

Business and Occupation (B&O) Tax FAQ Page

THE OAK HARBOR CITY COUNCIL IS CONSIDERING ADOPTING A LOCAL BUSINESS AND OCCUPATION TAX TO FUND COMMUNITY DRIVEN PRIORITIES. THE FOLLOWING QUESTIONS & ANSWERS ARE BASED ON PRELIMINARY PLANNING AND CITY COUNCIL DISCUSSIONS FOR A PROPOSED OAK HARBOR LOCAL BUSINESS & OCCUPATION TAX AND ARE SUBJECT TO CHANGE DEPENDING ON CITY COUNCIL ACTION.

WHAT IS THE LOCAL BUSINESS AND OCCUPATION (B&O) TAX?

The Local B&O tax is a proposed tax levied on business activities in Oak Harbor. It functions as a tax on business gross receipts. The Oak Harbor Local B&O tax is not the same as the Washington State B&O tax. It is filed separately and in addition to other applicable federal, state, and local taxes.

WHEN IS THE LOCAL B&O TAX PROPOSED TO GO INTO EFFECT?

On the first day of the second month following adoption of the tax. For example, if the Local B&O tax were adopted by City Council in May of 2025, the tax would go into effect on July 1, 2025.

WHEN WILL TAXES BE DUE?

As proposed, the initial Local B&O tax payments will be due January 31, 2026. Thereafter, payments will be due quarterly at the end of the month following the close of the quarter. For example, the first quarter of 2026 closes on March 31, 2026 with taxes due on April 30, 2026; the second quarter of 2026 closes on June 30, 2026 with taxes due on July 31, 2026.

WHAT WILL THESE TAX PAY FOR AND HOW MUCH WILL THEY RAISE?

Based on preliminary estimates and the rates and criteria outlined below, the proposed Local B&O tax would raise between \$800,000 to \$1,000,000 per year. Depending on City Council action, Local B&O taxes can be left uncommitted or committed for specific projects or initiatives. For example, the following are a few community driven priorities that have been discussed:

- The construction, repair, replacement, or rejuvenation of City Marina facilities and dredging and for the servicing of any debt issued by the City for said purposes.
- The construction of a new community recreation center and for the servicing of any debt issued by the City for said purpose.

WHAT OUTREACH AND MEETINGS HAVE THE CITY HAD THAT INCLUDED DISCUSSIONS ON THE LOCAL B&O TAX?

- March 27, 2024 City Council Workshop.
- May 21, 2024 City Council Meeting: Proposed Ordinance presented and not adopted.
- Mentioned during the budget hearings and workshops conducted for the 2025-26 biennial budget and other Council items.
- December 18, 2024 two public workshops held.
- January 21, 2025 City Council Meeting during discussion on potential creation of a Public Port District.
- February 25, 2025 City Council Workshop.
- March 25, 2025 City Council Workshop.

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WHAT TYPES OF BUSINESS ACTIVITY IS THE TAX APPLICABLE TO AND WHAT IS THE TAX RATE?

- Manufacturing - 0.002 (1/5 of 1%)
- Retail - 0.002 (1/5 of 1%)
- Services - 0.002 (1/5 of 1%)
- Wholesaling - 0.002 (1/5 of 1%)
- Others - 0.002 (1/5 of 1%)

WHAT IS THE TAX EXEMPTION THRESHOLD?

The exact amount of taxable receipts that will be exempt from taxation has not been finalized. One idea is to exempt those who report \$625,000 or less in gross receipts per quarter (\$2,500,000 or less in taxable receipts per year if reporting annually) from the Local B&O Tax. Another idea is to exempt those who report \$1,250,000 or less in gross receipts per quarter (\$5,000,000 or less in taxable receipts per year if reporting annually) from the Local B&O Tax.

HOW MANY BUSINESSES WILL BE AFFECTED?

Depending on the proposed tax exemption thresholds above, it is estimated that between 1% to 2.5% of Oak Harbor's businesses will be responsible for paying this tax.

WHAT BUSINESS ACTIVITIES ARE EXEMPT FROM THE LOCAL B&O TAX?

- Business activity subject to the City's Utility Tax.
- Money earned from investments, unless the investments are part of a larger banking or finance business. Dividends that a company receives from its subsidiaries are also exempt.
- Insurance agents (brokers are subject to tax).
- Employees are not directly subject to the tax, but independent contractors generally are.
- Sale of real estate, or rental income if the lease is for 30 days or more. However, no exemption is allowed for amounts received as commissions on real estate sales.
- Funds held in trust by a mortgage broker.
- Producing or selling motor vehicle fuel.
- Producing or selling liquor.
- Casual and isolated sales, such as an accountant selling his or her office furniture.
- Accommodation sales, such as an automobile dealer selling a vehicle at cost to another dealer to fill an existing order.
- Taxes collected as trust funds, such as when a business collects sales tax from a customer to be remitted to the state.
- Nonprofit organizations, except for any retail sales they make.
- Activities already subject to the City's gambling tax.
- House of Worship daycare programs.
- Federal, state, and local government agencies.
- Professional/semi-professional/amateur sports teams operating in Oak Harbor, except for any retail sales they make.

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- The above is a summary of the Local B&O Tax Exemptions. More details can be found in the proposed Ordinance.

WHAT DEDUCTIONS ARE THERE FROM THE LOCAL B&O TAX?

- Receipts from sales of tangible personal property delivered to the buyer outside of Washington.
- Receipts from sales of tangible personal property and retail services delivered to the buyer outside of Oak Harbor but within Washington.
- Cash discount taken by purchaser (deduction does not apply to extracting or manufacturing classifications).
- Credit losses (bad debts) of accrual basis taxpayers.
- State or Federal constitutional prohibitions on taxes.
- The amounts collected by professional employer services that represents that actual cost of payroll charged to a client.
- The amounts from businesses engaged in banking, loan, security, or other financial business derived from interest received on investments or loans primarily secured by first mortgages or trust deeds on non-transient residential properties.
- The above is a summary of the Local B&O Tax Deductions. More details can be found in the proposed Ordinance.

HOW DO I REGISTER FOR OAK HARBOR'S LOCAL B&O TAX?

Local B&O tax registration is completed by obtaining a City of Oak Harbor business license endorsement. The city partners with the Washington State Department of Revenue for its business license application process. For details, go to <https://dor.wa.gov/manage-business/city-endorsements/oak-harbor>.

Upon being approved for an Oak Harbor business license, we will mail a letter to the business with the tax registration information. You should receive your tax registration letter within 30 days of being approved for a city business license.

For the initial implementation of the Local B&O Tax program, we will mail letters to all businesses with Oak Harbor business licenses.

HOW DO I FILE LOCAL B&O TAX RETURNS?

Oak Harbor's Local B&O tax return forms are under development and will be available (with instructions) on the City's website prior to the first tax return due date. We aim to have an online form and payment option in place by that time. If filing with paper forms, returns will need to be printed and sent by mail with a check or money order.

DO I NEED TO FILE IF MY BUSINESS'S GROSS RECEIPTS ARE LESS THAN THE TAX EXEMPTION THRESHOLD?

All business must file an initial return. However, to avoid needing to file periodic returns after the initial return, businesses under the exemption threshold may file a request for active non-reporting status. If approved, the City will keep your application for active non-reporting status on file. Should you find that your business receipts exceed the tax exemption threshold, you must pay your taxes by the due date for the filing period. It will be your responsibility to reconcile your receipts to confirm they are below the exemption threshold each filing period and provide them to the City upon request. Businesses that owe taxes from prior periods will be responsible to pay back-taxes and associated late penalties.

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SUMMARIZED QUESTIONS RECEIVED FROM THE COMMUNITY:

ONE OF THE PROJECTS PROPOSED TO BE FUNDED BY THIS IS MARINA. WHY CAN'T THE MARINA RATES PAY FOR THIS INSTEAD?

The Marina does a pretty good job of covering its operating costs. But the City finds itself in a situation where we have a very old marina with decades of deferred maintenance and one that was never modernized to meet the needs of today's boating public. The cost of necessary dredging and breakwater replacement and the marina rejuvenation improvement is in the tens of millions of dollars. Even though rates have been increased substantially over the last two years and are scheduled to increase again later this year, rates alone are not adequate to cover these costs. We have been shown by folks who are familiar with marinas that there comes a point of diminishing returns where rates are raised to such a level that marina users end up relocating to other marinas thus generating less revenues overall.

WHY CAN'T THE CITY JUST WALK AWAY FROM THE MARINA?

The City retained the services of marina & port specialists Moffatt & Nichol to evaluate the City's Marina. They informed the City that due to the State and/or Federal regulatory and environmental requirements, it would cost the City over \$10 million to decommission the Marina. Around the time the City received this information, the City Council deliberated the possibility of closing the Marina and ended up decided against it.

WHAT IS THE DIFFERENCE A MARINA AND A PORT?

Oak Harbor is only one of two cities that operate a city owned marina (the other being Des Moines). Ports, on the other hand, are run by separate taxing districts. The closest port districts to Oak Harbor include Coupeville, Port Townsend, and Anacortes. They are primarily funded by a combination of dedicated property taxes, user fees, and grants. The formation requirements, powers, and taxation abilities for Port Districts can be found in the Revised Code of Washington (RCW) Title 53.

HOW WILL GENERATING \$800,000 to \$1,000,000 BE ABLE TO PAY FOR ALL THE COMMUNITY DRIVEN PRIORITIES?

The intention of this tax is to fund a portion of community driven priorities. A bond or a loan can be taken out for the project(s) with the recurring revenue stream used to pay the debt payments.

WHY HASN'T THE CITY EXPLORED OTHER OPTIONS RATHER THAN THIS TAX?

The City has evaluated other funding options including increasing other taxes, pursuing grants, and user fees. Due to a combination of State law restrictions, tax levels, and recent increases, the City's other taxes were ruled out. As a City owned Marina, the availability of grants is limited when compared to Port Districts. The City Council approved a three year schedule to significantly increase Marina user rates in order to ensure adequate revenues for operations and maintenance. Following public sector financial best practices, the City's financial policies encourage the diversification of revenues to guard against negative impacts to any one particular revenue.