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**City of Oak Harbor Local Business & Occupation Tax Guide**

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This pamphlet provides a basic description of Oak Harbor’s local business and occupation (B&O) tax and focuses on the more typical types of businesses and business activities. The material is intended for general information purposes only. It is current at the time of publication, but future changes in the city code or state law may invalidate some of this information, and not all possible applications of tax can be discussed.

Additional information and specifics relating to your business may be obtained on the City’s website and in Chapters 3.98 and 3.99 and Title 5 of the Oak Harbor Municipal Code (OHMC) or by contacting the city’s Tax Division.

Copies of the code can be found online at <https://www.codepublishing.com/WA/OakHarbor/>

**BUSINESS LICENSE INFORMATION**

Business licensing and B&O tax services are two separate programs. The city of Oak Harbor requires a license for all businesses located within city limits, or conducting business within city limits. Oak Harbor Business License endorsements are processed by the Washington Department of Revenue (DOR) (Website: dor.wa.gov). In addition, if your business conducts certain activities, you are required to obtain a regulatory license in addition to a business license. More information is available on the City’s website or through the contact methods at the top of this pamphlet.

**LOCAL BUSINESS & OCCUPATION TAX**

The Local B&O tax took effect on October 1, 2025. It is a tax levied on business activities in Oak Harbor and functions as a tax on business gross receipts. **Gross Receipts** means the gross income of the business, the gross proceeds of sales, and/or the total value of products (manufactured or extracted in Oak Harbor). The Oak Harbor Local B&O tax is not the same as the Washington State B&O tax. It is filed separately and is in addition to other applicable federal, state, and local taxes.

**B&O TAX EXEMPTION THRESHOLD**

Business gross receipts equal to or less than \$1,000,000 during any quarter if on a quarterly reporting basis (default filing basis) or less than \$4,000,000 if on an annual reporting basis are exempt from the Local B&O Tax, with some exceptions. At these thresholds, it is expected that only about 1% of Oak Harbor’s businesses will be responsible for paying this tax.

**ACTIVE NON-REPORTING STATUS**

All businesses must file an initial return. However, to ease the burden for the vast majority of businesses that are under the tax exemption threshold, with the first quarterly filings (or anytime thereafter) a business may complete and submit a **Request for Active Non-Reporting Status Form** which indicates to the City that you are actively conducting business in the City but are not exceeding the Tax Exemption Threshold. City approval of active non-reporting status can be revoked at any time. If at any time the Gross Receipts of the business exceed the Tax Exemption Threshold, you must pay the tax by the due date for the filing period along with any penalties and interest, if applicable. It will be your responsibility to reconcile your receipts to confirm they are below the tax exemption threshold each filing period and provide them to the City upon request. Businesses that owe taxes from prior periods will be

responsible for paying back-taxes and associated late penalties and interest.

**WHAT TYPES OF BUSINESS ACTIVITY IS THE TAX APPLICABLE TO AND WHAT IS THE TAX RATE?**

The tax rate for all business activity = 0.002 (1/5 of 1%)  
 Formula: ((Gross Receipts minus Deductions) x Tax Rate) minus Multiple Activities Tax Credit, if applicable = Tax Due

- Retailing or Retail Service
- Wholesaling
- Manufacturing
- Extracting
- Printing or Publishing
- Processing for Hire or Extracting for Hire
- Service and Other Activities

**B&O TAX PAYMENT PROCEDURES**

Complete the Business and Occupation (B&O) Tax Return form along with any schedules or attachments (available online for download at the City’s website). If you owe nothing, you may email the forms to the City. However, if you owe money, you must deliver the forms during normal business hours or mail them along with your check or money order to the Finance billing office on the second floor of City Hall. Penalties and interest are due if tax returns are not filed and taxes paid by the due date.

Late penalties and interest are charged as follows:

9% – first day after due date
19% - one month after due date
29% - two months after due date
Daily interest on late payment: Tax due x days late x (rate/365). The annual rate for 2026 is 6%. <a href="https://dor.wa.gov/file-pay-taxes/late-filing/interest-rate-tables">https://dor.wa.gov/file-pay-taxes/late-filing/interest-rate-tables</a>

**B&O TAX SCHEDULE**

Quarterly multi-purpose tax return is due on the following schedule:

Reporting Period	Tax Period	Due Date
Quarter 1	January, February, March	April 30
Quarter 2	April, May, June	July 31
Quarter 3	July, August, September	October 31
Quarter 4	October, November, December	January 31

Reporting Period	Tax Period	Due Date
Annual	January through December	April 30

**Taxpayers are required to keep records for the most recent five-year period even if gross receipts are below tax exemption thresholds. All books, records, invoices, receipts, etc. shall be open for examination at reasonable times upon request by the city or designated agent.**

## Initial Period

The Local B&O tax took effect on October 1, 2025. During the period following the effective date, due dates will be adjusted. Separate tax returns for Quarter 4 of 2025 and Quarter 1 of 2026 will both be due on April 30, 2026. Thereafter, it will follow the table found in the B&O Tax Schedule section above. Late penalties and interest will be assessed based on the April 30, 2026 due date.

**Note: For the initial filing period only, if your business's gross receipts are under the tax threshold in each of the two quarters and you owe nothing, you may submit a return for Quarter 4 of 2025 only along with the Active Non-Reporting Status form.**

## GROSS RECEIPTS TAX CLASSIFICATIONS

(For detailed definitions see OHMC Chapter 3.98)

### Manufacturing/Processing for Hire

Manufacturing is the business of producing articles for sale from raw or prepared materials by giving these materials new forms or qualities, such as fabricating, processing, refining, mixing, packing, canning, etc. B&O tax is calculated on the value of products manufactured, determined by 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 a new, different or useful product is produced for sale or commercial or industrial use. B&O tax is calculated on gross receipts.

### Extracting/Extracting for Hire

Extracting is the taking of natural products, such as logging, mining, quarrying, etc. B&O tax is calculated on the value of products extracted, determined by selling price.

Extractor for hire means a person who performs under contract necessary labor or mechanical services for an extractor. B&O tax is calculated on gross receipts.

### Wholesaling

Sellers of products to persons other than consumers are considered to be wholesalers. The B&O tax is calculated on the wholesale selling price.

### Retailing and Retail Services

Businesses that sell products and specific services to consumers are defined as retailers. This applies to virtual products or services including digital products (digital goods and digital automated services (DAS)) and digital codes (See RCW 82.04.192 for definitions). In addition, retail sales include information technology training services, technical support and other services (except for telehealth and telemedicine services); custom website development services; custom software and customization of prewritten computer software; investigation, security services, security monitoring services, and armored car services; temporary staffing services (except when used by hospitals); advertising services; live presentations; digital processing services; and any digital automated service regardless of whether it is either primary automated, primarily involves the application of human effort by the seller, or equal. Some exceptions apply for sales between affiliated groups as defined in RCW 82.04.299(1)(f).

Retail Service includes businesses engaged in amusement and recreation services including but not limited to golf, pool, billiards, skating, bowling, swimming, bungee jumping, ski lifts and tows, basketball, racquet ball, handball, squash, tennis, batting cages, day trips for sightseeing purposes, and others, abstract, title insurance, and escrow services; credit bureau services; automobile parking and

storage garage services; landscape maintenance and horticultural services; service charges associated with tickets to professional sporting events; and the following personal services: physical fitness services, tanning salon services, tattoo parlor services, steam bath services, Turkish bath services, escort services, and dating services; the term shall also include the renting or leasing of tangible personal property to consumers and the rental of equipment with an operator. The B&O tax is calculated on gross receipts.

### Printing/Publishing

Publishers of newspapers, magazines and periodicals are taxable under this classification, as well as persons who both print and publish books, music, circulars, etc. Printing includes letterpress, offset-lithography, and gravure processes as well as multigraph, mimeograph, autotyping, and similar activities. B&O tax is calculated on gross receipts. Firms engaging in photocopying documents should report under the Retailing classification.

### Services and Other Activities Apportioned

The apportionment of service income allows businesses to divide their taxable revenue and their taxes proportionately among the Washington cities in which they do business.

Examples of businesses that generally report service income include accountants, lawyers, architects, engineers and many other professional service firms, unless required to report in the Retailing or Retail Service classification. Businesses that report revenue under the classification of "Service and Other Business Activities" on their City of Oak Harbor business tax return will calculate apportionment of this revenue. **Schedule A** is used for this apportionment.

## RETAILING AND DIGITAL AUTOMATED SERVICES

In 2025, the Washington Legislature enacted Engrossed Substitute Senate Bill (ESSB) 5814. The changes made by ESSB 5814 have raised several questions concerning whether professional services, which had previously been taxed in the service and other activities classification, could potentially meet the definition of a DAS which are now taxed under the retailing classification. In reviewing the statutory structure and legislative history (including the fiscal note assumptions), the DOR concluded, for the purpose of providing interim guidance, that the Legislature did not intend professional services to become taxable solely because the representation of those professional services may be made electronically available through a digital automated service.

### Interim guidance

- Professional Service Providers that use a digital product to merely communicate the results of their professional services are considered to be providing professional services and not DAS; therefore, this activity would be reported in the services and other activities classification.
- In determining whether a digital product is used merely to communicate the results of a professional service, the department will consider the following non-exclusive factors:
  - The digital product is not used by the purchaser or purchaser's designee to perform the professional service;
  - The price for the professional services is known to the purchaser at the time of purchase and this price does not vary depending on whether the digital product is available to the purchaser;
  - The digital product is not available for purchase and is not marketed to purchaser as a product; and
  - There is no charge made for the digital product.

DOR Interim guidance and examples can be found on the DOR website (Website location: [https://dor.wa.gov/laws-rules/interim\\_guidance\\_statements/interim-guidance-statement-regarding-changes-made-essb-5814-das-exclusions-and-definition-retail](https://dor.wa.gov/laws-rules/interim_guidance_statements/interim-guidance-statement-regarding-changes-made-essb-5814-das-exclusions-and-definition-retail), accessed on 1/16/2026)

## COMMON EXEMPTIONS AND DEDUCTIONS

Exemptions and deductions are allowed for certain business activities. The following two sections discuss a number of the most common exemptions from the gross receipts tax and deductions allowed for certain business activities or sources of income. This discussion is not intended to be all inclusive. More information is available on the City's website, in OHMC Chapter 3.98 or through the contact methods at the top of this pamphlet.

Unlike Exemptions, deductions are to be included in the gross receipts amounts and then deducted when calculating the taxable amount on which the gross receipts tax rate applies. **Schedule B** is used for deductions. The most common exemptions and deductions are listed below:

### COMMON EXEMPTIONS

- Public utilities activity subject to the City's Utility Tax.
- Money earned from investments, unless the investments are part of a larger banking or finance business. Dividends that a company receives from its subsidiaries are also exempt.
- Insurance agents (brokers are subject to tax).
- Sale of real estate, or rental income if the lease is for a continuous period of 30 days or more. However, no exemption is allowed for amounts received as commissions on real estate sales nor as fees, handling charges, discounts, interest or similar financial charges resulting from, or relating to, real estate transactions.
- Funds held in trust by a mortgage broker.
- Manufacturing, selling, or distributing motor vehicle fuel or liquor.
- Casual and isolated sales, such as an accountant selling his or her office furniture.
- Accommodation sales, such as an automobile dealer selling a vehicle at cost to another dealer to fill an existing order.
- Taxes collected as trust funds, such as when a business collects sales tax from a customer to be remitted to the state.
- Nonprofit organizations where the total Gross Receipts of non-retailing and/or non-retail services is equal to or less than the Tax Exemption Threshold (based on reporting basis, quarterly/annually). Retailing and retail services are not exempt.
- Activities subject to the City's gambling tax.
- House of Worship daycare programs.
- Federal, state, and local government agencies.
- Professional/semi-professional/amateur sports teams operating in Oak Harbor, except for any retail sales they make.
- The above is a summary of the Local B&O Tax Exemptions. More details can be found in the City Code.

### COMMON DEDUCTIONS

- Retailing or wholesaling receipts from sales of tangible personal property delivered to a buyer (or buyer's representative) outside of Washington.
- Retailing, retail services, or wholesaling receipts from sales of tangible personal property delivered to the buyer (or buyer's representative) outside of Oak Harbor but within Washington.
- Cash discount taken by purchaser (deduction does not apply to extracting or manufacturing classifications).
- Credit losses (bad debts) of accrual basis taxpayers.
- State or Federal constitutional prohibitions on taxes.
- The amounts collected by professional employer services that represents that actual cost of payroll charged to a client. Professional employer service organizations is a business that managers other companies' human resources issues. They do not

include independent contractors, temporary staffing agencies, service referral agencies, third-party payers, labor organizations, or common pay agents<sup>1</sup>.

- For businesses primarily engaged in banking, loan, security, or other financial business, amounts derived from interest received on investments or loans primarily secured by first mortgages or trust deeds on non-transient residential properties.
- Except for nonprofit organizations, if the total of the above deductions are less than the Tax Exemption Threshold (based on reporting basis, quarterly/annually), up to the quarterly Tax Exemption Threshold may be deducted if reporting quarterly and up to the annual Tax Exemption Threshold may be deducted if reporting annually.
- The above is a summary of the Local B&O Tax Deductions. More details can be found in the City Code.

### MULTIPLE ACTIVITIES TAX CREDIT

The Multiple Activities Tax Credit (MATC) applies to persons who engage in certain business activities that are subject to tax under two or more tax classifications on the same revenues. **Schedule C** is used for the MATC.

### OTHER INFORMATION

All businesses should make every effort to be fully informed of their tax liability, since the final responsibility for proper tax reporting rests with the taxpayer. Failure to receive communication from the City does not relieve taxpayers of their tax liability.

### QUESTIONS?

Contact the City of Oak Harbor Finance Department



[oakharbor.gov](http://oakharbor.gov)



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**Note: The City cannot offer tax advice. Please contact your tax advisor for advice.**