

SQUARE FOOTAGE B&O TAX RULE

OVERVIEW:

This rule is designed to educate, inform, and assist taxpayers in filing tax returns, determining the amount of tax due, and meeting all other taxpayer requirements established through Chapter 3.53 of the Auburn City Code. In the event of a conflict between this business tax rule and an ordinance of the City of Auburn, the ordinance prevails.

1. INTRODUCTION:

This rule explains the application of the square footage tax established pursuant to ACC 3.53.040 (B). The square footage tax only applies to businesses with a warehouse and/or outdoor warehouse space of business in Auburn. This tax complements the gross receipts business and occupation tax.

This tax applies to any business that uses warehouse space within the City in the course of or in the furtherance of its business activities, regardless of any business activity tax classifications in the Gross Receipts B&O Tax section.

Some businesses will report under both categories - Gross Receipts B&O Tax and Square Footage B&O tax; however, the tax will only be due on the higher of the two categories, not both.

Examples included in this rule identify a number of facts and then state a conclusion; they should be used only as a general guide. The tax results of all situations must be determined after a review of all the facts and circumstances.

2. DEFINITIONS:

Business Warehouse “Warehouse”:

Every structure wherein facilities are offered for the storage of tangible personal property (whether or not for compensation) in furtherance of engaging in business. It includes “storage warehouses,” “cold storage warehouses” and “automobile storage garage” as defined in ACC 3.53.020(WW).

“Outdoor Warehouse”:

An area that is outdoors and is primarily used for the storage of merchandise, goods, wares, commodities, inventory, materials, equipment, or other items (whether or not for compensation) in furtherance of engaging in business.

3. MEASURE OF TAX:

Upon every person who leases, owns, occupies, or otherwise maintains a warehouse or outdoor warehouse within the city for purposes of engaging in business activities in the city there shall be a tax measured by the number of square feet of business warehouse floor space or outdoor warehouse space. The amount of the tax shall be equal to \$0.10 for each quarterly period of a calendar year (or \$0.40 annually) for each square foot of warehouse or outdoor warehouse floor space that is leased, owned,

occupied, or otherwise maintained within the city during the reporting period, calculated to the nearest square foot.

4. MEASURING THE SQUARE FOOTAGE AREA – BUSINESS WAREHOUSE:

The square footage of a business warehouse shall be computed by measuring to the inside finish of permanent outer building walls and shall include space used by columns and projections necessary to the building.

Square footage shall *not* include stairs, elevator shafts, flues, pipe shafts, vertical ducts, heating or ventilation shafts, janitor closets, and electrical or utility closets.

5. MEASURING THE SQUARE FOOTAGE AREA – OUTDOOR WAREHOUSE SPACE:

The square footage of an outdoor warehouse shall only include those areas used and/or intended to be used for the storage of goods, wares, merchandise, commodities, inventory, materials, equipment, or other items (whether or not for compensation) in furtherance of engaging in business.

Outdoor warehouse space is measured based on the entire space used for outdoor warehousing and is not measured solely based on the size of the goods, wares, merchandise, or commodities that are being stored.

Square footage shall *not* include: areas used only for employee, customer, or visitor parking; dock high loading areas; buildings or areas used only for retail floor space (ACC 3.53.020 (LL)) or rentals to consumers; landscaped areas; storm water facilities; maneuvering areas or drive aisles; areas used only for garbage or recycling pickup; rights-of-way; or other areas clearly not used for the storage of items described in the outdoor definition.

6. MORE THAN ONE FACILITY:

Persons with more than one warehouse and/or outdoor warehouse, within the city must include all floor space for all locations within the City. Such amounts shall be combined and reported on a single return. The thresholds described in subsection ACC 3.53.040 (C)(2) of this rule are determined based on the total square footage for ALL locations within the City.

7. RENTAL OF SPACE:

When a person rents space to another person, the person occupying the rental space is responsible for the square footage business tax on that rental space. Space rented for the storage of goods in a warehouse or outdoor warehouse where no walls or other barriers separate the goods, and where the exclusive right of possession in the space is not held by the person to whom the space is rented, shall be included in the business warehouse floor space of the person that operates the business warehouse, and not by the person renting the warehouse space.

8. MORE THAN ONE USE – FACILITIES CONTAINING BOTH WAREHOUSE AND OTHER BUSINESS FLOOR SPACE:

Any person who maintains a facility in the City in which a portion of the facility is used and/or intended to be used for the storage of goods, wares, merchandise, commodities, inventory, materials, equipment, or other items and a portion is used for other business purposes must report in the manner that most accurately reflects the respective tax liability of all space within the facility.

Specific considerations:

- a. Storage areas used to stock goods that will be transferred or sold, or raw materials that will be manufactured, must be reported in the Business Warehouse category, irrespective of whether the storage area is physically separated from other uses of the facility by walls, partitions or other discernable features. Space that is used to conduct manufacturing or similar activities can be excluded from the taxable square footage space. If the same space is used for both storage and some other use at the same time, then the space is taxable based on the predominant character of the use of the space. The burden is on the taxpayer to demonstrate the predominant character of business use.
- b. The predominant character of a business that receives, stores, handles or provides logistical support for goods, wares, merchandise or commodities of others is that of a business warehouse, and the floor space used in the business shall be taxable as business warehouse floor space. Space within the facility that is used for administrative, clerical, or similar purposes can be excluded from the taxable square footage space, provided that it is separated from the business warehouse floor space by walls or similar partitions.
- c. Examples:
 - i. A taxpayer maintains a 100,000 square-foot manufacturing facility in the City. 15,000 square feet of the facility are used to receive and store raw materials (taxable), 30,000 square feet are used to store finished products (taxable), 5,000 square feet are used for office space (non-taxable), and 50,000 square feet are used as the manufacturing area (non-taxable). The taxpayer must report 45,000 as business warehouse floor space and the remaining 55,000 square feet of other business floor space are not taxable.
 - ii. A taxpayer operates four convenience stores in the City, each in a 5,000 square-foot facility. 1,200 square feet of each facility are used to store goods. The taxpayer must report all 4,800 square feet as business warehouse floor space.
 - iii. A taxpayer operates a 10,000 square-foot facility in the City in which 5,000 square feet are used for storage of goods to be transferred or sold within or outside of Auburn city limits, and 5,000 square feet of the facility are used as a retail store area in which the same goods may be purchased on-site by retail customers. The taxpayer must report

5,000 square feet as business warehouse floor space and other 5,000 square feet are non-taxable.

9. VACANT OR UNUSED SPACE:

If any portion of a building or structure is used for a business purpose, then the entire square footage of the building or structure must be included in the measure of tax, unless the vacant or unused space is separated by walls or similar partitions from the remaining facility, has its own separate entryway into or out of the building or structure, and is not used at any time during the tax reporting period. Space that is held merely for the purpose of leasing, renting, or selling the property to others is not included in the measure of tax, provided that no other business activities are conducted within the space.

Outdoor warehouse space is taxable so long as the space is used for outdoor warehousing during the reporting period, irrespective of whether the space is used for all or only a portion of the reporting period.

10. CHANGES IN FLOOR SPACE – NEW BUSINESS – CLOSING BUSINESS:

a. A person who opens or closes their business location in Auburn during the tax reporting period, or whose business space within Auburn otherwise changes during the tax reporting period, shall prorate the tax due based on a ratio of days that the space was occupied to total days of the tax reporting period. This ratio is computed based on a 90-day calendar quarter or 360-day calendar year.

b. When a business is in the process of opening or closing a facility, the space is deemed taxable so long as it is used for a business purpose, which includes, but is not limited to, making or soliciting sales; storing raw materials, inventory, goods, wares, or merchandise; conducting activities on tangible personal property that belongs to others or that will be sold by the business, such as repairing, altering, processing or manufacturing; providing services to or for customers; performing clerical or administrative tasks; or any other activity by which the taxpayer receives an economic benefit from the use of the space.

c. Example:

During Quarter 1, 2022, a business occupies business warehouse floor space of 15,000 square feet for the first 30 days and then 30,000 square feet for the remaining 60 days. The daily square footage tax rate for business warehouse floor space is \$0.0011 (i.e. \$0.10 / 90 days). The tax due is computed as follows:

$$(15,000 \times 30 \text{ days} \times \$0.0011) + (30,000 \times 60 \text{ days} \times \$0.0011) = \$2,500$$

11. LIMITATIONS:

The square footage tax does not apply to residential dwelling units, and no square footage tax is due under the following circumstances.

- a. Indoor and/or Outdoor Warehouses that are entirely located outside of Auburn city limits.
- b. The taxpayer's total floor area of all facility space maintained within the City is equal to or less than 4,000 taxable square feet of business warehouse space, and 261,360 (six acres) square feet of outdoor warehouse space. This is a threshold and not an exemption. If the square footage exceeds the threshold, then the square footage tax must be computed based on the total taxable square footage. Persons with square footage beneath the threshold amount must still report their square footage on the return.
- d. Examples:
 - i. The business owns two locations, each with business warehouse floor space of 2,500 square feet. The entire square footage for all facilities in Auburn is subject to square footage tax because the threshold of 4,000 square feet of business warehouse space has been exceeded.
 - ii. The business warehouse floor space is 10,000 square feet and the outdoor warehouse space is 50,000 square feet. Square footage tax is due on the business warehouse floor space, but it is not due on the outdoor warehouse space since the taxable threshold of 261,360 square feet has not been met.
 - i. The business engages in providing recycling services. It collects recyclable materials in Auburn, processes the materials at a facility in Auburn, and resells the materials. The amount of square footage dedicated toward the collection and processing activity is exempt from square footage tax since this business activity is subject to the utility tax. The amount of square footage dedicated toward the selling activity, including storing materials prior to sale, is subject to the square footage tax.
 - ii. The business engages in selling furniture at retail and wholesale. It maintains a 20,000 square foot facility in Auburn, where it stores goods that will primarily be sold outside of Auburn. The entire 20,000 square feet must be included in the measure of square footage tax, irrespective of the fact that all or a portion of the gross receipts will be deductible from the gross receipts tax.

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