



S. Landau Services
Steven Landau*, E.A., CFP®
5606 14th Ave. NW, Suite C
Seattle, WA 98107-3715

PHONE: (206) 784-1070
FAX: (206) 789-1719

E-MAIL: Steven@SLandauServices.com
WEB: www.SLandauServices.com

Self Employed and Living in Washington

True, Washington State does not have an individual income tax. But did you know that if you are a business you are taxed on your gross income?

State of Washington

What is the business and occupation (B&O) tax?

The state B&O tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sale, or gross income of the business.

Washington, unlike many other states, does not have an income tax. Washington's B&O tax is calculated on the gross income from activities. This means there are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business.

What do I need to do?

Submit a Business License Application to obtain Universal Business Identifier ("UBI") through the State of Washington Business Licensing Service: <https://secure.dor.wa.gov/home/>
Fee is \$19.00 plus \$5.00 per registered trade name (if any). You will need a login to the Secure Access Washington ("SAW") system. Link available to register.

Once registered, you will receive a business license and Unified Business Identifier (UBI) number. You will also receive a letter from the Department of Revenue with your UBI/tax registration number and filing frequency. (Check out the "New Business Tax Basics" guide for an overview of Washington's business taxes and reporting requirements. <https://dor.wa.gov/sites/default/files/legacy/Docs/Pubs/ExciseTax/BusinessTaxBasics.pdf>)

You must register with the Department of Revenue if:

- Your business is required to collect sales tax or obtain any renewable or regulatory license with the Business Licensing Service, or
- You are doing business using a name other than your full legal name, or
- Your gross income is \$12,000 per year or more, or
- You sell a product or provide a service that is taxable, or
- You plan to hire employees within the next 90 days

What is the B&O tax rate?



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The B&O tax rate varies by classification. Once you know which classification your business fits into you can find the rate that corresponds to your classification on our list of B&O tax rates. If you're not sure of your classification, read below for our list of tax classification definitions.

What are the major B&O tax classifications?

- Manufacturing – This classification is used by firms that manufacture items in this state, regardless of where the product is sold. The Manufacturing B&O tax is based on the value of the products, which is generally determined by the selling price. If the producer sells and delivers the manufactured products within this state, the income is also reported under the Wholesaling and/or Retailing B&O tax classification. The Multiple Activities Tax Credit is available to offset the double tax payment when reporting under two or more B&O classifications.
- Retailing – Sales of goods and certain services to consumers are retail sales. Businesses making retail sales are subject to the B&O tax under the Retailing classification, even when the sales are not subject to retail sales tax. For example, most prepackaged food products are exempt from retail sales tax, but the income from these sales is taxable under the Retailing B&O tax classification. Tax rate is 0.00471 (0.471%)
- Taxable retail services include:
 - Those generally performed on either real or personal property, including:
 - Construction Repair
 - Certain personal services, including:
 - Auto detailing
 - Day trips for sight seeing
 - Dating and escort services
 - Escrow services
 - Insect spraying
 - Lawn mowing, tree and shrub pruning and trimming
 - Physical fitness services
 - Providing equipment with an operator
 - Tanning
 - Tattooing
- Service and Other Activities – This classification is for businesses that provide personal and professional services. Any business activity that is not designated a particular rate by statute reports under this category. Tax rate is 0.015 (1.5%)

Business activities and services that would fall under this category include:

- Beauticians
- Consulting services
- Doctors
- Investment advising
- Lawyers
- Management services
- Tutors

- Wholesaling – Wholesalers sell goods and certain services to persons who will resell them to others in the regular course of business. The B&O tax is calculated on the wholesale selling price. Retail sales tax is not collected on wholesale transactions.

If you are a wholesaler, you must keep a resale certificate on file from each purchaser. The buyer gives the certificate to the seller to be retained in the seller's records. Keep completed resale certificates for 5 years for your records.

There are two types of resale certificates. The first is a single use resale certificate and must be given to the seller at the time of purchase. It is good for that purchase only. The second is a blanket resale certificate which may be given to a business which the buyer regularly purchases from. This certificate is valid for as long as the buyer and seller have a recurring business relationship. A "recurring business relationship" means at least one sale transaction in a continuous twelve month period.

Note: Effective January 1, 2010, the resale certificate was replaced by a reseller permit issued by the Department of Revenue.

What credits are allowed?

Credits are amounts that have been paid to the Department of Revenue and are not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on your excise tax return. Credit definitions provide detailed instructions for reporting credits on the tax return.

The major B&O tax credits are:

- Rural County B&O Credit for New Employees
- High Technology B&O Tax Credit
- Multiple Activities Tax Credit (MATC)
- Small Business B&O Tax Credit
 - Businesses whose B&O tax liability is below a certain level are entitled to a credit. The credit varies depending on the amount of B&O tax due (the total of all classifications) after all other B&O tax credits have been taken. The Small Business Tax Credit is available for businesses whose total B&O tax liability is below:
 - \$71 for Monthly taxpayers
 - \$211 for Quarterly taxpayers
 - \$841 for Annual taxpayers

How do I pay the B&O tax? Do I have to file?

The B&O tax is reported and paid on the excise tax return or by electronic filing.

If you are a new business, register with the Department of Revenue first. Once you are registered, you will receive information about filing.

Monthly returns are due on 25th of the following month; quarterly returns are due by the end of the month following the close of the quarter; and annual returns are due January 31st. Department of Revenue will advise you when you need to change your frequency, or you may request a more frequent filing/paying schedule at any time. (In general, once your tax liability for the year exceeds \$1,050 you will become a quarterly filer.)

Businesses eligible for the increased B&O tax credit, which include businesses classified as "Service and other activities," are also eligible for an increased threshold for being placed on the

active non-reporting (ANR) status. Such businesses can be placed on ANR status if their taxable income is less than \$46,667 per year and if they are not required to collect sales tax or owe any other tax to the Department of Revenue. Other businesses have a threshold of \$28,000 to be eligible for ANR status.

Municipal taxes

Many municipalities in the state also levy a gross receipts tax. A good reference to see if your city imposes such a tax is here:

<https://wacities.org/docs/default-source/resources/botaxrates.pdf?sfvrsn=0>

Details about the City of Seattle begin on the next page.

Personal Property taxes

Most counties assess a tax on the value of the personal property you hold for use in your business. This may include furniture, office equipment, machinery, vehicles, etc.

It is your responsibility to self-report this to the county assessor on an annual basis so they can bill you according to the value of your income-producing assets. (There is a threshold below which you may not owe tax, but the reporting is still required.)

Other considerations

If you are starting a new business, how will it be structured? As a sole proprietorship, an LLC, a corporation, a partnership? Each has its pros and cons. Let's discuss them before you decide.

Entities need to be formed with the Washington Secretary of State's office. Here's a good place to start: <http://www.sos.wa.gov/corps/all-services.aspx>

Your entity will need a new taxpayer identification number, an Employer Identification Number. You can apply online here: [http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Apply-for-an-Employer-Identification-Number-\(EIN\)-Online](http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Apply-for-an-Employer-Identification-Number-(EIN)-Online)

Other agencies you may need to interface with are the Department of Labor and Industries (<http://www.lni.wa.gov/>) and the Employment Security Department (<http://www.esd.wa.gov/>) especially if you will be hiring employees.

City of Seattle

Seattle City Business License Tax

Go to <http://www.seattle.gov/licenses/get-a-business-license>

What's a business license tax?

Seattle's business license tax is composed of the annual business license and gross receipts tax (B&O tax). The business license tax supports general government services, generating approximately \$80 million a year.

Who has to pay business taxes?

Every person, firm, association or corporation who does business within the Seattle city limits is subject to the business license tax. Any business whose annual taxable gross revenue (gross receipts less allowable deductions) is less than \$100,000 is not required to remit a tax payment. The business must still file an annual tax return to verify that no tax is due.

On what is the business license tax levied?

Tax is levied on all gross receipts, though some deductions and exemptions are provided under the Seattle Municipal Code.

Who is required to have a City of Seattle business license and file tax returns?

Anyone "engaging in business activities" within Seattle is required to obtain a Seattle business license whether or not a place of business is maintained within the city limits. Licensed businesses are sent either an annual or quarter business license tax return. You must file your return even if no tax is due. See definition of "Engaging in business" at Seattle Municipal Code 5.30.030.

How can I get a business license and how much does it cost?

Just submit an application to the City, with your payment of \$110 (or \$55 for the first year license if you start your business during the last six months of the calendar year). The license is issued for a calendar year, and must be renewed every year by December 31. Branch licenses for additional locations cost \$10 per year per branch location. (Businesses anticipating annual gross income of less than \$20,000 pay one-half the regular fee.) (Businesses with revenue of \$500,000 or more pay an increased license fee as follows: At least \$500,000 but less than \$2 million pay \$480; more than \$2 million but less than \$5 million pay \$1,000; over \$5 million pay \$2,000.)

When are tax forms sent out and when are they due?

Those who pay business taxes annually will receive their forms near the end of the year and the return is due by the following January 31. Tax forms are sent to quarterly taxpayers near the end of each quarter and the returns are due approximately 30 days later:

- For the 1st quarter (ending March 31), returns are due April 30
- For the 2nd quarter (ending June 30), returns are due July 31
- For the 3rd quarter (ending September 30), returns are due October 31
- For the 4th quarter (ending December 31), returns are due January 31

- Monthly returns are due on the last day of the month following the reporting period.

Penalty will be added if not received by the due date, even though no tax is due.

The forms must be completed and returned on or before the due date. A return is not considered filed until both the return and payment are received.

How do I file my tax return?

You can now file for a new business license or branch business license online at <https://www.filelocal-wa.gov/>. The City of Seattle also offers online tax filing and payment options for the business license tax (which includes the new square footage tax) and occupational utility tax. If you have yet to take advantage of this convenient system, please register now using your customer number and an obligation number. Once registered, you can utilize this system to renew your business license, update addresses and phone numbers as well as change your business trade name.

For those who prefer not to file electronically, the City mails all active accounts a tax return about 30 days before the tax return is due. The tax return you receive is bar coded with your customer number and the specific period covered by the return. If you did not receive a tax return, please call us at (206) 684-8484 or send a request via e-mail rca.bizlictx@seattle.gov or fax (206) 684-5170. Include your customer number in any communication. You can also request a tax form [here](#).

Record all gross revenue from your business activities in column B of the tax return. Some items may be excluded from gross receipts. In addition, there are a number of allowable deductions.

Use the returns provided; substitutions can cause errors and misapplication of funds (e.g., do not photocopy a previous period's tax return or a tax return from another business because all payments made on that return will be applied to the customer account embedded in the bar code).

Use the preaddressed envelope provided; do not staple or seal with tape. Make your check or money order payable to "The City of Seattle." Do not mail cash. Do not use pre-addressed City of Seattle envelopes to send other mail; the pre-addressed envelopes are encoded with the City's address.

Use the space provided on the return to notify the Revenue and Consumer Affairs Division of any change in address, status of ownership or both.

What happens if I don't file a tax return or pay any taxes due by the due date?

You will owe the City additional penalties and interest if tax returns are not filed and any resultant taxes are not paid by the due date. Penalties and interest are charged as follows:

- Penalties:
 - \$5 or 9% of the tax due (whichever is greater) if not received on or before the due date.
 - \$5 or 19% of the tax due (whichever is greater) if received after the last day of the first month following the due date.

- \$5 or 29% of the tax due (whichever is greater) if received after the last day of the second month following the due date.
- Interest:
 - If the tax and/or penalty paid is less than the amount due, interest is added from the date of underpayment until paid. You have 30 days from the notice of such underpayment to pay the balance due plus interest.
 - If payment of any assessed amount is not received within 30 days, an additional penalty of 10 percent of the amount of the assessment will be added (with a minimum penalty amount of \$10).

TAX RATES BY CLASSIFICATION (updated to reflect 1/1/2018 rates):

Manufacturing and Processing for Hire	0.00222 (0.222%)
Extracting	0.00222 (0.222%)
Printing & publishing	0.00222 (0.222%)
Wholesaling	0.00222 (0.222%)
Retailing (including services)	0.00222 (0.222%)
Service and other business activities	0.00427 (0.427%)
Motor Carriers Transporting Freight for Hire	0.00427 (0.427%)
Tour Operators	0.00222 (0.222%)

Square Footage Business Tax

[No longer in effect as of January 1, 2016]

Employee Hours Tax

What is the employee hours tax?

Effective July 1, 2007, persons and firms that engage in business within the Seattle city limits are subject to the employee hours tax. Calculation of the tax is based upon the number of employee work hours performed within the Seattle city limits. Vacation and sick leave hours are excluded from the calculation. There is a deduction for hours worked by employees who commute to work at least 80% of the time by other than single-occupancy vehicles.

The employees hours tax is in addition to the City's business and occupation tax.

What is the employee hours tax rate?

The tax rate is \$0.01302 per employee hour. Taxpayers may use the alternative computation method of \$25 per year for a full-time employee (one who works 1,920 or more hours per year).

What businesses are exempt from the employee hours tax?

- *Any business with an annual world-wide gross income of \$80,000 or less.*
- Persons employed in private residences as domestic servants, gardeners, and maintenance and repair persons.
- Volunteers, and persons providing services in return for aid or sustenance from religious or charitable organizations.
- State and federal agencies and other government jurisdictions. The City of Seattle is required to pay the employee hours tax.
- Certain businesses are exempted from the tax by state or federal regulations, including insurance businesses; businesses that only sell, manufacture, or distribute motor vehicle fuel; and businesses that only sell or distribute liquor.

Who is considered an employee for the purpose of calculating the tax?

All individuals working for compensation in a business are considered employees. This includes owners, partners, officers of the corporation, and sole proprietors. Stockholders who passively receive dividends on their investment are not considered employees.

What is the employee hours tax credit?

All businesses that report the employee hours tax shall receive a credit of up to \$50 on the amount of tax due. The amount of the credit may not exceed the total tax due.

Which employees qualify for the commuter deduction?

When computing the number of employees or employee hours subject to this tax, businesses may deduct the hours for those employees who commute to work at least 80% of the time by other than single-occupancy vehicle. Commuting methods eligible for the deduction include use of mass transit, carpooling, walking, and/or bicycling. Telecommuters and people who work out of home offices may also qualify for the commuter deduction. The City has a worksheet for businesses to use to calculate the deduction and the tax amount.

How will the City use the employee hours tax revenue?

Revenue from the employee hours tax will be used by the City only to fund the maintenance and improvement of local transportation infrastructure.

When is the tax due?

Businesses shall report and pay the employee hour tax annually, at the same time as they report their fourth quarter or annual business tax returns. The due date is January 31 in the year following the reporting period. Businesses are required to use the tax reporting form provided by the City.

What if I discontinue or close my business prior to the end of the calendar year?

Businesses that close or cease business prior to the end of the calendar year shall report and pay the employee hours tax at the same time their final Seattle business tax return is due.

What about home offices and telecommuters?

Taxpayers who work out at home and do not commute to another workplace qualify for the commuter deduction. Employees who telecommute from home more than 80% of their work hours also qualify for the commuter deduction.

What is the legal basis for the employee hours tax?

Ordinance 122191 as amended by Ordinance 122561. The law is codified as SMC Chapter 5.37.

Allocation and Apportionment Procedures

(Seattle Municipal Code Section 5.45.081)

What is the effective date for the new allocation and apportionment procedures?

January 1, 2008.

Who is affected by the new allocation and apportionment procedures?

Beginning January 1, 2008, the sales of goods generally are allocated to the place of delivery by the seller. Services are apportioned for taxing purposes based on the two-factor formula of payroll and service income.

1) Businesses that ship or deliver goods outside of their taxing jurisdiction (in this case Seattle) are affected by the new tax code. RCW 35.102.130 (Seattle Municipal Code 5.45.081) contains the new procedures, and essentially gives Seattle businesses that ship goods outside of Seattle a business license tax reduction. The new tax code allows a deduction for sales delivered outside of Seattle but within Washington. Businesses have always been able to deduct interstate sales (sales delivered by the seller to a point outside of the State of Washington). Now they can also deduct sales delivered outside of the city but within Washington (intrastate sales).

2) The new tax code allows businesses that provide services both within Seattle and outside of Seattle to apportion their service revenue using a two-factor formula. This is true whether the business is located outside or inside of Seattle. This will allow businesses to apportion part of their service revenue outside of Seattle. (See How do I Apportion my Service Income below.)

How do I allocate my sales of tangible personal property?

According to RCW 35.102.130, sales of tangible personal property are allocated or assigned to the place of delivery. This is similar to the streamlined sales tax sourcing requirement, except that the cities' allocation requirement begins on January 1, 2008, while the streamline sales tax sourcing requirements begin July 1, 2008.

How do I apportion my service income if I'm providing services both within and outside of Seattle?

Apportion gross income subject to tax under the service and other business activities classification using a two-factor formula. The two factors are payroll and service income. "Payroll" is generally assigned to the place where the employee is primarily assigned. "Service income" is assigned where the majority of contacts occur between the business and its customer. The following instructional language concerning apportionment is taken from RCW 35.102.130 and adopted in SMC 5.45.081.

Gross income derived from service and other business activity shall be apportioned to the City by multiplying the income by a fraction, the numerator of which is the payroll factor plus the service and other business activity income factor and the denominator of which is two (2).

1. The payroll factor is a fraction, the numerator of which is the total amount paid for compensation in the City during the tax period by the taxpayer and the denominator of which is the total compensation paid everywhere during the tax period. Compensation is paid in the City if:

The individual or employee is primarily assigned within the City;

The individual is not primarily assigned to any place of business for the tax period and the employee performs fifty percent (50%) or more of his or her service for the tax period in the city; or

The individual is not primarily assigned to any place of business for the tax period, the individual does not perform fifty percent (50%) or more of his or her service in any city, and the employee resides in the city.

2. The service and other business activity income factor is a fraction, the numerator of which is the total service and other business activity income of the taxpayer in the City during the tax period, and the denominator of which is the total service and other business activity income of the taxpayer everywhere during the tax period. Service and other business activity income is in the City if:

The customer location is in the City; or

The income-producing activity is performed in more than one (1) location and a greater proportion of the service-income-producing activity is performed in the City than in any other location, based on costs of performance, and the taxpayer is not taxable at the customer location; or

The service and other business activity income producing activity is performed within the City, and the taxpayer is not taxable in the customer location.

3. The following definitions apply in subsections 1 and 2 above.

Definitions:

"Compensation" means wages, salaries, commissions, and any other form of remuneration paid to individuals for personal services that are or would be included in the individual's gross income under the federal Internal Revenue Code.

"Individual" means any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee of that taxpayer.

"Customer location" means the city or unincorporated area of a county where the majority of the contacts between the taxpayer and the customer take place. (The City of Seattle interprets this to be physical contacts. Phone contacts are assigned to the place of business.)

"Primarily assigned" means the business location of the taxpayer where the individual performs his or her duties.

"Service-taxable income" or "service income" means gross income of the business subject to tax under the service and other business activity classification, excluding royalty income. Royalty income is assigned 100% to the headquarters or domicile of the taxpayer.

"Taxable in the customer location" means either that a taxpayer is subject to a gross receipts tax in the customer location for the privilege of doing business, or that the government where the customer is located has the authority to subject the taxpayer to gross receipts tax regardless of whether, in fact, the government does so.

Is there a worksheet to assist in computing my taxable service income?

The City of Seattle has prepared a Service Income Apportionment Worksheet and accompanying Instructions to assist in computing your service income under the two factor formula. Download the form and instructions by clicking on the links.

How do the new allocation and apportionment procedures relate to the City's square footage business tax?

The State law requiring the use of the new allocation and apportionment procedures substantially reduces tax revenue for all cities that impose a gross receipts B & O tax beginning in 2008. Based on work by the Washington Department of Revenue, the City of Seattle estimates it will lose \$21.9 million in revenue in 2008. The City hopes to recover about \$18 million of the lost \$21.9 million through the square footage business tax. The square footage business tax is designed so that those businesses receiving a tax benefit under the new State law will be obligated to pay Seattle's square footage business tax. The anticipated revenue generated by the square footage business tax will go into the General Fund, which funds basic City services, such as police, fire, libraries, and parks. Seattle businesses that do not receive a benefit under the new State law will not owe any square footage business tax.

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