

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title: AN ORDINANCE relating to taxation; repealing Seattle Municipal Code Section 5.45.085 relating to the taxation of related, controlled, or affiliated persons; and directing the Director of Finance and Administrative Services to adopt rules to determine the proper amount of business license taxes due from persons engaged in business activities or transactions with related, controlled, or affiliated persons.

Summary of the Legislation:

This Ordinance repeals Seattle Municipal Code Section 5.45.085, which contains an unutilized procedure provided to City tax administrators to assess business and occupation tax on gross receipts from transactions between related, affiliated, or mutually controlled entities.

Background:

The business and occupation tax is assessed on the gross receipts earned by all entities conducting business in Seattle. This includes gross receipts earned from transactions between entities that are legally related to one another, such as subsidiaries. In 2009, the City enacted Ordinance Number 123063. One provision of this ordinance gave City tax administrators specific authority to estimate tax liabilities by way of assigning values to transactions between related entities as if the transactions were conducted on the open market between non-related firms.

This particular provision, however, has proven difficult to effectively implement and was made less relevant due to subsequent court decisions regarding tax liabilities of related entities. In addition, some taxpayers have complained that this provision creates confusion about how to fulfill their tax liabilities. Since 2009, the City has not used this specific authority nor has a practical means of doing so in the future.

Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2013 Appropriation	2014 Anticipated Appropriation
TOTAL				

Appropriations Notes: There are no budget appropriations or budget decreases associated with this ordinance.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2013 Revenue	2014 Revenue
TOTAL			\$ 0	\$0

Revenue/Reimbursement Notes: The intent of the relevant sections of Ordinance 123063 was to ensure that entities would continue to identify and pay their true tax liabilities associated with gross earnings from transactions with related entities. City tax administrators perceived at the time that some businesses were developing corporate structures and tax reporting practices that would allow them to avoid paying their true tax liabilities. As a result, tax administrators did not believe that Ordinance 123063 would result in net new tax revenue to the City, but rather would allow the City to continue to collect the true tax obligations from related entity transactions paid at that time.

Since City tax administrators never utilized the related provisions provided for in Ordinance 123063, repealing this section of the Code should not result in revenue losses to the City. In addition, State of Washington court decisions regarding tax liabilities from related entity transactions affirm the City's ability to continue to assess the business and occupation tax on gross receipts from these transactions.

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

Position Title and Department	Position # for Existing Positions	Fund Name & #	PT/FT	2013 Positions	2013 FTE	2014 Positions*	2014 FTE*
TOTAL							

Position Notes: None.

Do positions sunset in the future? Not applicable.

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2013 Expenditures	2014 Anticipated Expenditures
TOTAL			\$ 0	\$ 0

Spending/Cash Flow Notes: none.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
No.
- b) **What is the financial cost of not implementing the legislation?**
None.
- c) **Does this legislation affect any departments besides the originating department?**
No.
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?**
None.
- e) **Is a public hearing required for this legislation?** No.
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?** No.
- g) **Does this legislation affect a piece of property?** No.
- h) **Other Issues:** None.

List attachments to the fiscal note below: None.