

Is Your City Ready for the New Business Licensing Requirements?

April 17, 2018 by Toni Nelson

Category: Revenues , Licensing and Regulation



There are 281 incorporated cities and towns in Washington State and of those, 230 have business license requirements and 46 have adopted local business and occupation (B&O) tax regulations.

EHB 2005, which was passed last year by the legislature, is intended to simplify the administration of municipal general business licenses for the applicant and improve the business climate. The legislation required three distinct actions by

those cities and towns with either business licenses requirements and/or local B&O tax regulations. These legislative actions are detailed in this blog post.

Business License Cities and Towns

EHB 2005 required cities and towns with business license regulations to establish a workgroup that would create a model business license with a minimum threshold and a definition of “engaging in business” by July 2018. The model business license created by the workgroup will be adopted by all cities who have business licensing regulations by January 1, 2019.

The City Business License workgroup has been meeting since last August to draft language for a model business license ordinance that includes both of the legislative requirements of defining the meaning of “engaging in business” and setting a minimum threshold. The results of this work have been released in draft form by the Association of Washington Cities (AWC) to all of its members earlier this month and it is **important** for cities to review and provide feedback on this draft.

The draft model business license language addresses:

- General business licenses, not regulatory licenses or other local B&O taxes;
- A new uniform definition of engaging in business; and

- Registration with no fee for businesses without a location in the city/town under a specified threshold. The current draft proposal sets this minimum threshold of \$1,000 per year

EHB 2005 also requires all cities and towns with business licenses to administer their business licensing through the state's business license system (BLS) by **2027** or through the FileLocal system by **2020**. Information on each system is as follows

- The BLS currently has over 70 cities/towns that use their system ([BLS City Partners](#)) and is in the process of onboarding 24 additional cities per the [2018-2019 Local Business Licensing Partnership Plan](#).
- The [FileLocal](#) system administers licenses and/or all local taxes and has 5 city partners (Seattle, Tacoma, Bellevue, Everett, and Lake Forest Park). It is adding several new cities during calendar year 2018.

B&O Tax Cities

EHB 2005 required that a task force on local B&O tax service apportionment under RCW 35.102.130 be established in order to report to the legislature by October 2018. A task force was formed and consists of 3 city representatives, 3 business representatives, and 1 member from the Department of Revenue who serves as a non-voting chair.

The task force must prepare a report with recommendations to simplify the 2-factor service income formula in [RCW 35.102.130](#) using a market-based model and information typically available in business.

The task force has been meeting monthly since August 2017 and has included tax apportionment models in other states as part of its analysis for reporting back to the legislature by October 31, 2018.

Business License Deadlines

Due to the fact that 82% of cities and towns in Washington State have a business license requirement of some form, the focus of this blog is to bring attention to some of the deadlines associated with these new business licensing requirements.

Review of draft model ordinance: The deadline to review the draft model ordinance developed by the AWC and the City Business License workgroup is fast approaching. If it is appropriate for your jurisdiction, providing feedback to AWC on this draft prior to the end of April will be important. The City Business License workgroup will finalize the draft model at its meeting on May 10th and this model will be presented at AWC's annual conference in Yakima, June 26–29th.

Based on results of the feedback received, the model ordinance will be finalized and AWC will distribute it to cities and towns in July. AWC will conduct outreach during the months of July–October to assist cities and towns with the new legislative requirements.

The Department of Revenue (DOR) will be providing [Business License workshops](#) for current BLS partner cities and those cities named in the [2018-2019 partnership plan](#) to discuss EHB 2005; the rollout of the Department's Tax and Licensing System Replacement (TLRS); the partner planning for 2018–2021; and to offer a demonstration of the Automated Tax and Licensing Administration System (ATLAS) during the month of June. As new partner cities are rolled into the BLS, there will be additional workshops and webinars provided.

Adoption of the new model business license ordinance: January 1, 2019, is the deadline for cities to adopt the new model ordinance, with one exception: For those BLS partner cities, the model business license ordinance will need to be adopted in October in order to meet the 75-day Notice of Changes to business license fees required by the BLS. This equates to **October 17, 2018**, if the city is changing any of its fee structure on January 1, 2019.

Selection of agency to administer business licensing: The legislation requires that all cities must use one of two systems for its business licensing administration. Due to the volume and complexities of establishing a centralized business licensing system under the BLS, the legislation provides for a phased enrollment between January 1, 2018, and December 31, 2021. If FileLocal is the option selected, it must be made by July 1, 2020.

A city or town that imposes a general business license requirement but has not partnered with the BLS by January 1, 2018, may continue to issue and renew its general business licenses until it partners with either the BLS or the FileLocal systems, but it **must adopt the new model business license ordinance by January 1, 2019, in order to do so.**

Questions? Comments?

If you have questions about the New Business Licensing Requirements, please feel free to contact me at tnelson@mrsc.org or (206) 625-0916 x109.

If you have questions about other local government issues, please use our [Ask MRSC form](#) or call us at (206) 625-1300 or (800) 933-6772.



About Toni Nelson

Toni has over 24 years of experience with Local Government finance and budgeting. Toni's area of expertise include "Cash Basis" accounting and reporting, budgeting, audit prep and the financial issues impacting small local government.

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