



## REFORMING THE PAYMENT OF B&O TAXES: SIMPLIFYING PROCESSES SO SMALL BUSINESSES CAN STAY IN COMPLIANCE AND GROW

Small businesses are the backbone of Washington's economy. Ninety-five percent of the state's employers have fewer than 50 workers. Their employees deliver everything from architectural drawings and tailoring to food service and light manufacturing. Especially in this rocky economy, simplifying processes for small businesses to collect and turn over taxes is more than just common sense. It's good business practice that benefits small businesses, local governments and workers.



Today, small businesses face challenges with reporting business and occupation, or B&O, taxes for a couple of reasons. First, many businesses are required to report local B&O tax to one or more of at least 39 cities that impose and administer their own B&O tax. Second, the state has 51 B&O tax classifications, and a business must report under one or more classifications, depending on its activity.

These factors create complexity for small businesses as they work to distinguish different classifications, definitions, rates, credits, deductions and exemptions. They also load an extra burden to report and pay B&O taxes to multiple jurisdictions using multiple forms. Sometimes it is difficult for a business to even figure out who to pay.

Local governments, too, are affected by B&O tax practices. They want tax simplification changes to be revenue neutral, meaning there is no loss of funds to them. Local governments also want authority and flexibility to set tax rates and to tailor deductions, credits and exemptions to an individual city's tax base. And they do not want to pay more to administer a new program than they pay today.

## SMALL BUSINESS IDEAS

In October 2010, Governor Gregoire issued Executive Order 10-05 – Improving the Way State Government Serves Small Business. Its aim was to make it easier for small businesses to operate in our state. In response, the state Department of Revenue conducted an extensive outreach campaign that included a webpage, meetings with small business and local governments, solicitation of frontline employees and focus groups. Small businesses contributed valuable feedback on how to make it easier for them to comply, including the following suggestions:

- » Offer one form to file and one place to go to report all business taxes.
- » Reduce the number of tax classifications, exemptions, deferrals and credits.
- » Limit the number of times tax rates can change during a year.
- » Make definitions for state and local jurisdictions consistent, less complex and less confusing.
- » Offer one place to go for help with multiple state agency filing requirements.
- » Continue to improve tax administration processes while not losing sight of efficiency and customer service.

## LOCAL GOVERNMENT IDEAS

Local governments, too, offered a number of observations, chief among them that centralized administration of B&O tax reporting would be simpler for small businesses. In addition, local governments identified that centralized administration would offer the following pluses:

- » Potentially reduce administrative cost to cities.
- » Increase statewide economic data.
- » Reduce the employee workload.

- » Potentially boost enforcement and expand compliance, which would result in more revenue.
- » Eliminate redundant processes.
- » Increase support from the Department of Revenue, which is especially important when budgets are tight.
- » Offer benefit from the department's enforcement activities, such as audits and the discovery of unregistered businesses.

Complying with unnecessary regulation costs businesses time and money. By freeing up resources that they devote to compliance, businesses will be able to focus on what they do best — serving customers and providing paychecks. The Governor's proposal would allow businesses to obtain and renew both state and local business licenses through the state Business Licensing System now operated by the Department of Revenue. In addition, the department would administer local B&O taxes currently administered by 39 cities. As the department already provides central administration for state and local sales taxes, implementation should be smooth.

And the Governor's proposal will help businesses create more jobs by reducing their regulatory burdens — without impeding local authority or rate-setting ability. Small business owners should be able to spend their time growing their business, not puzzling over multiple forms and differences between state and local B&O taxes. Most businesses want to pay the right amount of tax. Simplification will make it easier for businesses to understand and comply with their tax obligations.