



TO: T.C. Broadnax, City Manager
FROM: Danielle Larson, Tax & License Manager,
Andy Cherullo, Finance Director
COPY: City Council and City Clerk
SUBJECT: Ordinance – Establishing a Business & Occupation Tax & Business License Amnesty
Program – April 14, 2015
DATE: March 18, 2015

SUMMARY:

The Finance Department was asked to look into offering an Amnesty program to Tacoma businesses for unpaid Tax & License liabilities. An Amnesty program that includes a strategic communication campaign and specific time period for application and payment could benefit businesses currently licensed with the City but have delinquent accounts and any unlicensed businesses currently working in Tacoma.

STRATEGIC POLICY PRIORITY:

A Tax & License Amnesty program would align with our strategic policy to strengthen and maintain a strong fiscal management position and encourage and promote an open, effective, results-oriented organization.

BACKGROUND:

Amnesty programs typically have several goals:

- provide relief for businesses
- clean-up of past-due accounts that are sitting on the City’s books
- get businesses licensed and current on their taxes
- provide businesses a chance to voluntarily come into compliance before a municipality undertakes a larger compliance effort
- generate revenue for the City that may otherwise go uncollected

Researching other amnesty programs conducted in other states and most recently the State of Washington’s Department of Revenue (DOR) amnesty program offered in 2011, examples of the types of programs offered were reviewed and best practices were identified. Overall there are five conditions recommended for a successful amnesty program:

- There must be a large pool of unpaid debt.
- There is an incentive for taxpayers to pay during the amnesty period - partial or complete waiver of penalties/interest, and /or partial waiver of tax or license fees due.
- There are consequences for taxpayers with outstanding liabilities that don’t participate.
- There must be a comprehensive communication and marketing campaign.
- These programs are not run on a regular basis (to avoid businesses “waiting” for the next amnesty).

Tacoma has never offered an amnesty program for Tax & License liabilities owed to the City.



ISSUE:

There are currently 1) 4,600 businesses with delinquent tax returns, license fees or penalties on their account with an estimated total amount due of \$1.4M due, 2) 2,000 known unlicensed businesses and 3) an unknown amount of unlicensed businesses currently working in Tacoma that all could take advantage of an Amnesty program by providing an incentive to reduce the amount they owe the City. The \$1.4M break down of the known liability and estimated collections with low and high scenarios is in the table below:

Type of Liability	Estimated Liability Amount	Estimated Low Collections	Estimated High Collections
Business/Rental license fees*	\$ 375,000	\$ 55,000	\$ 95,000
Regulatory license fees*	\$ 165,000	\$ 25,000	\$ 40,000
B&O Tax*	\$ 90,000	\$ 15,000	\$ 25,000
Unfiled B&O tax returns	Unknown	\$ 180,000	\$ 300,000
Unregistered businesses	Unknown	\$ 70,000	\$ 125,000
Subtotal of Collections		\$ 345,000	\$ 585,000
Penalty and interest*	\$ 500,000	\$ (250,000)	\$ (400,000)
Civil Penalty*	\$ 280,000	\$ (70,000)	\$ (115,000)
Total	\$ 1,410,000	\$ 25,000	\$ 70,000

* Existing tax and license fee liabilities will not be "new" revenue since they are already recognized on the City's books as a receivable. The existing penalty and interest are recognized on the City's books as a receivable and when written off will reduce revenue.

The low scenario assumes:

- a collection rate of 15% of outstanding tax and license liabilities
- waiver rate of 50% of penalties and interest and
- waiver rate of 25% of civil penalty

The high scenario assumes:

- a collection rate of 25% of outstanding tax and license liabilities
- waiver rate of 80% of penalties and interest and
- waiver rate of 40% of civil penalty

After the Amnesty program is completed, the City has several options to pursue collection of delinquent accounts and unlicensed businesses that did not participate in the program.

- The 2015/2016 Budget included a Budget Initiative for the Fair and Equitable Business License Project that has provided additional staff to enhance Tax & License compliance efforts
- Send delinquent accounts to the City's collection agency
- 3rd party contract with vendor to discover and pursue unlicensed businesses

FISCAL IMPACT:

The Amnesty program offers a unique opportunity to Tacoma's business community to allow businesses to come into compliance with the Tacoma Municipal Code without having to pay penalty and interest. An added benefit for the City will be the ability to clear up business tax and license receivables that have been sitting on the City's books for many years that will either be collected through the amnesty program or written off as no longer collectable. Although Amnesty will generate new revenue from businesses unknown to the City who have never filed tax returns or registered as a business, the estimated net impact to the



General Fund from the Amnesty program will likely be minimal due to write-offs being approximately equal to collections or potentially negative if write-offs exceed collections.

ALTERNATIVES:

The alternative is to not implement an amnesty program and pursue unlicensed and delinquent businesses through current methods assessing penalty and interest as required by the Tacoma Municipal Code.

RECOMMENDATION:

An Amnesty program is recommended for taxes assessed in Chapters 6A.20 Admission Tax, 6A.30 Business & Occupation Tax, 6A.40 Communications Tax, 6A.50 Electricity Business and Solid Waste Collection, 6A.60 Gambling Tax and license fees assessed in Title 6B License Code. The Amnesty program would:

- 1) upon full payment of tax and license fees waive associated late filing penalties and interest;
- 2) upon payment of 50% of civil penalties due on Tax & License accounts, waive the other 50% of civil penalties but not to include the civil penalties that have been referred to the City's collection agency for collection; and
- 3) upon application for new registration and full payment of tax and license fees, limit the look back provision to four years and waive all associated penalty and interest.

The recommended timeframe would include 1) a media and marketing campaign in April and May 2) an application period from June 1 – June 30 and 3) payment of tax, license fee and civil penalty by July 31, 2015 in order to waive penalty and interest except for tax and license fee liabilities of \$7,500 or more; offer a six month partial payment option to be paid during July – December 2015 for tax and license fee liabilities of \$7,500 or more.

