – other than a utility or enterprise activity (82.04.419)
Retail Sales Tax

• Tax on the consumer

• Tax on sale, rental, repair, or installation of tangible personal property (includes labor)

• Collected by the seller and held in trust for the state
Retail Sales Tax

Examples:

• Vehicles, furniture, clothing and appliances

• Some amusement and recreation activities such as racquetball and golf

• Construction performed for consumers
Retailing B&O and Retail Sales Tax

Examples

• Sales of equipment to end consumers
• Selling various gas appliances at retail
• Sales of items such as rain barrels and compost bins
Place of Sale

Three Rules:

1. **Tangible personal property**
   - Over the counter sales: store location
   - Delivery: where customer receives goods

2. **Labor, installation and construction**
   - Where labor takes place

3. **Rentals of goods:**
   - Single payment: where customer picks up goods
   - Periodic payments:
     - First payment: where customer picks up goods
     - Subsequent payments: where goods are used
Retail Sales Tax Deductions

• Bad debts
• Cash and Trade Discounts
• Return and Allowances
• Interstate and foreign sales
Enterprise and Utility Activities

• No B&O exemption for enterprise and utility activities
  
  o Enterprise activities are financed similar to that of private business
    ✓ Activity in competition with private business
    ✓ Activity more than 50% funded by user fees
    ✓ Ambulance service provided by volunteer fire dept
  
  o B&O tax exemption for non-enterprise activities does not extend to sales tax
    ✓ Activity subject to sales tax, must collect tax due regardless of B&O tax exemption
Enterprise vs. Non-Enterprise Activities

- B&O tax exemption for cities, counties, towns, school districts, and fire districts for exclusively governmental activities – non-enterprise activities
  - Charges and/or fees considered non-enterprise
    - Fire fighting both within and outside the district
    - Licenses and permits
    - Inspections
    - Copies of public records, reports & studies
    - Pet adoption licenses
    - Processing fees for fingerprinting
    - Environmental impact statements
    - On-street metered parking and on-street parking permits
    - Taxes, fines, penalties, and interest thereon (not including tax on utility services)
Public Utility Tax

- Tax on business for act of operating a public service ("utility") business

- Similar to B&O tax, but on public service businesses, such as:
  - Water distribution
  - Sewer facilities
  - Power
  - Gas distribution
Taxability of Fire District Activities

Activities Not Subject to Retail Sales Tax

- The rental of equipment along with fire district personnel that are directly involved with fighting fires or extinguishing flames are not subject to retail sales tax when the fire districts are not under the specific direction of the fire boss (except as to where to perform the service) and the fire boss has no control over how the work will be performed.
Activities Subject to Retail Sales Tax

- Fire districts performing other tasks (e.g. erosion control, earth moving, repair services, sales of apparel, providing food or shelter, etc.) are subject to retail sales tax based on the nature of the activity performed.
Municipality Tax Imposed on Third-Party Utility Business

• Tax a city imposes on the district is not taxable. However, when the utility passes this tax along to their customers it is considered part of the district’s taxable gross utility revenue, taxable under either the B&O or Public Utility tax classifications.

• See 19 WTD 332
Municipality Tax Imposed on Their Own Utility Business not Their Customer

In order for a municipal utility tax to be exempt:

1. First, a city must be granted specific authority from the legislature to impose the utility tax on the consumer. Then,

2. There must be a specific municipal code which imposes the utility tax on the consumer.
Public Utility Tax

- Gross Income including activities incidental to providing the utility service.

- Exclusions from Income
  - Interdepartmental charges
  - LID and ULID Assessments
  - Volume
  - Contributions of Equipment
  - Contributions of Cash are taxable
Sewer Utilities

• Definitions
  o Lateral Sewer
  o Intercepting Sewer
  o Pump or Lift Stations
  o Force Main
  o Treatment Plant
Definitions Related to Sewerage

- **Sewage**
  
  Sewage is the waste matter carried off by sewer drains and pipes.

- **Sewerage**
  
  Sewerage refers to the physical facilities (e.g., pipes, lift stations, and treatment and disposal facilities) through which sewage flows.
Definitions Related to Sewerage Continued

• **Intercepting Sewer**

An intercepting sewer is a main sewer that receives flow from laterals and delivers the sewage to another main sewer or to a point for treatment or disposal. (See miscellaneous section for more detail including a diagram to assist in understanding this concept.)

• **Pump or Lift Stations**

Sewer pipes are generally gravity driven. Wastewater flows slowly downhill until it reaches a certain low point. Then pump, or "lift," stations push the wastewater back uphill to a high point where gravity can once again take over the process.
Definitions Related to Sewerage Continued

• **Force Main**

A force main is a sewer line fed by a lift station; carries pumped wastewater to a point where other pumps or gravity can take over.

• **Treatment Plant**

A treatment plant is a structure built to treat wastewater before discharging it into the environment.
How is a Sewer Utility Taxed?

- **Sewer Collection**
  - A sewerage collection business includes only that portion of a sewer system where "collection" occurs. Sewerage collection ends when the sewage exits the lateral sewers in a sewer system.
  - Sewer Collection is taxable under the Public Utility Tax

- **Sewer Transfer, Treatment and Disposal Activities**
  - Sewerage transfer begins at the point where sewage leaves the laterals in a sewer system and is transferred via intercepting pipes to another main sewer or to a point for treatment or disposal.
  - Sewerage transfer, treatment and disposal activities are taxable under the Service and Other Activities B&O tax classification.
Sewer Analysis

Key
- **Lateral Pipe** (maintained by city from property line to neighborhood lateral pipe)
- **Lateral Pipe** (neighborhood)
- **Interceptor Pipe** (excludes house to lateral pipe maintained by city)
- **Pump Station**
- **Force Main**
- **Property Lines**
- **Sewer Flow**
Cost Methodology - Assuming the Utility Owns a Treatment Plant

• Separate costs of treatment from costs of collection and transfer (including pump stations costs).
• Determine costs of collection vs. transfer via pipe analysis (see section below for pipe analysis methodology).
• Determine percent of cost of collection to total costs and apply percent to sewer income to determine amount subject to PUT.
• Determine percent of transfer and treatment to total costs and apply percent to sewer income to determine amount subject to service and other activities B&O tax.
Example

City of A owns and operates its own treatment plant. Total sewer income, including treatment, for the year amounts to $2,500,000. The annual costs associated with the treatment plant are $1,000,000. The total costs related to the collection and transfer is $1,200,000. A sewer pipe analysis was done by the city of A that determined that 20,000 linear feet of pipe was related to collection and 16,000 linear feet of pipe was related to transfer.
Example

Treatment costs are $1,000,000.

- Step 1: \( \frac{20,000}{20,000 + 16,000} = 56 \text{ percent} \) Collection Pipe
  
  \( \frac{16,000}{20,000 + 16,000} = 44 \text{ percent} \) Transfer Pipe

- Step 2: $1,200,000 Collection and Transfer Costs times 56 percent = $672,000 Collection Costs

  $1,200,000 Collection and Transfer Costs times 44 percent = $528,000 Transfer Costs

- Step 1: $1,000,000 Treatment Costs + $1,200,000 Collection and Transfer Costs = $2,200,000 Total Costs.

- Step 2: $672,000 Collection Costs / $2,200,000 Total Costs = 31 percent

- Step 3: $2,500,000 Total Sewer Income times 31 percent = $775,000 Calculated Collection Income taxable under PUT.

- Step 1: \( \frac{($1,000,000 \text{ Treatment Costs} + $528,000 \text{ Transfer Costs})}{2,200,000 \text{ Total Costs}} = 69 \text{ percent} \).

- Step 2: $2,500,000 Total Sewer Income times 69 percent = $1,725,000 Calculated Transfer and Treatment Income taxable under service and other activities B&O tax.
Cost Methodology - Assuming the Utility Does Not Own a Treatment Plant

• Take total sewer billings and deduct costs paid to third-party treatment provider(s) (RCW 82.04.432).

• Determine costs of collection vs. transfer via pipe analysis (see section below for pipe analysis methodology).

• Determine percent of cost of collection to total costs of collection and transfer and apply percent to net sewer income in section a. (above) to determine amount subject to PUT.

• Determine percent of transfer to total costs and apply percent to net sewer income in section a. (above) to determine amount subject to service and other activities B&O tax.
Example

City of B does not own a treatment plant. It purchases sewer treatment services from City C at an annual cost of $900,000. Total sewer income, including treatment, for the year amounts to $2,400,000. The total costs related to the collection and transfer is $1,000,000. A sewer pipe analysis was done by the City of B that determined that 15,000 linear feet of pipe was related to collection and 21,000 linear feet of pipe was related to transfer.
Example

- $2,400,000 Total Sewer Billings - $900,000 Payments to City C for Treatment (RCW 82.04.432) = $1,500,000 Net Taxable Sewer Income.

- Step 1: 15,000/(15,000+21,000) = 42 percent Collection Pipe
  21,000/(15,000+21,000) = 58 percent Transfer Pipe

- Step 2: $1,000,000 Collection and Transfer Costs times 42 percent = $420,000 Collection Costs
  $1,000,000 Collection and Transfer Costs times 58 percent = $580,000 Transfer Costs

- Step 1: $1,000,000 = Total Collection and Transfer Costs
  Step 2: $420,000 Collection Costs / $1,000,000 Collection and Transfer Costs = 42 percent
  Step 3: $1,500,000 Net Taxable Sewer Income (Excluding Treatment Deduction per a. above) times 42 percent = $630,000 Calculated Collection Income taxable under PUT.

- Step 1: $580,000 Transfer Costs / $1,000,000 Total Collection and Transfer Costs = 58 percent.
  Step 2: $1,500,000 Net Taxable Sewer Income (excluding treatment deduction per a. above) times 58 percent = $870,000 Calculated Transfer Income taxable under service and other activities B&O tax.
Water Distribution

- City-Imposed Municipal Utility Taxes are Part of the Gross Income (Special Notice August 15, 2011)

- Water for Irrigation purposes (RCW 82.16.050(7))

- Chemicals and Other Articles Used in Purifying Water

- Making of Potable Water is not Manufacturing
Public Road Construction

- Prime & subcontractor
- Land ownership
  - Cities, counties, U.S.
  - Does not include work performed for the state of WA
- Public Road Construction B&O tax
- Use tax applies
  - Consumer of all materials: purchased, provided, extracted
Use Tax

• Companion to sales tax on goods acquired for use in Washington

• When sales tax is not paid, use tax is due

• Generally, the buyer must pay directly to Department of Revenue

• Value is taxable amount, including delivery costs

• Rates same as sales tax, based on location of first use in Washington
Use Tax Examples

- Purchases from out-of-state vendors
- Furniture, fixtures and equipment that are purchased with an existing business
- Equipment used on construction jobs
Miscellaneous

- Building Permits
  - What information is required?
  - Why should the municipality care?
  - Why does DOR care?

- Record Keeping

- Will I be selected for Audit?
Recordkeeping Requirements

- Records should be kept for a minimum of five years

- Include:
  - Copies of federal, state and local tax returns and workpapers
  - General ledgers
  - Sales journal
  - Check register
  - Sales invoices
  - Purchase invoices
  - Records as required by deductions
Common Reporting Errors & Audit Findings

• Use tax

• Sewer Collection, Transfer Vs. Sewer Treatment Reclassification

• Reporting All Enterprise Activities

• Amount of Retail Sales Tax collected not reported

• Lack of Recordkeeping

• Deductions/Exemptions
  ✓ Tax Paid at Source
  ✓ Documenting Exempt sales (i.e. sales for resale)
  ✓ Advance Reimbursements

• Areas where tax law has recently changed
Questions?