B&O and Licensing Task Force
Meeting Minutes
Tuesday, July 19, 2016
Department of Revenue – Tacoma Field Office

Attendees
- Marcus Glasper, Chair, Department of Revenue (Department)
- Andy Cherullo, City of Tacoma
- Mark Johnson, Washington Retail Association (WRA)
- Peter King, Association of Washington Cities (AWC)
- Patrick Connor, National Federation of Independent Businesses (NFIB)
- Glen Lee, FileLocal
- Ron Bueing, Association of Washington Business (AWB)
- Eric Lohnes, Association of Washington Business (AWB)

Absent
- Kim Krause, City of Burien

- Patti Wilson, Department of Revenue (staff)
- JoAnne Gordon, Department of Revenue (staff)

Welcome/agenda overview
Marcus welcomed everyone to the third task force meeting.

Follow-up to June 30 meeting
Patti and Marcus responded to questions from the June 30th meeting:
- **What happens when someone approaches a city for list of businesses in that jurisdiction? Can cities generate an on-demand report? Is this happening? Can the report be sorted for business types?**

  Answer: Cities that partner with BLS may run an on-demand public records report that includes public information only. The public records report cannot be sorted based on business type. Partner cities have access to information that can be sorted, but such information cannot be disclosed because it contains confidential information.

- **What kind of on-going process improvement is going on for BLS? Is there a way to take the info to develop a template for cities interested in BLS or FileLocal (including lessons learned, cataloguing information, etc.)?**

  Answer: Two 90-day periods follow BLS's roll out of the new license and registration system – stabilization and optimization.

  The stabilization period, which ends September 6th, focuses on identifying and resolving issues and/or mistakes. The optimization period focuses on enhancements and other opportunities that were previously identified but didn't have a high enough priority for inclusion in initial roll out or were identified during the stabilization period.

After the optimization period ends on December 6th, there is an ongoing process for maintenance and continuous improvements.

- **Has it been an issue that some jurisdictions have a more complex process to approve licenses than others and that we didn't program for these complexities?**

  Answer: BLS has researched the business licensing requirements of most Washington cities. The basic feature sets of the nearly 300 cities are accommodated by Business Licensing Service, including fee structures for employees, rentals, and business types. Some cities add variable fees for square footage, and many regulate signage, vehicle traffic, foot traffic, and hazardous waste. The new system provides more scalability to accommodate these custom requests for cities. BLS functionality is not necessarily limited by these city requirements, but BLS would address city requests on a case-by-case basis.

Peter asked if the data requirements collected by BLS are in a useable format, such as a spreadsheet to sort similar requirements, and if that information can be made available. Glen noted a useable needs requirement assessment will be helpful for determining expenses to avoid an unfunded mandate. Such information can help develop a plan for providing resources to fill the gap for increased city participation.

Andy asked if it's possible to have a demonstration of the new BLS system to have a sense of what's feasible as a mandate.

Licensing Brainstorm (continued from 5/27 and 6/30)
The task force completed identifying advantages and opportunities, challenges, and strategies to address challenges for options identified during previous meetings. *(A table appears at the end of these notes.)*

With respect to providing a one-stop shop for licensing using BizHub, there was a discussion about BizHub's long term goals and intent. Jamie Carnell, FileLocal noted having recently met with BizHub to discuss providing a link to FileLocal on the BizHub site and the longer term development of a city page. Depending on funding, this is probably 10-12 years out.

Peter asked if there are other states that have successfully implemented a BizHub portal. Marcus will see what research BizHub has collected.

Apportionment– City Overview
Danielle Larson, City of Tacoma, presented overview of city apportionment (*PowerPoint available*).

Joseph Cunha, City of Seattle, presented two-factor apportionment, which has been in effect for nine years. Main issues have been in the numerator of the formula.

Marcus asked if the revenue loss to cities that occurred as a result of two factor apportionment represent a net loss or did it produce winners and losers. Danielle responded it was a net loss because income is apportioned to areas that don't impose a local B&O tax.

Apportionment Overview – State Overview
Chris Coffman, Department of Revenue's Interpretations & Technical Advice Division, presented an overview of state apportionment of B&O tax.

Mark asked what the major tax was before the B&O tax. It was the property tax. Note was also made of the 1932 income tax initiative that the courts subsequently found as unconstitutional.

Apportionment Overview – Business Perspective
Ron Bueing presented the business perspective on apportionment.

The historical approach to apportionment was that the city B&O tax applied to 100 percent of the income if the city had any touch on income at all. The business perspective is that income should be taxed where the activity occurs.

Apportionment is relatively easy for most activities, such as retail or wholesale sales, manufacturing, etc.

Apportioning service income is tough because the business records/accounting programs available to small businesses don't identify where the benefit of a services is received. Apportionment is also incomprehensible for a small business. A market based approach to apportionment is preferred politically because local businesses pay less while businesses from other jurisdictions that pay tax are not voters in the imposing jurisdictions.

Ron noted an understanding that the rules are in place to stop businesses that would "job the system" by apportioning all service income to jurisdictions that don't impose a B&O tax.

Glen explained that cities are not happy with the 2003 language and that no one knows where the language came from. Glen and Ron noted that there was a 2005 attempt to find a different approach but no agreement was reached. The move to a market approach had a disproportionate impact on cities with employee hubs. Glen would like to see an attempt to change the apportionment formula but he is not sure if the task force is the proper venue. It's important, however, that any changes to apportionment be revenue neutral.

Marcus noted that the task force may not be the proper venue for apportionment changes but could recommend further study as part of the report.

Ron concluded that altering the treatment of income from intangibles made sense. He noted that the change may have been problematic for cities from an economic perspective because larger businesses may not want to establish a domicile in a city where 100 percent of the income would be subject to tax.

Homework for next meeting and Wrap-up
Next meeting is in Olympia – arrange for demonstration of license registration.

Patrick would like deeper conversation for how to involve more cities in BLS/FileLocal and then brainstorm ideas focusing on nexus.

Questions

Question	Answer	Assigned To
Are the data requirements collected by BLS in a useable format, such as a spreadsheet to sort similar requirements, and can that information be made available?		Patti
Have other states successfully implemented a Biz Hub portal?		Marcus
Was the revenue loss to cities that occurred as a result of two factor apportionment a net loss or did it produce winners and losers?	Danielle Larson It was a net loss because income is apportioned to areas that don't impose a local B&O tax.	
What was the major tax before the B&O tax?	1853 Property tax 1891 Insurance premiums tax 1901 Inheritance and gift tax 1921 Gasoline tax 1933 Occupation, public utility, beer, and admissions taxes 1935 Retail sales, use, B&O (replaced the occupation tax), cigarette, and liquor taxes *A Department of Revenue Research and Fiscal Analysis report, Comparative State and Local Taxes 2012, includes Chart 5 – Historical Summary of Washington Taxes.*	JoAnne

Options	Advantages/Opportunities	Challenges	Strategies to Address Challenges
Require cities that have licensing requirements to join FileLocal or BLS *6/30 discussion*	• Everyone participates in an electronic system that communicates for business license • Greater compliance by businesses • More revenue for cities because of increased licensing compliance by business • Simpler for business compared to current process • Easier to get necessary info to businesses upfront – ability to direct businesses where they need to go • Reduces cities' liability for public records request because BLS holds the information rather than the individual cities.	• Personnel - bandwidth • Lack of direct customer service, particularly for smaller cities • FileLocal participation may require infrastructure investment (BLS requires no back-end system unless city wants to load info into their system • Delays in responding to requests for list of businesses in certain jurisdictions because it's DOR's data • Understanding the different business process models used by cities that don't participate in FileLocal or BLS • "People" bandwidth to switch to new system • Timing	• Computer in lobby with availability of assistance from staff of small city • Increase BLS license fee to help local jurisdictions with infrastructure investment (no internet service or dial-up service) • Process engineering/mapping for cities or gather current city requirements • Survey of cities for constraints/objections/barriers • Leave alone and create safe harbors • Explore incentives for cities to join versus mandate, such as "strike team" assistance.
Require all cities with licensing requirements to license through BLS	• One place for businesses (portal) • Greater compliance by businesses • More revenue for cities because of increased licensing compliance by business • Simpler for business compared to current process • Easier to get necessary info to businesses upfront – ability to direct businesses where they need to go • Reduces cities' liability for public records request because BLS holds the information rather than the individual cities.	• Personnel – bandwidth • Lack of direct customer service, particularly for smaller cities • Potential lack of Internet access for small cities • Delays in responding to requests for list of businesses in certain jurisdictions because it's DOR's data • Understanding the different business process models used by cities that don't participate in FileLocal or BLS • Cities may not want to yield autonomy to the state • Timing • All in one place if system crashes	• Increase general capacity (management training, software, etc. • Survey of cities for constraints/objections/barriers • Find/explore incentives for cities to join versus mandate, such as "strike team" assistance • Strong support system and ensuring the state has the capacity to handle the needs (maybe setting up a separate entity – figuring out a cost model • Governance structure • Disaster recovery

7/19 discussion	• Costs easier to track • Fully integrated place for licensing • Maintenance upgrades potentially easier • Cities do not have to have a back end system because they work within the BLS environment		
Provide a robust information site	• 24-7 access for business owners • Channel for cities and state to communicate changes • Helps businesses on the path to avoiding errors by omission • Increased compliance • Avoidance of penalties for not doing the right thing or enough *5/27 discussion*	• Ownership • Responsible party • Content decisions? • Depth of robustness • Maintenance/updates • Resources • Cities provide information vs. organizers that research *5/27 discussion* • Provides info only for cities to wade through (job half done)	• Legislation requiring cities to provide licensing info to centralize location • Monetizing businesses through business orgs (e.g. AWB/NFIB) • AWC contract with state (fund) for maintenance • Build a city page in BizHub *7/19 discussion*
One-Stop Shop for licensing (BizHub portal) **BLS and FileLocal included as links & info site** *7/19 discussion*	• Easy to find starting point • Greater compliance by businesses • More revenue for cities because of increased licensing compliance by business • Simpler for business compared to current process • Easier to get necessary info to businesses upfront – ability to direct businesses where they need to go • Maintains local control	• Another governing structure • Lack of resources/funding • More costs • Timing	• More resources/money (funding package)