City of Tacoma **City Council Action Memorandum**

TO:	**Hyun Kim, Interim City Manager**
FROM:	**Danielle Larson, Tax & License Division Manager, Finance Department** **Andy Cherullo, Director, Finance Department**
COPY:	**City Council and City Clerk**
SUBJECT:	**Ordinance – Amendments to Tacoma Municipal Code Chapter 6A.10 – General Tax Provisions and Chapter 6A.30 – Business & Occupation Tax – December 2, 2025**
DATE:	**November 18, 2025**

SUMMARY AND PURPOSE:

An ordinance proposing amendments to Tacoma Municipal Code (TMC), Subtitle 6A – Tax Code with an effective date of January 1, 2026, to:

1) Remove language that is no longer statutorily applicable and update definitions in Chapter 6A.30 – Business & Occupation Tax as required by Chapter RCW 35.102, Municipal Business & Occupation; and
2) Clean-up administrative provisions in Chapter 6A.10 – General Tax Provisions.

BACKGROUND:

<u>This Department's Recommendation is Based On:</u> There are 53 cities that impose a local Business & Occupation (B&O) tax on the gross receipts of businesses engaging in business in their city. Since 2004, cities with local B&O taxes are required by Chapter RCW 35.102 to adopt the B&O Tax Model Ordinance ("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

During the 2025 state legislative session, Senate Bill (SB) 5814 changed the definition of "sale at retail", which is a mandatory tax classification under the Model Ordinance. SB5814 added the following services to a retail sale:

- 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.

Therefore, the definitions in TMC Section 6A.30.030 require the following amendments:

- Definition of "sale at retail"
  - add new subsection to incorporate changes to professional services.
  - update language related to custom software and customization of prewritten software.
  - update language related to digital goods and digital automated services.

  - move misplaced language to correct typo created when extended warranties were added to the Model Ordinance.
- Definition of "sale at wholesale" adds language to parallel updates to software in retail sales.

Additional language clean-up includes:

- Add definition for "mailing" providing 3 additional days for taxpayers to file an appeal when a tax assessment is delivered by mail in Chapter 6A.10.
- Remove language in Section 6A.30.075 that is no longer statutorily applicable.

The Government Performance and Finance Committee voted unanimously on November 18, 2025 to move this proposal forward to the full City Council.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

The Association of Washington Cities shared the proposed amendments to the Model Ordinance with the Association of Washington Business, Washington Retail Association, and NFIB - Washington (National Federation of Independent Businesses. Feedback was not received and not expected since the changes are mandatory.

2025 STRATEGIC PRIORITIES:

Equity and Accessibility:
Review of the Tax & License code on regular intervals allows staff to use equity and bias training to review the code through an equity lens. While many sections pertain to requirements on businesses and administrative functions, reviewing these through an equity lens allows for removal or changes to code language that would impact the City's equity and anti-racist efforts.

Economy/Workforce: *Equity Index Score*: Moderate Opportunity
Increase positive public perception related to the Tacoma economy.

Livability: *Equity Index Score*: Moderate Opportunity
Increase positive public perception of safety and overall quality of life.

Explain how your legislation will affect the selected indicator(s).
Business & Occupation Tax and Sales Tax go directly into the General Fund and support police and fire services, street repair & maintenance, libraries, and many other programs that support the community.

ALTERNATIVES:

Presumably, your recommendation is not the only potential course of action; please discuss other alternatives or actions that City Council or staff could take. Please use table below.

Alternative(s)	Positive Impact(s)	Negative Impact(s)
1. There are no alternatives. The proposed amendments to TMC Chapter 6A.30 are mandatory per the Model Ordinance (RCW Chapter 35.102).	N/A	N/A

STAFF RECOMMENDATION:

Staff is recommending City Council pass the proposed amendments to Tacoma Municipal Code (TMC), Subtitle 6A – Tax Code with an effective date of January 1, 2026 to:

1) Remove language that is no longer statutorily applicable and update definitions in Chapter 6A.30 – Business & Occupation Tax as required by Chapter RCW 35.102, Municipal Business & Occupation; and
2) Clean-up administrative provisions in Chapter 6A.10 – General Tax Provisions.

FISCAL IMPACT:

The service activities that are moving from the service & other classification (.4%) to the retailing classification (.153%) are estimated to reduce annual City B&O tax by approximately $600,000. However, the new retail sales tax the City will receive negates the loss of B&O tax and will provide a net positive in overall revenues to the General Fund by approximately $2 million. In addition to the increase in the General Fund, the additional 1/10th of 1 percent sales tax for Mental Health, Affordable Housing, Tacoma Creates and the Transportation Benefit District will all see increases of approximately $200,000 each.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
1. 0010 - Service Tax	106500	4316300	$ (600,000)
2. 0010 - Retailing Tax	106500	4316200	$ 400,000
3. 0010 – City Sales/Use Tax	652000	4313000	$2,100,000
4. 1185 - Sales Tax .1% Mental Health	858200	4313250	$200,000
5. 1195 - Sales Tax .1% - Affordable Housing	various	various	$200,000
6. 1195 - Sales Tax .1% Arts - Tacoma Creates	various	4313280	$200,000
7. 1070 - Sales Tax .1% Streets	663001	4313270	$200,000
TOTAL			

What Funding is being used to support the expense? N/A

Are the expenditures and revenues planned and budgeted in this biennium's current budget?
YES

Are there financial costs or other impacts of not implementing the legislation?
NO
But the updates to the definition of "sale at retail" are mandatory per RCW Chapter 35.102.

Will the legislation have an ongoing/recurring fiscal impact?
YES

Will the legislation change the City's FTE/personnel counts?
NO

ATTACHMENTS: N/A