

**CITY COUNCIL AGENDA TOPIC**

Square footage tax simplification efforts: proposed annual business license renewal, and business outreach plans.

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**EXECUTIVE SUMMARY****INFORMATION  
ONLY**

The city's square footage tax is complicated and unique, making it difficult for businesses to understand and calculate. Staff are proposing an approach to simplify the tax calculations. The simplified structure will be easier for business compliance while maintaining revenue neutrality.

A company is required to obtain a license to conduct business in the city. Currently, this is a one-time fee for a perpetual license. Staff are exploring the option of introducing an annual business license renewal to help maintain accurate records and align with requirements of other local jurisdictions.

Staff plan to conduct outreach with the business community to discuss and receive feedback on the proposed tax simplification efforts and the annual business license renewal. Staff will return with recommendations at a future study session.

**RECOMMENDATION**

N/A

**BACKGROUND/ANALYSIS****Square Footage Tax**

The square footage tax was implemented in 1977. It was implemented to tax the support space of offices whose business activities are not directly attributable to the generation of gross receipts. Generally, the tax applies to businesses that perform administrative activities or activities that support sales delivered to locations outside the city. Examples of administrative activities include, but are not limited to, accounting, payroll, human resources, legal, and other activities that only indirectly support the activity subject to gross receipts tax.

A business receives an exemption on a portion of the square footage tax if the Bellevue location(s) generates revenue for which it reports and pays a gross receipts tax to the City.

The tax is derived by applying a rate against the taxable square footage of a business' location(s) in the

city.

Current issues with square footage tax:

The current square footage tax calculations for deductions and exemptions are complex and confusing for businesses. This is evidenced by the low compliance rate of 50% and the many questions we receive from the public. Tax staff have determined there are two main factors that drive the low compliance rate:

- Code requires a business to determine sales and services generated by Bellevue locations and sales or services which were delivered from Bellevue locations to other locations outside the City.
- Code requires businesses to classify space into various categories, including areas excluded from the square footage tax, such as warehouse space, retail selling area of a retail store, gyms, cafeterias, as well as taxable areas such as administrative space, and space that is used to perform or support business activities subject to the gross receipts tax. Correctly identifying and placing numerical values on these spaces requires significant judgment and is time consuming for businesses.

To address these public concerns and eliminate the confusion and complex calculations in the code, staff propose to modify the City code with the following adjustments.

Proposal to simplify the square footage tax calculation:

Staff are considering simplifying the calculation by eliminating the multiple space classifications, while concurrently reducing the square footage tax rate and adjusting available exemptions by increasing the square footage and gross receipts tax thresholds to not increase the overall tax collections.

The targeted simplification would involve using similar methodology as other cities with a square footage tax. To summarize, the calculation would be adjusted by multiplying total square footage of the Bellevue location(s) by the reduced square footage rate. The resulting tax would then be compared to the gross receipts tax calculated. After comparing the two calculated amounts due, taxpayers would pay the larger of the two tax amounts when filing returns.

Benefits of proposed square footage tax changes:

- Simplicity – through prior outreach efforts, businesses have stated they would comply with the square footage tax, if they could more easily determine what to pay. Decreases the administrative costs of complying with the City’s tax system.
- Lower rate and exemption threshold – reduces or eliminates the burden of the tax on small businesses, while ensuring there is equity in the tax system.
- Greater compliance – an increasing level of compliance reduces the administrative effort to review, monitor, and audit businesses who file tax returns in Bellevue.
- Regional continuity - Aligns with other local municipalities that impose a square footage tax.

**Business Licensing**

The City requires companies to obtain a license to conduct business within the City. Upon application, the business pays a one-time license fee. The license remains active until the business notifies the City that they are no longer doing business in the City. The City does not currently require a renewal at any point.

Issues with current business license program:

Most cities in the state of Washington require an annual business license renewal. Bellevue is one of the few exceptions. This can cause confusion for businesses who operate in multiple areas in the State.

The City is missing needed periodic updates on business demographics. The City puts a significant effort toward maintaining our system of record for taxpayers with limited information.

In its current structure, the City has no mechanism, outside of tax returns filed, to determine the businesses who continue to operate in the City, who have moved locations, or simply no longer operate within Bellevue.

Proposal to move to an annual business license renewal:

Staff is proposing an annual license renewal to improve the City's ability to identify and support existing businesses in the City according to section 2.1.3.2 of the economic development plan. Annual license renewals are a regular and ordinary business practice and will align the City with other local jurisdictions.

Benefits of an annual license renewal:

- Promotes a common standard in the State/Region by aligning with the practices of most other cities with a business license requirement.
- Provides timely accurate mailing address, contact information, business type, size of business, and additional useful data.
- Staff are exploring options for use of the revenue from annual fees. In addition to recovering the administrative costs of the program, one option is to allocate a portion of the revenue for cultural and economic development opportunities. This is a way to give back to and support the Bellevue business community.

**Next Steps: Business outreach plan**

Tax staff plan to engage the business community and other stakeholders to discuss and receive feedback on the proposed tax simplification efforts and annual business license renewal. Staff will return with recommendations at a future meeting.

**POLICY & FISCAL IMPACTS**

**Policy Impact**

Bellevue City Code section 4.03.025 requires that businesses register and obtain a license to engage in any activity in the City that is subject to tax. This license is currently a perpetual license and does not require annual renewal.

Bellevue City Code section 4.09.050(A) requires businesses maintaining an office(s) or facility(ies) in the city to report and pay square footage tax on the net taxable floor area of those office(s) or facility(ies). Certain deductions and exemptions are allowed from total taxable floor area to arrive at net taxable floor area. These deductions include warehouse space, retail selling area, gym, and cafeteria spaces. Exempt spaces include offices with less than 250 square feet; the percentage of the taxable floor area that performs or supports the activity that is subject to the gross receipts tax; and, space for businesses with total companywide gross receipts less than the Bellevue annual gross receipts threshold.

**Fiscal Impacts**

The fiscal impact of the proposed square footage tax code simplification is projected to be de minimis in total to the City budget, while individual taxpayers may experience increases or decreases depending on their business model and space utilization.

**OPTIONS**

N/A

**ATTACHMENTS**

N/A

**AVAILABLE IN COUNCIL LIBRARY**

N/A