



B & O TAX CHANGES

City Of Olympia, Administrative Services Department

New Business and Occupation Tax Changes - Effective 1/1/08

In order to comply with RCW 35.102.130, the City Of Olympia has enacted several changes to its B&O tax code. These changes are effective January 1, 2008 for first quarter returns due April 30, 2008 and 2008 annual returns due January 31, 2009.

For the complete text of RCW 35.102.130 please visit <http://apps.leg.wa.gov/RCW/default.aspx?cite=35.102.130>.

The two major changes concern allocation and apportionment of income.

Allocation

Gross income derived from all activities other than those taxed as service shall be allocated to the location where the activity takes place. For retail and wholesale classifications, this means the point of delivery of the item(s) sold.

As an example, let's use a furniture store located in Olympia that sells a couch to an individual who lives in Lacey. If the customer picks up the couch at the store and takes it home, the sale is considered to have taken place in Olympia and would be reported to Olympia on its B&O tax return. But, if the store delivers the couch to the customer's house in Lacey, then the sale would be reported to Lacey on its B&O tax return. If the delivery is made to a customer who lives in unincorporated Thurston County or a city where there is no B&O tax, no gross income is reported to any city. The sale of automobiles is exempt from allocation.

Apportionment

Gross income derived from activities taxed as services shall be apportioned to a city by multiplying apportionable income by a fraction, the numerator of which is the payroll factor plus the service-income factor and the denominator of which is two. This may seem complicated, but this is how the State law concerning municipal B&O tax was written.

This is a complicated calculation, so let's try to simplify it. As an example, let's use a lawn care service that has its office in Olympia and does lawn care service in Olympia and Lacey. Further, the owner and a bookkeeper work in the office and together make \$4,000 per month. The wages of the employees in the field amount to \$2,000 earned in Lacey and \$2,000 earned in Olympia. Therefore, between the office and field personnel, \$6,000 was earned in Olympia and \$2,000 earned in Lacey. The business receives a total of \$15,000 gross income for the month, \$9,000 from Olympia customers and \$6,000 from Lacey customers. See below for an example of how the calculation works.

Olympia Apportionment Calculation

$$\text{Payroll Factor: } \$6,000 \text{ (Olympia Wages)} / \$8,000 \text{ (Total Wages)} = .75$$

$$\text{Service Income Factor: } \$9,000 \text{ (Olympia Income)} / \$15,000 \text{ (Total Income)} = .60$$

$$\$15,000 \text{ (Gross Income)} \times \frac{.75 + .60}{2} = \$15,000 \times \frac{1.35}{2} =$$

$$\$15,000 \times .68 = \$10,200$$

Therefore \$10,200 would be reported to the City of Olympia.