

# TAX HELP WANTED

By Todd Matthews





## Will a revision to Tacoma's B & O Tax policy be enough to boost the city's small-business environment?

Marty Campbell was well aware of Tacoma's Business and Occupation (B&O) Tax long before he was elected to Tacoma City Council last year. As the long-time owner of two small Tacoma businesses, Buzzard's Discs and Stadium Video, Councilmember Campbell, like every business owner in Tacoma, was required by the City of Tacoma and the State of Washington to report his quarterly earnings and pay B&O Tax. Last year, according to Campbell, he wrote checks totaling \$1,200 to cover B&O taxes for both businesses. It wasn't his biggest business expense, but "particularly for small businesses, little amounts like that matter," he said over coffee at AMOCAT Cafe in Tacoma. "That's \$1,200 I could have put into more product, a few more hours for employees, or a little more advertising."

Beginning Jan. 1, small business owners see some B&O Tax relief.

Last November, the Tacoma City Council voted to modify a nearly-60-year-old ordinance that has governed how City Hall collects revenue through its B&O Tax. According to Danielle Larson, operations manager in the city's tax and license division, if you are a business owner who earns \$75,000 in gross sales last year, you are required to pay B&O taxes (in 2009, the figure was \$72,500). That so-called "threshold" will be raised to affect only business owners who earn \$250,000 or more in gross sales. It's a move that is expected to benefit approximately 4,900 business owners who fall below that threshold. It's great news for business owners. But it left the City looking for how to make up for what is projected to be \$1.4 million in lost revenue next year as a result of the change.

"I think it's worth doing," said Tacoma Mayor Marilyn Strickland recently from her office on the 12th floor of City Hall. "It almost

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seems counterintuitive to do something like this in tough economic times, especially when (cities) are trying to fight for (tax) dollars. But I think our small businesses need relief as well."

For years, Tacoma has been dogged by the B&O Tax. Nearby cities such as Fircrest, Lakewood and Fife, which don't have B&O Tax ordinances, have benefited from Tacoma's extra fee on business owners. Why locate your business in Tacoma and pay the B&O Tax when you can duck the fee by locating outside the city limits? "By Tacoma having this B&O Tax, essentially you are giving all these other communities around it a tax exemption, or at least that's the perception," observed Mike Weinman, a consultant hired by the Tacoma-Pierce County Chamber to educate government on issues affecting the business community. Weinman said the tax has created the perception that Tacoma is not a friendly place for business.

Councilmember Campbell knows some businesses have located outside Tacoma because of the B&O Tax. He points to (but doesn't name) a large construction firm that he claims recently re-located to Fife for that very reason. Their B&O Tax was typically \$400,000 per year, according to Campbell. "That's a pretty big number," he said. "I can understand why they would make a decision to re-locate outside Tacoma when they can save \$400,000 a year. To a large construction company, being located off one I-5 exit versus another exit doesn't make a difference." Another factor for the construction company, said Campbell, is passing along the B&O Tax to its customers. (note: Campbell said his two businesses already earn more than \$250,000 in gross sales, so raising the threshold would not exempt him from paying B&O Tax). "When that construction company figures a bid, they figure the B&O Tax right into the bid," he explained. "If they weren't paying a B&O Tax, what you would see is the bid would be slightly lower, which would make them a little more competitive. We want our businesses to be competitive."

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# WILL I SURVIVE?

TIPS AND STRATEGIES FOR SMALL BUSINESSES STRIVING TO "STAY AFLOAT"

BY TODD MATTHEWS



## Owning your own small business has never been easy.

Start-up costs, long hours, and the odds of surviving long-term are usually enough to give aspiring entrepreneurs pause. The recession has only made the decision more complicated: Will the lack of consumer confidence affect my bottom-line? Can I get a bank loan anymore? Is it crazy to be a small-business owner in this economy?

Elizabeth Frisino, Chair of the South Sound chapter of the Service Corps of Retired Executives (SCORE), is someone who can help answer these questions. Frisino and her team of SCORE counselors meet face-to-face with prospective and established business owners in Pierce, Thurston, and Lewis counties to offer advice.

When I met Frisino inside the Small Business Center on the downtown Tacoma campus of Bates Technical College, I was surprised to learn that SCORE counselors have been busier than ever despite a recession.

According to Frisino, who has been a SCORE counselor for three years, between October 1, 2009 and September 30, 2010, South Sound SCORE counselors conducted 580 counseling sessions – an increase of 31 percent from October 1, 2008 and September 30, 2009.

Face-to-face counseling sessions with new clients is up 16 percent; follow-up sessions with those clients is up 59 percent

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(meaning clients are serious about starting their businesses). Online counseling has also spiked: online sessions with new clients are up 45 percent, and 300 percent for follow-up clients.

“We're getting a lot more people who have been laid off or lost their jobs, and they think, 'What now?'" Frisino told me. “We see a lot more people come in with the idea of replacing the job they lost with either opening a new business themselves from scratch, potentially buying a business, or franchising.”

So what advice does she have for small-business entrepreneurs in this recession? Strangely, it's not much different than the advice she gives during boom times. She breaks things out into two camps: people thinking of opening their own business, and people already in business and trying to outlast the economic downturn.

For the first group, it all boils down to the “Five C's of Credit”:

**Capacity** – You're better off if you have more experience in the industry in which you plan to start your business;

**Character** – A credit score of 650 or higher shows lenders you can be trusted with their money;

**Contribution** – How much cash or equity can you bring to the business? If you're looking for a loan, banks want 20- to 30-percent equity contribution;

**Cash Flow** – In addition to the business-generated cash flow, a start-up business owner will probably need an additional source of money during the first year of operation;

**Collateral** – The more debt-free assets that can be pledged to back a loan, the better.

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For people already in business and just trying to outlast the recession, here are Frisino's tips:

- » Make sure that you offer a competitive advantage versus your competition;
- » Watch your cash flow carefully;
- » Develop a business plan if you don't have one;
- » Be flexible and make your business plan a living document to be changed as business conditions dictate;
- » Use low cost E-marketing to reach your customers.

"It's not an easy environment," said Frisino. "But it's not impossible if you have a good idea, a well thought out business plan, you've done proper research of the market you want to be in, you understand the fundamental of that market, and you have equity." ←

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The construction company isn't a perfect example; after all, it makes more than \$250,000 in gross sales and therefore would still pay B&O taxes after the city raised its threshold. But it does illustrate how any business, large or small, weighs its decision to set up shop in Tacoma in light of the tax.

So why not just abolish the B&O Tax? It's not so easy.

According to Campbell, revenue collected from the B&O Tax comprises almost 20 per cent of the city's general fund budget. The city collected approximately \$42 million in revenue through B&O taxes in 2007; approximately \$44 million in 2008; and approximately \$40 million in 2009. The money is used to pay for a variety of services such as street repairs, libraries and emergency services such as police departments and fire departments. "I would love to say 'bye-bye' to the B&O Tax, but that would be irresponsible," said Campbell. "It would be like saying we're not going to take property tax anymore. Home owners would say, 'Woo-hoo! Great!' But don't bother to call the police. And if you have a fire, buy bigger garden hoses. Ultimately, our bottom-line is we need to ensure we have the same level of service."

"This has been in place since the 1950s," explained Strickland. "We've had several different city councils and mayors come through this building since then. There have been different efforts to [change the B&O Tax] but it's never been completely done away with. Even when you had a council that had three or four members who were definitely very strong pro-business, they still didn't take steps to eliminate it. That tells me obviously there is some value there and the whole idea of giving it up completely is very daunting." Still, raising the threshold is an idea that has received much attention in 2010 from City Council's government performance and finance committee. "Overall, I think most of the councilmembers are onboard with this," added Strickland. Indeed, the ordinance was approved unanimously on Nov. 30.

For Weinman, the B&O Tax revision is a great first step toward addressing the issue: "I think the city really needs to get out there and tout, 'We're cutting taxes on small businesses!' Is the Chamber for that? Absolutely. It lessens the financial impact on small businesses, especially those that are just starting out, and changes the perception so that Tacoma is a good place to do business." ←