

## Kent City Council Approves B&O Tax

On Tuesday, October 16, 2012, the City of Kent passed a Business & Occupation (B&O) or Square Footage Tax after months of deliberation with citizens and the business community. The tax collected will be one of several sources to be used to fund critical street maintenance projects.

### Some key components:

- The targeted collection amount is \$5 million annually. From this revenue stream \$4.7 million is designated to street maintenance projects and \$300,000 for administrative costs. Any additional revenue collected from the B&O or Square Footage Tax is directed to the Capital Improvement Program. It will take council action to designate additional funds.
- The funds collected from a B&O or Square Footage Tax must be designated for road maintenance and be included as a line item in the future budgets of the City.
- It is a tax on the act or privilege of engaging in business activities in Kent. Businesses that are not located in Kent but do business in Kent may be required to pay Kent B & O tax.

### The rates of the B&O or Square Footage Tax are as follows:

**Manufacturing - 0.00046 (some exemptions apply)**

**Retail - 0.00046**

**Service - 0.00152**

**Wholesale - 0.00152**

- The first \$62,500 in quarterly gross revenue (or \$250,000 annually) is exempt.
- The Square Footage Tax will be assessed at \$.03 quarterly (\$0.12 annually) on warehouses and \$0.01 quarterly (\$0.04 annually) on all other businesses.
- The businesses will pay the higher of the B&O Tax or a Square Footage Tax but not both. There is a 500 square foot threshold for this tax.
- There will be an \$80 registration fee for those businesses that are required to file.
- This tax is effective January 1, 2013. The tax is remitted quarterly and the first report and payment is due April 30, 2013 for the first quarter activity.
- Electronic filing and payment will be available on the city web site. The city will be sending a letter to Kent businesses soon.

Many types of businesses are exempt from paying the tax. A full list is available on the city web site. The exemptions include not for profit organizations, health care organizations, insurance business, farmers-agriculture, athletic exhibitions, amounts derived from sale of real estate, trust accounts, amounts derived from manufacturing, selling or distributing motor vehicle fuel, amounts derived the manufacture, sale or distribution of liquor, casual and isolated sales, accommodation sales, and United States/Washington State governmental entities.

Since the enactment of destination based sales tax rules in 2008, many cities in the state lost some of their local sales tax revenue and have enacted local B & O tax to replace this lost revenue. Of the thirty nine cities in the State of Washington that impose a B&O or Square Footage Tax the City of Kent's new ordinance sets levels well below the average.

### Examples of application of the rules:

A Tacoma based supplier delivers goods in their own truck to Kent. The Tacoma business will now pay B & O tax to Kent.

A Kent distributor delivers exclusively to Seattle and Tacoma. The distributor pays B & O tax to Seattle and Tacoma, not Kent. This Kent distributor will be paying the Square Footage tax to Kent.