TO: Hyun Kim, City Manager
FROM: Andy Cherullo, Finance Director; Danielle Larson, Tax & License Division Manager
COPY: Government Performance & Finance Committee
PRESENTER: Danielle Larson, Tax & License Division Manager
SUBJECT: Amendments to Tacoma Municipal Code Chapter 6A.10 – General Tax Provisions and Chapter 6A.30 – Business & Occupation Tax
DATE: Nov 18, 2025

PRESENTATION TYPE:
Request for Ordinance

SUMMARY:
Staff is proposing amendments to Tacoma Municipal Code (TMC), Subtitle 6A – Tax Code 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.

All proposed amendments would have an effective date of January 1, 2026.

BACKGROUND:
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

The last revision to the Model Ordinance was a technical fix in response to state law changes related to newspapers and took effect January 1, 2023.

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.

ISSUE:
B&O Tax Model Ordinance – TMC 6A.30.030 – Sale at Retail

Tax classification definitions are a mandatory provision in the B&O Model Ordinance. SB 5814 updated the definition of "sale at retail" effective January 1, 2026, and 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.

Language Clean-up

- 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.

ALTERNATIVES:

There are no alternatives. The proposed amendments to TMC Chapter 6A.30 updating the definition of "sale at retail" to match the state's definition is mandatory per the Model Ordinance (RCW Chapter 35.102).

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.

RECOMMENDATION:

Staff is recommending City Council adopt the proposed amendments to Tacoma Municipal Code (TMC), Subtitle 6A – Tax Code 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.

All proposed amendments will have an effective date of January 1, 2026.