

**THE CITY OF SEATTLE**  
**DIRECTOR'S RULE**  
**IMPLEMENTING SEATTLE BUSINESS TAX ORDINANCE**  
**RULE 5-037**

FILED  
CITY OF SEATTLE  
MAY 13 PM 3:48  
CITY CLERK

**Seattle Rule 5-037**     **Accounting methods.**

- (1) **Introduction.** In computing tax liability under the business license tax, admission tax, or utility tax, one of the following accounting methods must be used. This is true for all businesses, whether their activity involves the sale of tangible personal property or the rendering of services. (See WAC 458-20-197 for an explanation of when tax liability arises under the accrual method versus the cash receipts method.)
- (2) **Method one, cash basis.** Taxpayers maintaining formal accounting records may file tax returns using figures based upon cash receipts only if the taxpayer's books of account are regularly kept on a cash receipts basis. Taxpayers maintaining formal accounting records whose books of account recognize income at the time a sale is made or a service is rendered, regardless of when payment is received, are keeping their records on an accrual basis and must report revenue and pay tax on the accrual basis. Formal accounting records are normally recognized by the use of sales or income journals which are then entered into a general ledger. For taxpayers not maintaining formal accounting records, the Director will consider all records of the taxpayer to determine whether the records are being kept on an accrual basis.

The fact that a taxpayer makes sales "on account" and has records to identify the accounts receivable does not preclude the taxpayer from reporting on a cash receipts basis. Some taxpayers create estimated billings which are later corrected for the actual amount due from the customer. Such taxpayers may report on a cash receipts basis. For such taxpayers, once a reporting basis is selected, the reporting basis may not be changed without authorization from the Director. A taxpayer who maintains its records throughout the year on a cash basis, including a general ledger, and elects to make a worksheet adjustment at year-end to report federal taxes on an accrual basis, will be permitted to report city taxes on a cash basis.

- (3) **Method two, accrual basis.** Taxpayers not maintaining books of account on a cash receipts basis must file returns with figures based on the accrual method. These taxpayers must report the gross proceeds from all cash sales made in the tax reporting period in which the sales are made, together with the total amount of charge sales during such period. The law does not require a taxpayer to use a particular accounting system. However, the taxpayer must report based on the system of accounting used by the business, regardless of the taxpayer's reasons for selecting a particular accounting system. It will be presumed that a taxpayer who is permitted under federal law or regulations to report its federal income taxes on a cash basis and does so is maintaining the records on a cash basis. A taxpayer who maintains a general ledger on an accrual basis and files federal tax returns on an accrual basis must also report city tax returns on an accrual basis.
- (a) Taxpayers who make installment sales or leases of tangible personal property must use the accrual method when they compute their tax liability. (See Seattle Rule 5-126.)
- (b) In the case of rentals or leases, the income is considered to have accrued to the seller in the tax reporting period in which the seller is entitled to receive the rental or lease payment. (See Seattle Rule 5-536.)
- (4) **Constructive receipt.** "Constructive receipt" means income that a cash basis taxpayer is entitled to receive, but will not receive because of an action taken by the taxpayer. Constructive receipts are taxable in the tax reporting period in which the taxpayer gives up the entitlement to actual future receipt of the income. The following examples show how constructive receipt applies.



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- (a) XYZ has \$10,000 in accounts receivable which XYZ expects to collect over the next six months. XYZ elects to sell these accounts receivable for eighty percent of their face value. Even though the taxpayer only receives \$8,000 from the sale of the accounts receivable, XYZ is taxable on the full \$10,000 because it has taken constructive receipt of the full \$10,000 by taking an action to give up entitlement to the \$2,000.
  
- (b) XYZ has \$1,500 in accounts receivable from customers who are delinquent in making payment. XYZ turns these accounts receivable over to a collection agency with the understanding that the collection agency may keep half of whatever is collected. The collection agency over the next month collects \$500 and keeps \$250 of this amount for its services. XYZ is taxable on the full \$500 collected by the collection agency. XYZ has constructive receipt of this amount and the \$250 retained by the collection agency is a cost of doing business to the taxpayer.
  
- (c) XYZ is involved in a bankruptcy proceeding. The receipt of cash from accounts receivable will be placed in an escrow account. These funds will be used to pay creditors and a portion of these amounts will be given to the taxpayer. The full amount of the accounts receivable collected and going into the escrow is taxable income to XYZ. XYZ has received the full benefit of the cash received from the accounts receivable through payment of XYZ's creditors.

Effective: May 15, 2007.



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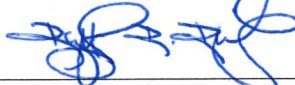
**DIRECTOR'S CERTIFICATION**

I Dwight D. Dively, Director of the Department of Finance of the City of Seattle, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Department of Finance.

DATED this 14<sup>th</sup> day of May, 2007.

CITY OF SEATTLE,  
a Washington municipality

By:

  
\_\_\_\_\_  
Dwight D. Dively, Director  
Department of Finance



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STATE OF WASHINGTON – KING COUNTY

--SS.

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209880  
CITY OF SEATTLE:REVENUE &

No. MAKING HEARING

**Affidavit of Publication**

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12<sup>th</sup> day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

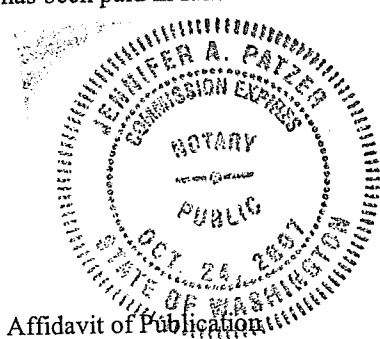
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a


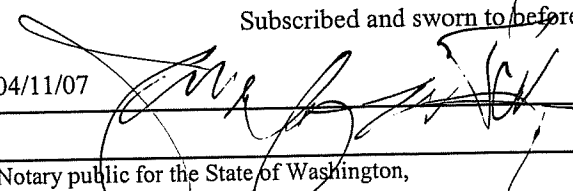
CT:NOTICE PROPOSED RULE

was published on

04/11/07

The amount of the fee charged for the foregoing publication is the sum of \$ 139.50, which amount has been paid in full.



  
\_\_\_\_\_  
Subscribed and sworn to before me on  
04/11/07   
\_\_\_\_\_  
Notary public for the State of Washington,  
residing in Seattle





City of Seattle

NOTICE OF PROPOSED RULE  
MAKING HEARING

AND OPPORTUNITY TO COMMENT

The Director of Finance, acting under the authority of Seattle Municipal Code Chapters 3.02 and 5.55, proposes to adopt new rules for implementing the Seattle Business License Tax Ordinance (Seattle Municipal Code, Chapter 5.45). Please note that although these rules are applicable to SMC 5.45, the individual rules may also apply to other chapters of the City's Tax Code, including, but not limited to, SMC 5.30 (Definitions), SMC 5.32 (Revenue Code), SMC 5.35 (Commercial Parking Tax), SMC 5.37 (Employee Hours Tax), SMC 5.40 (Admissions Tax), SMC 5.43 (Business Tax - Utilities), SMC 5.52 (Gambling Tax), and SMC 5.55 (General Administrative Provisions). The following rules are proposed for adoption and will become effective as of May 15, 2007:

Seattle Rule 5-000 Rules adopted.

Seattle Rule 5-002 Business license requirements.

Seattle Rule 5-007 Penalties.

Seattle Rule 5-008 Recordkeeping requirements.

Seattle Rule 5-009 Limitations on tax assessments.

Seattle Rule 5-033 When tax liability arises.

Seattle Rule 5-034 Finance charges, carrying charges, interest, and penalties.

Seattle Rule 5-037 Accounting methods.

Seattle Rule 5-039 Employees distinguished from persons engaging in business.

Seattle Rule 5-042 Successor liability.

Seattle Rule 5-044 Value of products.

Seattle Rule 5-064 Credit losses, bad debts, recoveries.

Seattle Rule 5-065 Taxes, deductible and nondeductible.

Seattle Rule 5-067 Accommodation sales.

Seattle Rule 5-068 Pool purchases.

Seattle Rule 5-125 Casual or isolated sales.

Seattle Rule 5-275 Installing, cleaning, repairing or otherwise altering or improving personal property of consumers.

Seattle Rule 5-276 Constructing and repairing of new or existing buildings or other structures upon real property.

Seattle Rule 5-500 Computer software.

Seattle Rule 5-501 Computer hardware.

Seattle Rule 5-502 Taxation of information services and computer related services.

Seattle Rule 5-804 Staffing businesses, staffing services.

Seattle Rule 5-921 Exemptions, deductions and credits available under the employee hours tax.

**PUBLIC HEARING AND COMMENT:**

The Department of Executive Administration has scheduled a public hearing on the proposed rule changes for 1:00 p.m. to 3:00 p.m. on Monday, April 30, 2007. The hearing will be held in a conference room on the 40th floor of the Seattle Municipal Tower, Suite 4096, located at 700 Fifth Avenue. All interested persons are invited to present data, views, or arguments, with regard to the proposed rules, orally at the hearing, or in writing at or before the hearing.

Written comments should be mailed or delivered to:

Department of Executive  
Administration Attn.: Mel McDonald,  
Deputy Director Revenue and Consumer  
Affairs 700 Fifth Avenue - Suite 4250  
P.O. Box 34214 Seattle, Washington  
98124-4214

The public may inspect copies of the proposed rules at the Revenue and Consumer Affairs offices, 700 Fifth Avenue, Suite 4250. If you would like a copy of the proposed rules, please call (206) 233-0071, FAX (206) 684-5170, email: rca.bizlietx@seattle.gov, or submit a written request to the address above.

Dwight D. Dively, Director,  
Department of Finance

Date of publication in the Seattle Daily  
Journal of Commerce, April 11, 2007.

