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# Time to update your Business License Model Threshold ordinances

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New Business License Model ordinance updates require changes to city ordinances to increase business license thresholds for out-of-city businesses that conduct commerce within cities.

If your city is one of the more than 200 that partners with the state's Department of Revenue Business License Service (BLS), you should aim to get those updates done as soon as you can, ideally this summer.

## Deadlines

The changes to the model license are set to take effect on January 1, 2026. While the state's deadline to adopt the threshold for BLS cities is **October 1** (to provide the required 75-days' notice of the change before they take effect) due to system upgrades, the BLS team is encouraging cities to complete the task as soon as possible—by **August 26** if feasible.

## Resources

Read more information, materials, and FAQ in the article below and then take these three steps to complete your city's update. We will be sending reminders and keeping in touch with cities to help reach the deadline.

## Actions to take:

1. **Step one:** Review our materials, including AWC's [fact sheet](#) and the [model threshold ordinance language](#) that a group of cities produced. The change to the model ordinance increases the threshold for out-of-city business from the current minimum of

language for an automatic increase to that minimum by inflation every four years thereafter;

2. **Step two:** Schedule the ordinance to be passed at an upcoming council meeting;
3. **Step three:** Once passed (if you are a BLS city), close the loop by submitting a [Partner Change Request](#) form to BLS at [dorblspartner@dor.wa.gov](mailto:dorblspartner@dor.wa.gov). Remember to attach the language as adopted by council.

## Not a BLS city?

Notify your city's tax and license system [FileLocal](#) of the change.

## Questions?

Reach out to [Sheila](#) or [Emma](#) by email or calling us at AWC (360) 753-4137.

You can also reach out to BLS at [dorblspartner@dor.wa.gov](mailto:dorblspartner@dor.wa.gov) or (360) 705-6777.

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## 2026 City Business License Model Threshold update

March 11, 2025

[Printable fact sheet on 2026 model threshold](#)

[Updated 2026 model threshold](#)

In 2018, cities were required to develop a model minimum threshold for business licensing, which cities adopted by January 1, 2019. The ordinance includes a mandatory definition of “engaging in business” and a minimum threshold (or occasional sale) exemption to establish when out-of-town or transient businesses are required to be licensed.

The model threshold was reviewed and updated by a work group of cities in 2024. Cities must adopt the updated threshold by January 1, 2026.

### What are the main changes to the [model threshold](#)?

The main change in the update would make a one-time increase to a higher threshold to \$4,000 for out-of-city businesses from the current \$2,000 threshold, effective January 1, 2026.

- Every four years thereafter, the threshold would have an automatic periodic increase based on cumulative inflation.
- The rates of inflation would be calculated using the Consumer Price Index-U (CPI-U) Western for June of each year compared to the previous year for the previous four years.
- The rate of inflation would be calculated as zero in any year in which inflation was negative and capped at 5% per year or 20% over four years if inflation exceeded those amounts.
- To make the threshold easier to administer, the cumulative inflation amount would be rounded to the nearest \$100.

### **Could my city still require a no-fee registration for out-of-city businesses below the threshold?**

Cities retain the local option of requiring a no-fee registration for out-of-city businesses below the threshold.

### **Was the definition of “engaging in business” changed?**

No, the definition of engaging in business has not changed since the 2018 model was adopted.

### **What are the deadlines for all cities with business licenses to adopt the 2026 model threshold?**

Cities with a business license must adopt the model by January 1, 2026.

However, cities that currently partner with the state’s Business Licensing Service (BLS) for business licensing administration must adopt it by mid-October 2025, because they must provide BLS 75-day notice of any changes to their business licenses, including this mandatory change. Due to system upgrades, BLS is requesting that BLS partner cities work to complete it as soon as is feasible (before the October deadline).

### **What if my city has a higher threshold?**

Cities can choose to enact a higher threshold. The \$4,000 city threshold for out-of-city businesses is the minimum level that every city must enact.

However, higher-threshold-cities will still be impacted by the four-year inflation factor, which

to be calculated in fall 2029 for city adoption by January 1, 2030. AWC will partner with BLS and MRSC to communicate the updated minimum threshold in 2029.

Because of the four-year inflation factor, we recommend that cities with thresholds higher than \$4,000 adopt the indexing language, but also add some language to their ordinance that when the city's threshold is exceeded by the minimum, the city will use the statewide minimum threshold indexed as provided in the model.

## **What if my city wants to have a threshold that applies to in-city businesses in addition to the out-of-city business threshold?**

The \$4,000 threshold level for out-of-city businesses is a mandatory minimum threshold that every city business license city must adopt, but the law does not impact the city's authority to have exemptions or other thresholds.

Cities can continue to require a license for businesses located in the city without regard to the threshold (unless the city chose to exempt these businesses).

Cities can also choose to enact a separate threshold exemption that applies to in-city businesses.

## **Who should my city notify when the model is adopted?**

BLS partner cities: Send a completed [Partner Change Request Form](#) to BLS notifying them of the update.

FileLocal partner cities: Notify your city's tax and license system [FileLocal](#) of the change.

Questions? Email Sheila Gall, AWC ([sheilag@awcnet.org](mailto:sheilag@awcnet.org)).

## **How will businesses find out about the changes?**

Consider providing information on changes to your business license by adding information to your license renewal letter, sending a letter to your potentially impacted businesses, updating information on your city's website or presenting to your local chamber.

## **Background on the 2018 model threshold**

In the 2017 session, EHB 2005 (RCW 35.90) passed requiring three actions by cities with business licenses and local B&O taxes. The law required cities to make changes to business licensing, including requiring cities with business licenses to establish a workgroup to create a model business license threshold by July 2018 for adoption by all business license cities.

## **2018 model ordinance for local business licenses – minimum threshold**

The 2018 model included a mandatory definition of “engaging in business” and a \$2000 minimum threshold (or occasional sale) exemption to establish when out-of-town or transient businesses are required to be licensed. All business license cities adopted the model by January 1, 2019 (RCW 35.90.080).

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## **2018 final city business license model threshold**

July 18, 2018

[Printable version](#)

### **Business license and city B&O tax simplification**

In the 2017 session, **EHB 2005** (RCW 35.90) passed requiring three actions by cities with business licenses and local B&O taxes. The law:

1. Requires cities with business licenses to establish a workgroup to create a model business license with a licensing threshold by July 2018 for adoption by all business license cities by January 1, 2019 (October 17, 2018 for BLS partner cities);
2. Requires all cities with business license to administer their business license through the state’s Business Licensing System (BLS) by 2022 or FileLocal by 2020; and
3. Establishes a task force on local B&O tax service apportionment under RCW 35.102.130 to report to the Legislature by October 31, 2018.

## **Final model ordinance for local business licenses – minimum threshold**

Cities were required to develop a model ordinance for business licensing by July 1, 2018. The ordinance includes a mandatory definition of “engaging in business” and a minimum threshold (or occasional sale) exemption to establish when out-of-town or transient businesses are required to be licensed. All business license cities must adopt it by the end of the year ([RCW 35.90.080](#)).

[Model threshold language](#)

**What is in the model?**

The [model threshold](#) has two pieces: a model threshold and a definition of “engaging in business.”

1. The model business license threshold language would:

- Apply a minimum threshold of \$2,000 per year in the city for businesses that do not have a location in the city;
- Continue to require a license for businesses located in the city without regard to the threshold (unless the city chooses to exempt these businesses – see in-city business question below);
- Allow cities the option to require registration with no fee for businesses under the threshold; and
- Only apply to general business licenses, not regulatory licenses or local taxes.

2. The definition of “engaging in business” includes examples of what constitutes business activities in cities that would subject a business to license requirements, as well as those activities that would not. The model language is adapted from the definition that the 45 cities with local B&O taxes have already adopted for the definition of “engaging in business” in the B&O tax model ordinance.

## **What are the deadlines for all cities with business licenses to adopt the model?**

Cities with a business license must adopt the model by January 1, 2019. However, cities that currently partner with the state’s Business Licensing Service (BLS) for business licensing administration have a deadline of October 17, 2018, because they must provide BLS 75-day notice of any changes to their business licenses (including this mandatory change).

## **Where can I learn more about implementing the threshold?**

AWC hosted a webinar to tell you everything you need to know to comply with the mandatory model threshold in August.

### **[Prepare to streamline your business license](#) webinar recording**

AWC also held a presentation on this topic at its [Annual Conference](#) in June and presented at the WFOA Annual Conference in September.

## **What happens if we don’t enact the threshold by the deadline?**

RCW 35.90.090 provides that a city cannot enforce its business license after January 1, 2019, until it has adopted the mandatory threshold.

**RCW 35.90.090:** “A city that has not complied with the requirements of this section by January 1, 2019, may not enforce its general business licensing requirements on any person until the date that the mandatory provisions of the model ordinance take effect within the city.”

### **What if my city wants a higher threshold?**

Cities can choose to enact a higher threshold. The \$2,000 threshold level per city per year for out-of-city businesses is the minimum level that every city must enact.

### **What if my city wants to have a threshold that applies to in-city businesses in addition to the out-of-city business threshold?**

The \$2,000 threshold level per city per year for out-of-city businesses is mandatory minimum threshold language that every city business license city must adopt, but the law does not impact the city’s authority to have exemptions or other thresholds. Cities can choose to enact a separate threshold provision that applies to in-city businesses.

### **How will my city track compliance with the threshold?**

The law does not change the city’s authority to enforce business licenses, and the city will continue to use its current enforcement processes to track business license compliance.

### **Who should my city notify when the model is adopted?**

BLS partner cities (by October 17): Send a completed change request form to [BLS](#) notifying them which threshold option your city adopted, with a link to the adopted ordinance.

- [Option 1 form](#) for threshold exemption
- [Option 2 form](#) for no-fee license/registration

All other cities: Email [AWC](#) for our report to the Legislature due January 1, 2019.

### **How will businesses find out about the changes?**

Consider providing information on changes to your business license by adding information to your license renewal letter, sending a letter to your potentially impacted businesses, updating information on your city’s website, or presenting to your local chamber.

## **How was the business license threshold developed?**

Section 8 of **EHB 2005** required cities to work through the Association of Washington Cities (AWC) to develop a model business license threshold by July 1, 2018 with a focus on determining a threshold for when a license should be required for out-of-city businesses. The bill also required input from the business community.

AWC convened a task force of city business license officials to begin drafting a model license threshold in August 2017. The group met monthly in person or via conference call to research city business license systems and existing options for establishing a model threshold and to review feedback on the proposed model from cities and the business community. AWC sent a survey to cities last fall on preferences for approaching the model threshold and sent a draft for review to cities in March 2018. In April-June 2018, AWC sent drafts of the model to the business community for comment, and the task force met in person with business community representatives.

In response to business community concerns about the level of the threshold, the committee proposed doubling its initial proposed level to \$2,000 per year in the city for businesses without a location in the city. The committee agreed to review the threshold level in four years when the model B&O tax model ordinance will also be due for review and more information on impacts of the license threshold is known. In late June, the committee finalized the model language.

## **Business license model threshold implementation timeline**

**July 2017** – **EHB 2005** takes effect

**August 2017** – First meeting of city workgroup

**July 1, 2018** – Deadline for city work group to develop model ordinance with minimum threshold to get a license

**August 8, 2018** – AWC webinar on implementing model threshold

**October 17, 2018** – Deadline for current BLS partner cities to adopt model minimum threshold and notify DOR of changes to business license for threshold adoption (Cities on BLS plan but not yet onboarded would have later deadline of January 1, 2019)

**January 1, 2019** – Deadline for all other cities to adopt model minimum threshold

## **How many cities does this impact?**

## Where can I find more information on the Business Licensing Service or FileLocal?

[Business licensing service](#)

[FileLocal](#)

## What about the provision of EHB 2005 and the scope of work for the B&O service apportionment task force?

The two-factor formula for B&O tax service apportionment was required by RCW 35.102.130, effective in 2008. The two factors, payroll and service income, have complicated multi-part tests to determine how much of business service revenues should be apportioned to a city.

**EHB 2005** created a seven-member task force to make recommendations to simplify two-factor service apportionment by October 2018 with the following members:

- One Department of Revenue, non-voting chair
- Three cities with local B&O taxes
- Three business representatives

The task force has been meeting monthly since August 2017, and the deadline to submit a report to the Legislature is October 31, 2018. The city representatives are:

- Chris Bothwell, Lake Forest Park
- Joseph Cunha, Seattle
- Danielle Larson, Tacoma

## How did this legislation come about?

During the 2016 legislative session, lawmakers passed [HB 2959](#), establishing a task force to evaluate options to continue local business tax and licensing simplification. On December 30, 2016, the task force released its final report on local tax and licensing simplification with four main recommendations. The task force did not recommend that all cities with a business license be required to participate in the state's Business Licensing Service, nor did it recommend any centralized collection of city B&O tax at the state level. However, some of the items recommended represented a significant compromise on the part of cities.

The report included four recommendations related to licensing, establishing a business license threshold, recommending a task force on service income apportionment, and providing for data sharing between DOR and FileLocal. Read the [full report](#).

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