



## 2026 changes to City B&O Tax Model Ordinance

A city workgroup of city finance directors and tax managers met over the summer to review changes needed to the B&O model ordinance in response to **SB 5814** changing the taxation of certain activities from services to sales.

Now B&O tax cities must adopt mandatory changes to model ordinance with same effective date: January 1, 2026.

**SB 5814** changed the tax classification for the following services to retail sales:

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

### Changes to Model Ordinance

The workgroup decided to limit revisions to the model ordinance to changes necessary to implement the state's changes to sales at retail in **SB 5814**.

The model ordinance changes are as follows:

- **Core model ordinance .030: Definition of "sale at retail"**
  - adds new subsection (3) to incorporate changes to professional services.
  - (6) updates language related to custom software and customization of prewritten software.
  - (12) updates language related to digital goods and digital automated services.
- **Core model ordinance .030: Definition of "sale at wholesale"**: adds language to parallel updates to software in retail sales (6).
- **Technical change**: .030 "sale at retail": (1) moves misplaced language to correct typo created when extended warranties were added to the model.

While **SB 5814** also changed the definitions of digital automated services and digital goods, the model ordinance did not need to be updated because the model ordinance incorporates the state's definition by reference to the RCW.

### Background on the Model Ordinance

53 cities impose a local B&O tax on the gross receipts of businesses engaging in business in their city.

Since 2004, cities with local B&O taxes were required to adopt the B&O tax model ordinance with mandatory uniform provisions related to a minimum threshold, tax classification definitions, engaging in business definition, and allocation and apportionment for activities occurring in more than one jurisdiction. (Chapter 35.102 RCW)

There are four main classifications: manufacturing, retail sales, wholesale sales, and services, but some cities have additional classifications.

The last revision was another technical fix to the B&O tax model ordinance in response to state law changes related to newspapers and took effect January 1, 2023.