



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6810
November 18, 2025
Consent Agenda

AGENDA BILL INFORMATION

TITLE:	AB 6810: B&O Tax Code Amendment (Ordinance. No. 25C-23, Second Reading)	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Adopt Ordinance No. 25C-23 to update the City Code related to business & occupation tax.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Ordinance No. 25C-23
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

This agenda bill outlines mandatory revisions to the Mercer Island City Code to bring it into compliance with state requirements.

- Over the summer the Association of Washington Cities (AWC) formed a city working group to review required changes to the Business and Occupation (B&O) tax model ordinance in response to the passage of Senate Bill (SB) 5814. The new law expands the state and local retail sales tax to a list of services for which retail sales tax did not previously apply.
- Staff presented Ordinance No. 25C-23 (Exhibit 1) for first reading at the November 4 City Council meeting ([AB 6791](#)). The ordinance incorporates changes in the model ordinance into section 4.10.020 of the Mercer Island City Code (MICC).
- Changes outlined in Exhibit 1 do not increase the City's B&O tax rate for any business segment, do not extend the City B&O tax to any business segment that is not currently subject to the tax, and have no material impact on the City's forecasted B&O tax revenues.

The City Council must adopt Ordinance No. 25C-23 before the end of the year to take effect by January 1, 2026 to comply with state requirements.

BACKGROUND

Over the summer, the Association of Washington Cities (AWC) formed a working group of City finance directors and tax managers to review changes to the B&O tax model ordinance in response to the passage of SB 5814. The new legislation changed the taxation classification of certain activities from services to retail sales.

The B&O tax model ordinance is the standard legal framework cities use to incorporate the B&O tax structure into their municipal code ([RCW 35.102](#)) so it is uniformly applied across the state. As a result, cities who charge a local B&O tax must amend their tax code to align with the model ordinance.

ISSUE/DISCUSSION

Ordinance No. 25C-23 (Exhibit 1) updates MICC 4.10.020 to bring it into compliance with the latest changes to the B&O tax model ordinance. The AWC work group limited revisions to the model ordinance to changes necessary to implement the state's changes to sales at retail in SB 5814.

Specifically, the passage of SB 5814 expanded the state's retail sales tax to a list of services for which retail sales tax did not previously apply. In the past, sales tax was mainly on physical goods. It now applies to:

- Advertising services
- Live presentations
- Information technology services
- Custom website development services
- Investigation, security, and armored car services
- Temporary staffing services
- Sales of custom software and customization of prewritten software

When a service is subject to the state's retail sales tax, it is also subject to the state's "retailing" B&O tax classification. For cities using a tiered system for applying a B&O tax, the local B&O tax rate for "retailing" is typically lower than the rate for "service and other activities."

The City of Mercer Island does not use a tiered system to apply a B&O tax. Instead, the City applies a flat B&O tax rate of 0.10% on gross receipts for all businesses and all classifications. As a result, there is no increase to the City's B&O tax rate for any business segment and Exhibit 1 does not extend the City B&O tax to any business segment that is not currently subject to the tax. The City's revenue from business and occupation taxes are not projected to change as a result of changes outlined in Exhibit 1.

NEXT STEPS

Upon adoption, MICC 4.10.020 will be updated. Staff will notify AWC and the Washington State Department of Revenue of the adopted code amendments, which will take effect January 1, 2026.

RECOMMENDED ACTION

Adopt Ordinance No. 25C-23 to update City Code related to business & occupation tax.