



MANAGEMENT BRIEF

Date: September 3, 2013

To: Mayor Lee and Councilmembers

From: Jan Hawn, Finance Director
Sara Lane, Assistant Finance Director
Chris Bothwell, Tax Division Manager

Subject: Business & Occupation Tax Simplification Update

Background

At the September 24, 2012 and the November 19, 2012 Study Sessions, staff updated the Council on simplification efforts related to B&O tax including the Multi-City Business License and Tax Portal (the "Portal") and the City's Square Footage Tax. At that time, Council directed staff to continue work on these projects. The following is an update on the status of these items.

Multi-City Tax and License Portal Project

The Portal will provide a one-stop B&O tax and business license portal that will allow taxpayers to apply for business licenses and to file and pay taxes owed for multiple cities from one online location. The purpose of the Portal is to simplify reporting for taxpayers doing business in more than one local jurisdiction. For Bellevue taxpayers, the Portal will offer an online filing option that currently does not exist.

Most of 2012 was spent performing a feasibility study, developing system requirements, and preparing the Request for Proposal to identify a vendor to build the Portal. During 2013, the portal team, comprised of representatives from the five largest cities in Western Washington with a B&O tax, completed the vendor selection process. In June, the successful vendor was selected; in July, a "fit gap analysis" was performed; and in August, the contract to build and implement the portal was signed.

Currently, the multi-city portal team is working with the vendor on system design and technical matters. Additionally, the project Steering Committee is working with legal representatives from the five cities drafting an interlocal agreement (ILA) that will form and guide the entity managing the ongoing portal operations. We will review the ILA with Council in the fall for adoption by the end of the year. The portal is scheduled to go online in the middle of 2014. Council has been invited to an update for all Portal Cities on September 11, 2013. You will receive a more detailed update at that meeting.

Square Footage Tax Simplification

In 2012, the City's Square Footage Tax was identified as an area of the City's tax code that presents an opportunity for simplification.

Last fall, staff initiated a stakeholder process to engage the business community in a conversation to explore simplifying the City's Square Footage Tax. During that conversation, it became clear that simplification that met all of the business community's needs would require significant changes to the City's tax code and a possible complete restructuring of the tax. Recognizing that a complete restructuring of the tax would require additional business outreach, research and analysis, and guidance from Council, an interim measure became the focus of the conversation. Therefore, last fall, staff and the business community mutually agreed that the implementation of some limited administrative and code changes would relieve some of the administrative burden associated with compliance with the tax and was a worthwhile interim step toward simplification.

In December 2012, Council approved a minor code change and directed staff to continue working with the business community to study a more comprehensive simplification of the City's Square Footage Tax using the following guiding principles:

- To maintain a taxpayer-friendly environment in Bellevue that is sensitive to the needs of our resident businesses and competitive in the local environment;
- To simplify the City's Tax Code in order to make compliance with Bellevue tax law easier;
- To simplify the administration of the City's tax to minimize costs associated with tax administration; and
- To gain consistency with other taxing jurisdictions where possible.

Since then, staff has communicated the code change to the business community and issued a new Square Footage Tax form. The interim step was well received by the business community. Additionally, staff has identified and begun evaluation of options for addressing the concerns of the business community identified in 2012.

Currently, staff is preparing to engage the business community in a continuation of the Square Footage Tax simplification conversation. Staff has prepared a work plan which includes outreach to the business community at each step of the process. Additionally, to ensure that the business community is aware of opportunities to participate in the process, staff will partner with the Bellevue Downtown Association and the Bellevue Chamber of Commerce to keep their members apprised of opportunities to participate or to provide feedback regarding the project. Multiple additional communication channels will be utilized to keep stakeholders informed during the process, including Twitter, email and text alerts, and the City's website.

The first step in the work plan is to invite the business community to City Hall in September for a brainstorming session where staff will listen to the business community's ideas and needs for a revised Square Footage Tax and share the City's guiding principles related to changing the tax code. The business community will be engaged in a discussion about possible options that will meet the ultimate goal of

simplification and the preservation of the revenue that the City receives as a result of the tax. A robust stakeholder process will ensure that policy and code changes resulting from the process are aligned with both business community and City interests to the extent possible.

Following the meeting, staff will refine the options and continue to engage the business community as needed to validate the impacts of proposed changes.

Staff will return to Council to discuss the outcome of the business outreach, recommendations for changes to the Square Footage Tax, and analysis of how the changes affect the City's revenue collections. Based on Council review and direction, staff will then return in November for adoption of the proposed Tax Code changes to be effective January 1, 2014.