



**City of Oak Harbor**

**B&O Tax Return - Schedule A - Service & Other Activities Income Apportionment**

Washington UBI Number	City of Oak Harbor Account Number	Tax Reporting Period (Quarter / Year)	Due Date

Line No.		Amount
<b>Section 1. Apportionable Income</b>		
1a	Companywide gross service and other activity income	
1b	Enter amount in Schedule B, Column 6, Line 9-ID or Column 2, Line 9-TD	
1c	Apportionable income (subtract Line 1b from Line 1a)	
<b>Section 2. Payroll Factor*</b>		
2a	Employee compensations costs in Oak Harbor (from worksheet below)	
2b	Companywide employee compensation costs	
2c	Payroll factor (divide Line 2a by Line 2b)	
<b>Section 3. Service Income Factor</b>		
3a	Gross service income from customers located in Oak Harbor**	
3b	Companywide gross service income (from Line 1a) minus excluded income (from worksheet below)	
3c	Service income factor (divide Line 3a by Line 3b)	
<b>Section 4. Oak Harbor Taxable Service Income</b>		
4a	Sum of payroll factor and service income factor (add Line 2c and Line 3c)	
4b	Apportionment Factor (divide Line 4a by two*)	
4c	Income subject to Service and Other Activities B&O tax in Oak Harbor (multiply Line 1c by Line 4b). <b>Enter this amount on the B&amp;O Tax Return, Service and Other Activities (Apportioned) Line, Column 4.</b>	

\*If the business does not have any employees, such as a sole proprietorship without any employees, the apportionment factor equals the service income factor (Line 3c).

<b>PAYROLL FACTOR WORKSHEET</b>	
Employee compensation costs attributable to Oak Harbor	Amount
a. Compensation paid to employee(s) primarily assigned in Oak Harbor for the tax period.	
b. Compensation paid to employee(s) not primarily assigned to any place of business for the tax period and the employee performs 50 percent or more of his or her service for the tax period within the City of Oak Harbor.	
c. Compensation paid to employee(s) not primarily assigned to any place of business for the tax period, the employee does not perform 50 percent or more of his or her service in any city, and the employee resides within Oak Harbor.	
Add lines a, b, and c. This is the total Oak Harbor payroll costs.	
Enter this amount on line 2a: Employee compensations costs in Oak Harbor	

<b>SERVICE INCOME FACTOR WORKSHEET</b>	
Excluded Income	Amount
a. Gross service income attributable to a city or unincorporated county within the U.S., or a foreign country, in which the taxpayer is not taxable and at least a portion of the service is performed within Oak Harbor. Refer also to the instructions page for details.	

## Instructions for Schedule A – Service and Other Activities Income Apportionment

**General Information:** This schedule is used to calculate the amount of taxable service income in Oak Harbor using the two-factor apportionment method described in Oak Harbor Municipal Code (OHMC) 3.98.077. This apportionment method is generally required by every person who engages in business inside and outside of Oak Harbor and derives income that is subject to tax under the Service & Other Activities tax classification. This schedule **does not apply** to income that is subject to tax under another tax classification (such as retailing or wholesaling) or that is subject to an alternative apportionment method prescribed by law or by department rule.

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**Apportionment Formula:** Service income is apportioned to Oak Harbor using the following formula.

$$\text{Oak Harbor Taxable Service Income} = \text{Apportionable Income} \times \text{Apportionment Factor}$$

The apportionment factor is a fraction, the numerator of which is the sum of the payroll factor and service income factor, and the denominator of which is two (2). If the business has no employee compensation costs, then the payroll factor is excluded, and the apportionment factor is equal to the service income factor.

$$\text{Apportionment Factor} = (\text{Payroll Factor} + \text{Service Income Factor}) / 2$$

$$\text{Payroll Factor} = \text{Employee Compensation Paid in Oak Harbor} / \text{Companywide Employee Compensation}$$

$$\text{Service Income Factor} = \text{Gross Service Income in Oak Harbor} / (\text{Companywide Gross Service Income} - \text{Excluded Income})$$

When calculating the various factors, round to four digits after the decimal. E.g. for a factor of 24.895%, enter 0.2490.

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**Definitions:** The following definitions apply to this schedule, as provided in OHMC 3.98.077. For a comprehensive list of definitions pertaining to service apportionment, refer to OHMC 3.98.077.

**Apportionable income** means the gross income of the business taxable under the service classification of a city's gross receipts tax, including income received outside of Oak Harbor that would be taxable under the Service classification if received from activities within Oak Harbor, less any exemptions or deductions available.

**Business activities tax** means a tax measured by the amount of, or economic results of, business activity conducted in a city or county within the United States or within a foreign country. The term includes taxes measured in whole or in part on net income or gross income or receipts. "Business activities tax" does not include a sales tax, use tax, or a similar transaction tax, imposed on the sale or acquisition of goods or services, whether or not denominated as a gross receipts tax or a tax imposed on the privilege of doing business.

**Compensation** means wages, salaries, commissions, and any other form of remuneration paid to employees for personal services that are included in the employee's gross income under the federal Internal Revenue Code.

**\*\*Customer location** means the following:

- (i) For a customer not engaged in business: If the service requires the customer to be physically present, the customer location is where the service is performed. If the service does not require the customer to be physically present, then the customer location is the customer's residence, or the customer's billing/mailling address if the customer's residence is not known.
- (ii) For a customer engaged in business: The customer location is where the services are ordered from. If the location from which the services are ordered is not known, then the customer location is the customer's billing/mailling address. If neither of these are known, then the customer location is the customer's commercial domicile.

**Individual** means any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee of that taxpayer.

**Not taxable** means the taxpayer is not subject to a business activities tax by that city or county within the U.S. or by that foreign country ("jurisdiction"), except that a taxpayer is taxable in the other jurisdiction if it would be deemed to have substantial nexus in that jurisdiction under the standards in RCW 35.102.050 regardless of whether that jurisdiction imposes a business activities tax.

**Tax period** means the calendar year during which tax liability is accrued. If taxes are reported by a taxpayer on a basis more frequent than once per year, taxpayers shall calculate the factors for the previous calendar year for reporting in the current calendar year and correct the reporting for the previous year when the factors are calculated for that year, but not later than the end of the first quarter of the following year.

## Schedule A - Service & Other Activities Income Apportionment Examples

**Example 1:** An individual with health insurance seeks medical services at a doctor's office in Oak Harbor. The individual is the customer for purposes of determining customer location even though the individual may utilize their insurance to pay for the medical services provided to them. The individual is required to be present at the doctor's office to receive the services, therefore the service receipts are sourced to the location of the doctor's office where the services are performed.

**Example 2:** PCA provides architectural and engineering design plans for residential homeowners in Washington, Oregon and Idaho. Homeowners mail pictures of their home to PCA and PCA delivers plans and projected work plans to the customer. PCA uses a purchased commercial software tool that allows it to develop the plans on computers. The software tool is a DAS. The tool is only used by PCA's employees; its customers cannot use these tools. All client deliverables are provided in physical format (i.e., paper documents); at no time are the plans transferred electronically. PCA reports under the services and other activities classification and has its only business location in Oak Harbor. Because PCA's service does not require the customer to be physically present and their customers are not engaged in business, PCA would source their receipts first to the customer residence. Only if the customer's residence is not known, PCA would source their receipts to the customer's billing/ mailing address.

**Example 2.A:** Assume the same facts as Example 2, except that PCA will email deliverables to those homeowner clients that request receipt via electronic email. Per Washington Department of Revenue (DOR) interim guidance for Engrossed Substitute Senate Bill (ESSB) 5814, this would result in the same result as Example 2 as the mere use of email to communicate the result of the professional service would not require reporting income as retailing (retailing cannot be apportioned).

**Example 2.B:** Assume the same facts as Examples 2 and 2.A, except that PCA purchased a commercial software tool that permits homeowner clients to obtain their plans by accessing an internet portal and does not charge homeowner clients to use the portal so that the cost of the plan design service does not change and the cost of the service is known at the time of sale. Even though the internet portal is a DAS, per DOR interim guidance for ESSB 5814, because the homeowner clients do not use the DAS portal to perform the professional services themselves, the price of the service is known at the time of sale and does not vary based upon the method of delivery, the DAS portal is not marketed and available for purchase, and there is no charge for the DAS portal, this would result in the same results as Examples 2 and 2.A. In other words, the use of the DAS portal by PCA to merely deliver the result of its professional services would not require reporting income as retailing (retailing cannot be apportioned).

**Example 2.C:** Assume the same facts as Examples 2, 2.A, and 2B, except that PCA homeowner clients can use the plan development software tool to create and edit plans and documents that are then reviewed by a PCA employee for an upfront agreed upon fee. The software is a DAS. PCA is selling a DAS because the service is, at least in part, transferred electronically using one or more software applications (i.e., the software tool used to draft the plans). Since there is no exclusion for a DAS conducted using human effort, primarily or otherwise, PCA will report the sale under the retailing classification which cannot be apportioned.

**Example 3:** MNO Co. provides consulting services to customers engaged in business throughout Washington. MNO maintains billing address information for all of its customers. In addition, MNO also has information about the location from which the services are ordered, contracts, invoices, and other communication with the customer. MNO must follow the sourcing hierarchy in OHMC 3.98.077(7)(e) for sourcing service receipts to the customer location. MNO would first determine the location from which the services are ordered; if the location from which the services were ordered was not known, MNO would use the customer's billing or mailing address; and finally, if MNO did not know its customer's billing or mailing address, MNO would source the service income to the customer's place of domicile or where it is headquartered. In this example, MNO has information in its business records to identify the location from

which the services were ordered. Therefore, MNO will source its service receipts to the location from which services were ordered and will not use the customer billing addresses.

**Example 4:** QRS LLC is located in Tacoma, Washington and provides architectural services to customers engaged in business throughout Washington State. TUV Co., a software company located in Oak Harbor, contracts with QRS to draft plans to renovate their branch office in Bellevue. The order was made by TUV personnel located in Oak Harbor. QRS will source the TUV service receipts to Oak Harbor, the location from which the services were ordered.

**Example 5:** WBD LLC is an accounting company that provides accounting services to customers engaged in business throughout Washington State. Huge Software Co. contracts with WBD to perform accounting services for their branch office in Oak Harbor. The services were ordered from the branch office in Oak Harbor and approved by the company’s main office and procurement department in Bellevue. WBD will source Huge Software Co. service receipts to Oak Harbor, the location from which the services were ordered and not from where the order was approved.

**Example 6:** Company MMM reports under the service classification and has its only business location in Oak Harbor. MMM has employees but also maintains contracts with independent contractors who sell the company’s services. The independent contractors are paid by commissions. The independent contractors are located partly outside of the state and partly within the state. MMM employs managers who visit the independent contractors but are assigned to the Oak Harbor office. Company MMM has nexus outside of the state due to their independent contractors working with MMM’s ultimate customer. MMM should compute their taxable service income using the two-factor method. Since their employees and the traveling managers are assigned to the Oak Harbor office, 100% of the payroll is assigned to Oak Harbor. Assuming that 75% of the service income is attributable to customer locations outside of Oak Harbor (see OHMC 3.98.077(7)(e) for definition of customer location) and 25% inside of Oak Harbor (OH), then the two-factor apportionment would be as follows:

$$\text{Apportionment Factor} = \frac{100\% \text{ (OH payroll factor)} + 25\% \text{ (OH income factor)}}{2} = \frac{125\%}{2} = 62.5\%$$

**Example 6.A:** Assume the same facts as Example 6, however 10 percent of MNO Company’s sales are attributable to cities in which MNO is “not taxable” (the taxpayer is not subject to a business activities tax and the taxpayer is not deemed to have substantial nexus in the customer location (see OHMC 3.98.077(6)(c))). Furthermore, some of the service activity is performed in Oak Harbor. As a result, 10 percent of MNO’s sales must be excluded from the income factor denominator. Therefore, the service apportionment factor and the two-factor apportionment would be as follows:

$$\text{Service Activity Income Factor} = \frac{25\% \text{ (OH income factor)}}{100\% \text{ (Worldwide service activity income)} - 10\% \text{ (Excluded income)}} = \frac{25\%}{90\%} = 27.8\%$$

$$\text{Apportionment Factor} = \frac{100\% \text{ (payroll factor)} + 27.8\% \text{ (20/90 Service income factor)}}{2} = \frac{127.8\%}{2} = 63.9\%$$

**Example 7:** Hobbs & Smith Co. provides engineering consulting services to businesses. Hobbs & Smith has offices in Oak Harbor, Bellingham and Tacoma. Hobbs & Smith’s service income is attributed 40-percent in Oak Harbor, 40-percent in Bellingham, and 20-percent in Tacoma. Their office staffing is 60-percent in Oak Harbor, 30-percent in Bellingham and 10-percent in Tacoma. Projects are shared among the various offices. A staff working on a project may sit in one office and report to a specialist and managers that are in different offices. Therefore, some of the service activity is performed in all of Hobbs & Smith’s offices. The service income apportionment factor and two-factor apportionment would be as follows:

$$\begin{aligned} \text{Oak Harbor Apportionment Factor} &= \frac{60\% \text{ (OH payroll factor)} + 40\% \text{ (OH income factor)}}{2} = \frac{100\%}{2} = 50.0\% \\ \text{Bellingham Apportionment Factor} &= \frac{30\% \text{ (Bellingham payroll factor)} + 40\% \text{ (Bellingham income factor)}}{2} = \frac{70\%}{2} = 35.0\% \\ \text{Tacoma Apportionment Factor} &= \frac{10\% \text{ (Tacoma payroll factor)} + 20\% \text{ (Tacoma income factor)}}{2} = \frac{30\%}{2} = 15.0\% \end{aligned}$$

**Example 7.A:** Assume the same facts as Example 7, however Hobbs & Smith only has offices in Oak Harbor and Tacoma. Hobbs & Smith service income is 50-percent in Oak Harbor, 30-percent in Tacoma, and 20-percent in Fife under OHMC 3.98.077(7)(e). Their office staffing is 40-percent in Oak Harbor and 60-percent in Tacoma. Hobbs & Smith is “not taxable” in Fife because Fife does not impose a business activities tax and the taxpayer is not deemed to have a substantial nexus in Fife (see OHMC 3.98.077(7)(e)). Fife customers travel to the Tacoma office for business meetings with Hobbs & Smith. Projects are shared among the various offices. A staff working a project may sit in one office and report to a specialist and managers that are in different offices. Therefore, some of the service activity is performed in all of Hobbs & Smith’s offices. The service income apportionment factor and the two-factor apportionment would be as follows:

$$\begin{aligned} \text{Oak Harbor Service Income Factor} &= \frac{50\% \text{ (Service income)}}{100\% \text{ (Worldwide service income)} - 20\% \text{ (Excluded income)}} = \frac{50\%}{80\%} = 62.5\% \\ \text{Oak Harbor Apportionment Factor} &= \frac{40\% \text{ (OH payroll factor)} + 62.5\% \text{ (50/80 Service income factor)}}{2} = \frac{102.5\%}{2} = 51.3\% \\ \text{Tacoma Service Income Factor} &= \frac{30\% \text{ (Service income)}}{100\% \text{ (Worldwide service income)} - 20\% \text{ (Excluded income)}} = \frac{30\%}{80\%} = 37.5\% \\ \text{Tacoma Apportionment Factor} &= \frac{60\% \text{ (Tacoma payroll factor)} + 37.5\% \text{ (30/80 Service income factor)}}{2} = \frac{97.5\%}{2} = 48.8\% \end{aligned}$$

**Example 7.B:** Assume the same facts as Example 7 and 7.A, except all work is done in the Oak Harbor office and the Tacoma office handles the administrative operations of the business. Hobbs & Smith have nexus in Tacoma because of the presence of the office. However, because none of the work is done in Tacoma, none of the Fife income would be excluded from the service income factor for Tacoma. The service income apportionment factor and the two-factor apportionment would be as follows:

$$\text{Oak Harbor Service Income Factor} = \frac{50\% \text{ (Service income)}}{100\% \text{ (Worldwide service income)} - 20\% \text{ (Excluded income)}} = \frac{50\%}{80\%} = 62.5\%$$

$$\text{Oak Harbor Apportionment Factor} = \frac{40\% \text{ (OH payroll factor)} + 62.5\% \text{ (50/80 Service income factor)}}{2} = \frac{102.5\%}{2} = 51.3\%$$

$$\text{Tacoma Service Income Factor} = \frac{30\% \text{ (Service income)}}{100\% \text{ (Worldwide service income)}} = \frac{30\%}{100\%} = 30\%$$

$$\text{Tacoma Apportionment Factor} = \frac{60\% \text{ (Tacoma payroll factor)} + 30\% \text{ (30/100 Service income factor)}}{2} = \frac{90\%}{2} = 45\%$$