



TO: Elizabeth Pauli, City Manager
FROM: Danielle Larson, Tax & License Manager, Andy Cherullo, Finance Director
COPY: Government Performance & Finance Committee
PRESENTER: Danielle Larson, Tax & License Manager
SUBJECT: Amendments to Title 6, Chapter 6A.30 – Business & Occupation Tax and General Clean up in Subtitle 6A – Taxes.
DATE: October 15, 2024

PRESENTATION TYPE:
Request for Ordinance

SUMMARY:
Staff is proposing amendments to Tacoma Municipal Code (TMC) 6A.30 that would repeal the International Investment Management Services (IIMS) tax classification and related deduction that has exempted 100% of all IIMS activity since 2013. The businesses that engage in IIMS activity in Tacoma would begin reporting their income under the Service & Other tax classification at a rate of .4% effective January 1, 2025.

BACKGROUND:
Prior to 2008, IIMS activity was reported under the Service & Other tax rate of .004 (.4%). A new tax rate was adopted in 2008 for IIMS with a low tax rate of .0022 (.22%) and a phased in annual reduction to the rate in 2009-2012 with an ultimate 100% deduction in 2013. The IIMS tax rate and deduction was designed to incentivize IIMS business activity in Tacoma. The City of Seattle and the State of Washington have implemented a similar incentive.

ISSUE:
Every two to four years, a review is conducted of the City’s tax rates and deductions. Since 2008 when the lower rate was established IIMS activity has changed in Tacoma with some taxpayers closing or moving to other jurisdictions. Seattle repealed their lower tax rate in 2017 and the State of Washington narrowed the definition of IIMS in 2019 to narrow the number of businesses qualifying for the preferential rate.

The change in tax rate will affect approximately 24 businesses located in Tacoma and possibly 20 businesses located outside Tacoma that potentially conduct IIMS activity in the city.

Other Clean Up in TMC 6A

- Updated farmer definition to be consistent with other definitions in Title 6
- Removed language and tax tables that are past statute of limitations and no longer applicable to current taxpayers

ALTERNATIVES:
An alternative to repealing the IIMS tax classification would be to repeal the tax deduction and rather than repealing the entire tax rate, implement a tax rate between the current rate of .0005 (.05%) and .002 (.2%). Another alternative would be to not repeal the lower tax rate and deduction at all. Both options would have fiscal impacts to the proposed 2025/2026 biennial budget.

FISCAL IMPACT:
If the proposed amendment to repeal the IIMS tax classification is approved, the estimated general fund revenues in the 2025/2026 biennial budget is \$400,000 and is included in the proposed budget.



RECOMMENDATION:

Staff is recommending the proposed amendments to Chapter 6A.30 that repeals the lower rate for the International Investment Management Services tax classification and related deduction, and other general language cleanup, be referred to City Council for review.