



# TMC 6A.100.040 Gross Earnings Tax Deductions

Finance Department – Tax & License Division  
Government Performance and Finance  
Committee Meeting  
October 1, 2024



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## Overview



- Review of the Gross Earnings Tax (GET)
- Review of the current deductions from GET
- Review of historic data
- Discussion of a Deduction for Grants
- Staff recommendations for amending 6A.100.040

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## Background



- The City is legally authorized and does impose a Gross Earnings Tax (GET) on the City's public utilities
  - Water, Power, Rail, Stormwater, Wastewater, and Solid Waste
- "Gross Earnings" is defined very broadly to:
 

[I]include the consideration, whether money, credits, rights, or property expressed in terms of money proceeding or accruing by reason of the transaction of business and includes gross proceeds of sales, compensation for rendition of services, gains realized from interest, rents, royalties, fees, commissions, dividends, and other emoluments, however designated, all without any deduction on account of cost of property sold, materials used, labor, interest, losses, discount, and any other expense whatsoever.
- The City may allow for deductions from Gross Earnings
- There are currently 16 deductions listed in TMC 6A.100.040

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## Current Deductions



### 6A.100.040 Deductions.

In computing the gross earnings tax due under the provisions of this chapter, there shall be deducted from the measure of the tax the following items:

- A. Uncollected accounts, if the books of the utility are on an accrual basis as distinguished from a cash basis, except for charges or billings relating to providing cable television and telecommunications services.
- B. Amounts received through contemplated or actual condemnation proceedings or on account of any federal, state, or local public work project.
- C. Amounts received as compensation or reimbursement for damages to or protection of any property of the utility.
- D. Contributions for or in aid of construction.
- E. Discounts, returns, allowances, and repossessions.
- F. Amounts received from the sale or exchange of capital assets other than Christmas trees.
- G. Only interest earned from the proceeds of the sale of bonds for construction purposes.
- H. Amounts collected as sales tax.
- I. Amounts received for street lights.
- J. Amounts received for office rental from the City Credit Union and Retirement Office.
- K. Rental received or credits given for operators' cottages.
- L. Fire service, hydrant rental.
- M. Inter-departmental rent (deduction applicable only to Power Division).
- N. Amounts received from surcharge to water rates charged outside City limits users for system improvements necessary to meet City standards.
- O. Amounts received by waste-to-energy facilities from services provided to the public for disposal of waste products characterized as "alternative fuels," which shall mean a waste commodity that may be utilized as a fuel in a waste-to-energy facility, may or may not require some processing, provides an acceptable BTU value, creates manageable residual waste, or provides enhancement to other fuels. For purposes of this deduction, alternative fuels shall not constitute "waste" or "RDF."
- P. Amounts paid for the purchase of electricity from a City department or division that has paid gross earnings taxes on such transaction under the provisions of this chapter.
- Q. One hundred percent (100%) of amounts received from the service of collecting commercial recycling materials.

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## Current Deductions



- A. Uncollected amounts
  - These are amounts that are billed, but not collected by the utilities (bad debt, write-offs, etc.)
- B. Amounts received through contemplated or actual condemnation proceedings or on account of any federal, state, or local public work project.
  - Not recently used
- C. Amounts received as compensation or reimbursement for damages to or protection of any property of the utility.
  - An example – a Rail work truck gets hit and damaged by a community member. The community member's insurance company sends a check to repair the damage.

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## Current Deductions Continued



- D. Contributions in aid of construction (CIAC)
 

Examples:

  - A developer asks Water to put in a water connection for a new development. Water bills the developer for the cost and the developer pays.
  - A developer puts in underground power and a transformer pursuant to Power specifications, then turns these assets over to Power.
- E. Discounts, returns, allowances and repossessions.
  - Not recently used
- F. Amounts received from the sale or exchange of capital assets other than Christmas trees.
  - When a utility sells a piece of property

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## Current Deductions Continued



- G. Interest earned on the proceeds of the sale of bonds for construction purposes.
  - Power issues bonds for construction and uses the proceeds over an 18-month period. During the 18 months, the unused portions of the bond proceeds earn interest.
- H. Amounts collected as sales tax.
  - Stormwater sells surplus pipes to a developer and collects sales tax. The sales tax gets remitted to DOR.
- I. Amounts collected for street lights.
  - The City pays for the electricity bill for city-owned street lights.
- J. Amounts received for the office rental from the City Credit Union and Retirement Office.
  - Not recently used

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## Current Deductions Continued



- K. Rental received or credits given for operators' cottages
  - Not recently used
- L. Fire Service, hydrant rental
  - An example - Provision of public fire protection including hydrants as well as the infrastructure associated with making hydrants operational, service to customers with privately owned fire suppression systems, and authorized use of hydrants owned by Tacoma Water for non-firefighting.
- M. Inter-departmental rent (deduction applicable only to Power Division)
  - Power is the "landlord" for the main TPU campus and charges rent to other departments that use office and other spaces.
- N. Amounts received from the surcharge to water rates charged to outside City limit users for system improvements necessary to meet City standards
  - These have been deducted under another exemption

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## Current Deductions Continued



- O. Amounts received by waste-to-energy facilities from services provided to the public for disposal of waste products characterized as “alternative fuels,” which shall mean a waste commodity that may be utilized as a fuel in a waste-to-energy facility, may or may not require some processing, provides an acceptable BTU value, creates manageable residual waste, or provides enhancement to other fuels. For purposes of this deduction, alternative fuels shall not constitute “waste” or “RDF.”
- Not recently used
- P. Amounts paid for the purchase of electricity from a City department or division that has paid gross earnings taxes on such transaction under the provisions of this chapter.
- Not recently used

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## Current Deductions Continued



- Q. One hundred percent (100%) of amounts received from the service of collecting commercial recycling materials.

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## Historic Data

**Summary of GET Deductions (TMC 6A.100.040) - These are the amounts that would have been collected and remitted to the GF.**

Year	2019	2020	2021	2022	2023	YTD thru June 2024	Grand Total	5 Year Average 2019-2023
Item A - Uncollected Accounts	(190,878)	(787,372)	(1,364,608)	703,300	251,554	(66,641)	(1,454,645)	(277,601)
Item B - Amounts collected from Condemnation	-	-	-	-	-	-	-	-
Item C - Reimbursement for damages to property	(326)	(1,080)	(2,896)	(625)	(733)	(242)	(5,900)	(1,132)
Item D - Contribution in aid of construction	(1,800,952)	(1,925,592)	(1,904,929)	(2,508,065)	(3,055,934)	(887,293)	(12,082,766)	(2,239,095)
Item E - Discounts, Returns, Allowances, Repossessions	-	-	-	-	-	-	-	-
Item F - Amounts received from the sale of capital assets	(3,830)	(844,492)	(295,865)	(66,195)	(399,471)	(27,357)	(1,637,210)	(321,971)
Item G - Interest earned on construction bonds	(93,491)	(72,649)	(38,813)	(79,491)	(208,468)	(143,973)	(636,884)	(98,582)
Item H - Amounts collected as sales tax	(201,872)	(207,871)	(226,863)	(243,638)	(245,125)	(126,080)	(1,251,450)	(225,074)
Item I - Street lights deduction	(98,443)	(95,838)	(88,711)	(96,095)	(111,522)	(26,068)	(516,677)	(98,122)
Item J - City Credit Union Rental	-	-	-	-	-	-	-	-
Item K - Rent from Operator's Cottages	-	-	-	-	-	-	-	-
Item L - Fire service, hydrant rental	(304,662)	(321,455)	(337,030)	(364,894)	(342,879)	(172,691)	(1,843,611)	(334,184)
Item M - Interdepartmental Rent	(272,698)	(271,454)	(295,636)	(314,086)	(347,979)	(158,103)	(1,659,954)	(300,370)
Item N - Water Surcharges for Areas outside Tacoma	-	-	-	-	-	-	-	-
Item O - Waste-to-Energy Facilities	-	-	-	-	-	-	-	-
Item P - Electricity bought by City Departments that GET already	-	-	-	-	-	-	-	-
TMC 6A.100.050 Overpayment of Tax	(1,307)	(1,843)	(1,431)	(19)	(10)	(5)	(4,615)	(922)
<b>Grand Total</b>	<b>(2,968,457)</b>	<b>(4,529,645)</b>	<b>(4,556,782)</b>	<b>(2,969,807)</b>	<b>(4,460,566)</b>	<b>(1,608,453)</b>	<b>(21,093,711)</b>	<b>(3,897,052)</b>
<i>No Current Deduction - Grant Revenues</i>	<i>(152,727)</i>	<i>(234,397)</i>	<i>(210,138)</i>	<i>(532,903)</i>	<i>(1,000,862)</i>	<i>(120,652)</i>	<i>(2,251,679)</i>	<i>(426,205)</i>

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## Grants

We seek an Exemption from GET on Grants:

- As it align to current practice
- As Grant funding is very restrictive in nature for its use for specific program/service
- No other utilities in Washington State has an applicable tax like the GET applied to its grant awards

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## Grants



### Implication with GET on Grants

- The Utilities will need to recover the GET via:
  - Rate increase and/or
  - Reduce Services/Programs
- Grant is benefit to City Residents and should not impact them negatively when we bring them to the City.
- As some Grants require matching and/or in-kind donations, it will diminish our ability to come up with matching funds

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## Proposed TMC Changes



### Amend TMC 6A.100.040 to:

- Remove most of the deductions that are not actively used:
  - B. Amounts collected from condemnation.
  - J. Amounts received for office rental from the City Credit Union and Retirement Office.
  - K. Rental received or credits given for operators' cottages.
  - O. Waste-to-Energy Facilities
  - P. Electricity purchased by City Depts for which GET has already been paid
- Remove Deduction for Contribution in Aid of Construction (CIAC)
  - Removing this deduction would add approx. \$1.7M per year or \$3.4M for a biennium to the General Fund
  - All six utilities would pay a portion of this, with Water, Power and Stormwater paying larger portions
  - Impact: For cash transactions, the GET will be passed onto developers. For asset transactions, Utilities have no means to recover the GET and therefore will increase the rate to all types of customers
- Amend Deduction M for interdepartmental rent deduction to include Environmental Services (ES)
  - Currently only Power can deduct rent
  - ES has the Urban Waters Building for which they charge rent
  - This would cost the General Fund approx. \$100K per year or \$200K per biennium
- Add Deduction for Solid Waste Customer Excise Tax collected pursuant to TMC 6B.130 <sup>14</sup>
  - Solid Waste collects customer excise tax from their customers on the amount billed for solid waste collection. The customer excise tax gets remitted to the City.

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## Proposed TMC Changes



### Things to Note:

1. There are other proposals that will be recommending changes to 6A.100.040
  - **Recycling** – change the current 100% recycling deduction to a tiered deduction rate depending on the amount of items hauled that are recycled
  - **Grants** – There is no deduction for grants in 6A.100.040, however, staff discovered that GET has not been paid on grants. Utilities is proposing to add a deduction for grants.
  - **Refunds** – amend from a two-year statute to four years, consistent with B&O
2. Staff will need to consider changes to TMC sections related to Private Utilities to keep parity on the tax treatment of Public and Private Utilities.
3. Staff would recommend that all changes related to TMC 6A.100 be combined into one ordinance.

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## RECOMMENDATIONS



- Staff recommends GPFC forward the proposed TMC changes to City Council for consideration and approval

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