



# Guide to the City of Kent's Business and Occupation Tax

(Gross Receipts Tax and Square Footage Tax)

January 1, 2025

## ABOUT THIS GUIDE

This guide provides a basic description of Kent's B&O tax and is intended for general information purposes only. It is current at the time of publication, but potential future changes in the Kent City Code (KCC) or state law may have an impact on the information presented in this guide. Not all possible applications of tax are included. In the event of a conflict between the information presented in this guide, and an ordinance of the City of Kent, the ordinance prevails.

Additional information and specifics relating to your business may be obtained in KCC Chapters 3.28 and 3.29 or by contacting the City's Tax Division. The KCC is available at [codepublishing.com/WA/Kent](http://codepublishing.com/WA/Kent).

For help with any questions, please contact the Tax Division as follows -

- Call: **253.856.6266**
- E-mail: **Business-Occupation@KentWA.gov**
- Web: **KentWA.gov/pay-and-apply/file-city-taxes**
- Mail: **220 4th Avenue S., Kent, WA 98032**

## B&O TAX OVERVIEW

Every person, firm, association, or corporation is subject to the B&O tax for the act or privilege of engaging in business activities within the City of Kent (City). The B&O tax has two components: gross receipts tax and square footage tax. Every business must report its gross receipts and the amount of square footage in Kent, but the

remittance of the tax will be based on the greater of the two categories.

The **Gross Receipts Tax** applies if gross income in Kent exceeds \$250,000 for the calendar year. For business that exceed that amount, a tax credit is granted so that tax applies only to gross income in excess of \$250,000 for annual filers or \$62,500 for quarterly filers.

The **Square Footage Tax** applies to taxpayers that lease, own, occupy or otherwise maintain places of business within City limits in excess of prescribed threshold square footage amounts. Taxpayers must report the total square footage of all business space within the City by appropriate square footage classification.

The Square Footage Tax classification depends on the type of business activity engaged in at the place of business. Businesses exceeding either or both the Business Warehouse Space threshold (4,000 square feet) and/or Other Business Floor Space threshold (12,000 square feet) are subject to the Square Footage Tax for the entire taxable area of business facilities in Kent. Businesses exceeding the Outdoor Warehouse Space threshold (261,360 square feet) are subject to the Square Footage Tax for the entire taxable outdoor area.

The Outdoor Warehouse Space classification is effective January 1, 2021.

Businesses with gross receipts and square footage less than the respective threshold amounts need to be registered for the B&O tax but may not need to file a return if approved for an active nonreporting status.

## TAX REGISTRATION

Every person, firm, association, or corporation that engages in business in Kent is required to register for B&O tax, whether or not the business is located within Kent's city limits. B&O tax registration is completed by obtaining a City of Kent Business License. The license fee varies depending on whether the business is located within or outside City limits and the number of employees in Kent. To download the business license application which is filed with the Customer Services Division visit **KentWA.gov/pay-and-apply/apply-for-a-business-license**.

Upon receiving your City of Kent business license application, the Tax Division will mail a letter to the business that explains the assigned tax reporting frequency.

## B&O TAX SCHEDULE

The City of Kent encourages every business to file its B&O tax returns online at **TaxFile.KentWA.gov**. **Online filing is free, fast, secure, and results in fewer errors and omissions.** Alternatively, paper B&O tax forms may be obtained by contacting the Tax Division.

Taxpayers are generally required to file B&O tax returns on a quarterly basis. Subject to prior approval by the City, an annual filing frequency is available if the taxpayer owes less than \$1,000 in tax annually or an active non-reporting filing frequency is available if the taxpayer owes no tax, among other criteria.

B&O tax is payable quarterly on the following schedule:

<b>Tax Period</b>	<b>Payment Due</b>
January 1 - March 31	April 30
April 1 - June 30	July 31
July 1 - September 30	October 31
October 1 - December 31	January 31

If approved, B&O tax can be payable annually:

<b>Tax Period</b>	<b>Payment Due</b>
January 1 - December 31	April 30

Taxpayers are required to keep records for the most recent five-year return period. All books, records, invoices, receipts, etc. must be kept open for examination at reasonable times by the City's Finance Director or designated agent.

## B&O TAX PAYMENT PROCEDURES

Taxpayers who file returns at **TaxFile.KentWA.gov** have access to electronic payment options which includes an e-check or credit/debit card payment (fees apply).

Paper checks or money orders may be remitted to the following address and should be accompanied by the completed tax return(s):

### **City of Kent B&O Tax**

Attn: Customer Service  
220 4th Avenue South  
Kent, WA 98032-5895

## LATE PENALTY & INTEREST

If tax is due for the return period, then late penalty becomes due if payment is received after the due date. The penalty rate ranges as follows (with a \$5 minimum):

<b>Period Returns Overdue</b>	<b>Penalty Rates</b>
1 day - 1 month	9%
Over 1 month - 2 months	19%
Over 2 months	29%

When a return is filed and paid electronically (using e-check or debit/credit card), payment will be considered timely if it is submitted by 11:59 p.m. on the due date.

Payments that are submitted by mail will be considered filed on the date shown on the postmark stamped by the Post Office. The United States Postal Service (USPS) only postmarks certain mail depending on the type of postage used. Payments will be considered timely if the postmark is stamped on or before the due date, or if the payment is received on or before the due date with no postmark.

The annual interest rate is three percent (3%) for 2021, two percent (2%) for 2022, three percent (3%) for 2023, six percent (6%) for 2024, and seven percent (7%) for 2025.

## SQUARE FOOTAGE TAX SUMMARY

The Square Footage Tax applies to taxpayers that lease, own, occupy, or otherwise maintain space within Kent as follows:

- Business Warehouse Space – 4,000 taxable square feet
- Outdoor Warehouse Space – 261,360 taxable square feet
- Other Business Floor Space – 12,000 taxable square feet

If the square footage exceeds either of the limits for business warehouse space or other business floor space, then the entire taxable square footage is used in the calculation of the Square Footage Tax on business warehouse space and other business floor space. Square Footage Tax on outdoor warehouse space does not apply unless the square footage exceeds the threshold as outlined above for outdoor warehouse space.

Any person with an office, warehouse, or other business space within the City must report all square footage for

all places of business within the City of Kent, irrespective of the size of business warehouse space, outdoor warehouse space and/or other business floor space, as applicable.

When a person rents space to another, the person occupying the rental space is responsible for the square footage tax on that rental space only if the renter has exclusive right of possession in the space as against the landlord. If a person rents space for the storage of goods but does not have exclusive right of possession in the space, and no walls separate the shared space, then the square footage tax is owed by the operator of the warehouse business instead of the renter.

**Square Footage Tax Classification and Rate Per Square Foot Per Quarter:**

Business Warehouse/Outdoor Warehouse Space . . .	\$0.12
Other Business Floor Space . . . . .	\$0.02

**Business warehouse** is a building or structure, or any part thereof, in which goods, wares, merchandise or commodities are received or stored, whether or not for compensation, in furtherance of engaging in business.

**Outdoor warehouse** means an area that is outdoors and is primarily used for the transloading of goods, wares, merchandise, or commodities on property for purposes of switching modes or vehicles of conveyance for the primary purpose of wholesaling, distributing, or reorganizing goods, wares, merchandise, or commodities en route to final destinations of sale or other transaction. Transloading generally involves the transfer of goods from one mode of transportation to another en route to an ultimate destination and, for purposes of the square footage tax, includes areas used for crossdocking, waylaying, temporary embarkment, and other similar activities.

**Other business floor space** means the floor space of an office or place of business, other than a business warehouse or outdoor warehouse.

**Non-taxable square footage** of business warehouse space and other business floor space includes, but is not limited to, stairs, elevator shafts, janitor closets, and electrical or utility closets. Non-taxable square footage of outdoor warehouse space includes, but is not limited to, space used for employee or customer parking, areas used only for direct sales or rentals to consumers, maneuvering

areas and drive aisles, and space used to store products from onsite manufacturing operations.

**GROSS RECEIPTS TAX SUMMARY**

The gross receipts tax is primarily measured by the gross proceeds of sales or gross income for the reporting period. There are no deductions for labor, material, rent, taxes, or any other cost of doing business. Manufacturers and extractors in Kent are also subject to tax on the value of products put into commercial or industrial use.

The applicable B&O tax rate depends on the type of business activity. Taxpayers conducting multiple activities may need to report in more than one tax classification. The B&O tax classifications and applicable rates are as follows:

<b>Gross Receipts Classification . . . . .</b>	<b>Tax Rate</b>
Manufacturing . . . . .	.0125% (0.00125)
Wholesaling . . . . .	0.02% (0.002)
Retailing . . . . .	0.01% (0.001)
Retail Service . . . . .	0.02% (0.002)
Services & other activities . . . . .	0.02% (0.002)
Processing/Extracting for Hire . . . . .	0.01% (0.001)
Printing; publishing . . . . .	0.01% (0.001)
Extracting . . . . .	0.02% (0.002)

**GROSS RECEIPTS TAX CLASSIFICATIONS**

**Manufacturing**

Encompasses all activities wherein labor or skill is applied by hand or machinery to materials or ingredients so that, as a result thereof, a new, different, or useful product is produced for sale or commercial or industrial use. The measure of tax is the value of products, including byproducts, which is allocated to where the manufacturing activity takes place, irrespective of where the goods are sold. The value of products is generally determined by the selling price.

**Processing for Hire**

Means the performance of labor and mechanical services upon materials or ingredients belonging to others so that as a result thereof a new, different or useful product is produced for sale or commercial or industrial use. The gross income is allocated to the location where the processing activity takes place.

### **Extracting for Hire**

Includes labor or mechanical services performed under contract for an extractor. Gross income is allocated to where the activity occurs.

### **Wholesaling**

Includes sales or services rendered to persons who are not consumers. This classification applies when such sales or services would otherwise be taxable as a "retail sale" or "retail service" if sold to or performed for consumers. Income from wholesale sales is allocated to where delivery to the buyer occurs.

### **Retailing**

Includes sales of tangible personal property, digital goods, lodging, and labor and services with respect to installing, repairing, altering, imprinting or improving of tangible personal property of or for consumers. The gross income from sales of products is allocated to the location where delivery to the buyer occurs, whereas income from services is allocated to where the service is performed.

### **Retail Services**

Includes a variety of services performed for consumers, such as: Amusement and recreation services, title insurance and escrow services, credit bureau services, landscape maintenance, renting or leasing tangible personal property, physical fitness services, tattoo and tanning. The gross income from retail services is generally allocated to where the activity takes place.

### **Services and Other Activities**

Includes gross income from every business activity for which no other specific tax classification applies. This classification covers a variety of professional services, such as lawyers, doctors, architects, financial institutions, accountants, and consultants. Income is generally allocated to the City using a two-factor apportionment formula, as computed on **Schedule A**.

### **Printing or Publishing**

This classification applies to businesses engaging within the City in the activity of (a) printing; (b) both printing and publishing newspapers, magazines, periodicals, books, music and other printed items; or (c) publishing newspapers, magazines, or periodicals.

### **Extracting**

Includes activities such as mining, quarrying, or taking coal, natural gas, stone, sand, mineral, fish, or any other natural resource. It also includes felling, cutting, or taking timber, but does not apply to persons defined as "farmers." The measure of tax is the value of products, including byproducts, which is allocated to where the activity takes places, irrespective of where goods are sold.

## **EXEMPTIONS & DEDUCTIONS**

Gross receipts that are deductible from B&O tax must be included in gross income and shown as a deduction on the return using the **Schedule B**. Conversely, income that is exempt from B&O tax does not need to be reported on the tax return. Some of the most common exemptions and deductions are listed below. This list is not all inclusive.

### **Common Exemptions (KCC 3.28.090)**

- Manufacture, sale or distribution of motor vehicle fuel
- Sale or distribution of liquor
- Sale, lease or rental of real estate (except in regard to amounts received as commissions or for rentals of less than 30 days)
- Income received by a nonprofit organization holding a current tax exempt status under Section 501(c)(3) of the Internal Revenue Code (except with respect to retail sales)
- Activities subject to the public utility tax under Chapter 3.18 KCC
- Farmers selling agricultural products
- Income earned as an "employee" under the Internal Revenue Code

### **Common Deductions (KCC 3.28.100)**

- Receipts from the sale of tangible personal property or digital products delivered to a buyer outside of Kent
- Receipts from retail or wholesale services performed outside of Kent
- Credit losses or bad debts sustained by accrual basis taxpayers
- Cash discount taken by purchaser (except in regard to Manufacturing B&O tax)

## MULTIPLE ACTIVITIES TAX CREDIT (MATC)

The MATC may apply to businesses engaged in activities that are subject to tax under two or more classifications. The purpose of the MATC is to ensure that B&O taxes are not paid by the same business more than once on the same amount. **Schedule C** of the return must be completed each time the credit is claimed.

For example, when a business conducts manufacturing activities within Kent, it would report the value of products manufactured under the Manufacturing tax classification. In addition, if goods are sold that are delivered in Kent, it would report the gross proceeds of such sales under the Retailing or Wholesaling tax classifications, as the case may be. The business would be entitled to claim the MATC so that it doesn't pay B&O tax twice on the same amount.

In another example, a business may be eligible to claim the MATC if it conducts manufacturing activities outside of Kent and has paid an eligible gross receipts tax on the manufacturing activity to another local jurisdiction. In this instance, when the business sells manufactured goods that are delivered within Kent, it would report the gross proceeds of such sales under the Retailing or Wholesaling tax classifications, as the case may be. The business would be entitled to claim a MATC so that it doesn't pay an eligible gross receipts tax twice on the same amount. The term "eligible gross receipts tax" is defined in KCC 3.28.030.

## GROSS RECEIPTS TAX CREDIT (GRTC)

A Gross Receipts Tax Credit is provided to taxpayers whose gross income exceeds the threshold amounts (\$62,500 per quarter and \$250,000 per year). For example, an annual filer with gross income of \$300,000 is provided a credit equal to the amount of tax that would otherwise have been due on the first \$250,000.

When multiple tax rates apply for taxable amounts reported in various tax classifications, the credit will be applied proportionally across the tax classifications and rates. The amount of credit provided may not exceed the actual gross receipt tax liability arising for the reporting period. **Schedule D** will be automatically populated for taxpayers filing returns on the taxpayer portal.

## OTHER TAXES & LICENSES

### **Business Licensing**

All businesses operating in Kent are required to obtain a City Business License. The following regulatory licenses are administered by the Customer Services Division and require annual renewals: General business licenses, amusements/amusement devices, taxicabs/vehicles for hire, gun clubs, pawnbrokers, going-out-of-business sales, solicitors, model studios/body painting establishments, adult entertainment, ambulances, public dances/dance halls, and rental housing safety. *See KCC Title 5 for more information.*

### **Utility Tax**

This tax is similar to the B&O gross receipt tax except it is imposed on utility businesses. The business activities affected by this tax are network telephone, cellular telephone, gas, electricity, cable TV, solid waste collection, water, sewer, and drainage services. The rates range from 6% to 18.4%. The tax is reported on the Utility Tax Return. *See Chapter 3.18 KCC for more information.*

### **Gambling Tax**

All persons licensed with the Washington State Gambling Commission and conducting gambling activities in the City are required to pay the gambling tax. Such activities include bingo, raffles, amusement games, punchboards and pull-tabs. For-profit social card games are allowed within the Panther Lake Annexation Area only. The rate ranges from 2% to 10%. The tax is reported on the Gambling Tax Return. *See Chapter 3.21 KCC for more information.*

### **Admissions Tax**

This tax is levied upon persons who pay an admission charge for entrance to an event or establishment. It is collected for the City by the business charging the admission, similar to the sales tax. The admissions tax rate of 5% is based on the ticket price. The tax is reported on the Admissions Tax Return. *See Chapter 3.26 KCC for more information.*