



TO: Elizabeth Pauli, City Manager
FROM: Andy Cherullo, Finance Director,
COPY: Government Performance Finance Committee
PRESENTER: Danielle Larson, Tax & License Manager
SUBJECT: Tacoma Municipal Code - Title 6 Code Amendments
DATE: October 2, 2018

PRESENTATION TYPE:

Request for Ordinance

SUMMARY:

Staff is proposing to amend administrative procedures in the Tacoma Municipal Code, chapters 6A.10, 6B.10 and 6B.20, related to penalty waivers and license fees, and add a new minimum license threshold in chapter 6B.20 Annual Business License as required by Engrossed House Bill 2005. Staff is seeking a recommendation to take the proposed amendments to the full council for consideration.

BACKGROUND:

1. A comprehensive review of Title 6 has not been conducted since 2005 when the City adopted the Model Tax Ordinance and Title 6 was separating tax and license chapters into two subchapters.
2. Since 2006, the City has offered a pro-rated license fee for businesses that open between July 1 and December 31st as half of the annual license fee. In 2017, the City added a third tier to the annual business license fee structure based on the annual gross income of the business. The current structure is:

Gross Income Threshold	Fee	Pro-Rated Fee
Under \$12,000	\$25	\$25
\$12,000 - \$250,000	\$110	\$55
Over \$250,000	\$250	\$125

- 3, The Washington State Legislature passed Engrossed House Bill 2005 in 2017 that requires all cities to create a Model Licensing Ordinance prior to January 1, 2019 that establishes a minimum threshold before a business is license is required. The Association of Washington Cities and city licensing officials established a Model Licensing Ordinance that creates a license fee exemption for businesses based outside of the City and who have less than \$2,000 in gross income in the City.

ISSUES:

1. Comprehensive Review

TMC 6A.10.120 and 6B.10.095 – Cancellation of penalties.

- Adding in an option for a penalty waiver when previous filing history is good

TMC 6B.10.160 – Refund of license fee.

- Clarifying what type of situations refunds can be issued for license fees paid

TMC 6B.20 – Annual Business License



- Clarifying:
 - rental property owners license requirements
 - license fee determined by *anticipated* gross income
 - term and due date of the license
 - when the statute of limitations starts

2. Pro-rated License Fees

TMC 6B.20.020 – License fees.

Pro-rated business license fees are currently offered to new businesses that open a new business between July 1 and December 31st as half of the annual license fee. Now that the City has a three tiered license fee structure, a business is more likely to pay a first year license fee based on their annual income rather than a pro-rated fee, which is a lower license fee for most new businesses. Prior to the three tiered license fees, up to 40 % of new businesses opening after June 30 paid a pro-rated fee vs. a lower tier license fee. Since 2017, less than 20% of new businesses opening after June 30 paid a pro-rated fee vs. a lower tier license fee.

The additional pro-rated fees and three tiered license fees can be confusing for new businesses, having to choose which fee fits their circumstances the best when submitting their application. Eliminating the pro-rated fee reduces the amount of options a new business will need to choose from when applying for a license with the City. The change will also reduce errors by businesses when choosing the incorrect fee to pay, reduce corrections needed by staff and provide a simpler administrative process.

Eliminating the pro-rated license fee will effect approximately 400 - 500 new business applicants per year.

3. Minimum Licensing Threshold

TMC 6B.20.030 – Exemptions.

Establishing a minimum threshold for businesses that are based outside of Tacoma and generate less than \$2,000 of gross income in Tacoma before a business license fee is required to be paid.

ALTERNATIVES:

There is not an alternative to establishing at least a minimum licensing threshold because it is required by state law, however, the City could expand the threshold to businesses located inside the city and/or set a higher gross income threshold. Staff recommends that the threshold is set at the minimum required at this time to better understand the potential impacts.

FISCAL IMPACT:

Eliminating the pro-rated license fee will increase business license revenues by an estimated \$35,000 - \$45,000 annually.

Adding the business license threshold will decrease business license revenues by an estimated \$25,000 annually.

RECOMMENDATION:

Staff recommends the proposed changes be implemented to provide an additional option for staff to waive late filing penalties, clarify when a license fee can be refunded and that the business license fee is determined by anticipated gross income. The minimum licensing threshold is required by state law to be implemented by January 1, 2019.