ORDINANCE NO. 4242

AN ORDINANCE of the City Council of the City of Kent, Washington, amending Chapter 3.28 of the Kent City Code entitled "Business and Occupation Tax - Gross Receipts," amending Chapter 3.29 of the Kent City Code entitled "Business and Occupation Tax - Administrative Provisions," and adding new sections 3.29.125, entitled "Voluntary disclosure program," and 3.28.071, entitled "Tax credit."

RECITALS

A. The city of Kent maintains a business and occupation (B&O) tax established in Chapter 3.28 in the Kent City Code entitled, "Business and Occupation Tax - Gross Receipts." The city of Kent administers its business and occupation (B&O) tax through Chapter 3.29 in the Kent City Code entitled, "Business and Occupation Tax - Administrative Provisions."

B. In order to resolve and eliminate the tax inequity created by the proration of the exemption impacting gross receipts taxes for businesses with multiple activities, this ordinance will change the calculation of gross receipts taxes to be based on amounts exceeding a threshold amount, effective January 1, 2018.

C. In order to reduce the compliance burden for the smallest businesses in the community, this ordinance is adopting a non-registration

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status and a non-reporting status for taxpayers with gross receipts and square footage below threshold amounts, effective January 1, 2018.

D. In order to be more courteous to our compliant taxpayers, this ordinance adds a provision for cancellation of penalties when the taxpayer has maintained a record of filing and paying their taxes on or before the due dates of the tax returns for the past twenty-four (24) months.

E. In order to encourage unregistered businesses to comply with the City’s B&O tax law, this ordinance adds a voluntary disclosure program for an unregistered taxpayer to voluntarily register and pay prior tax obligations without incurring penalties.

F. In order to more efficiently resolve tax assessment errors, this ordinance adds an additional informal step to the City’s administrative appeal process, where a taxpayer can request a correction of the amount of an assessment and a conference with the director for review of the assessment.

G. In order to maintain tax revenue neutrality due to the change from an exemption to a threshold reporting for gross receipts tax, this ordinance provides a tax credit for taxpayers, effective January 1, 2018.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF KENT, WASHINGTON, DOES HEREBY ORDAIN AS FOLLOWS:

ORDINANCE

SECTION 1. Amendment - Revise KCC 3.28.050. Section 3.28.050 of the Kent City Code, entitled “Imposition of the tax – Tax or fee levied,” is, effective January 1, 2018, amended as follows:
Sec. 3.28.050. Imposition of the tax – Tax or fee levied.

Except as provided in subsection (C) of this section, there is hereby levied upon and shall be collected from every person a tax for the act or privilege of engaging in business activities within the city, whether the person’s office or place of business be within or without the city. The tax shall be in amounts to be determined by application of rates against the gross proceeds of sale, gross income of business, or value of products, including byproducts, and by application of rates against the square footage of business office or facility space within the city, as the case may be, as follows:

A.  Gross receipts tax.

1.  Upon every person engaging within the city in business as an extractor; as to such persons the amount of the tax with respect to such business shall be equal to the value of the products, including byproducts, extracted within the city for sale or for commercial or industrial use, multiplied by the rate of 0.152 hundredths of one percent (0.00152). The measure of the tax is the value of the products, including byproducts, so extracted, regardless of the place of sale or the fact that deliveries may be made to points outside the city.

2.  Upon every person engaging within the city in business as a manufacturer, as to such persons the amount of the tax with respect to such business shall be equal to the value of the products, including byproducts, manufactured within the city, multiplied by the rate of 0.046 hundredths of one percent (0.00046). The measure of the tax is the value of the products, including byproducts, so manufactured, regardless of the place of sale or the fact that deliveries may be made to points outside the city.

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3. Upon every person engaging within the city in the business of making sales at wholesale, as to such persons, the amount of tax with respect to such business shall be equal to the gross proceeds of such sales of the business without regard to the place of delivery of articles, commodities or merchandise sold, multiplied by the rate of 0.152 hundredths of one percent (0.00152).

4. Upon every person engaging within the city in the business of making sales at retail, as to such persons, the amount of tax with respect to such business shall be equal to the gross proceeds of such sales of the business, without regard to the place of delivery of articles, commodities or merchandise sold, multiplied by the rate of 0.046 hundredths of one percent (0.00046).

5. Upon every person engaging within the city in the business of (a) printing, (b) both printing and publishing newspapers, magazines, periodicals, books, music, and other printed items, (c) publishing newspapers, magazines and periodicals, (d) extracting for hire, and (e) processing for hire; as to such persons, the amount of tax on such business shall be equal to the gross income of the business multiplied by the rate of 0.046 hundredths of one percent (0.00046).

6. Upon every person engaging within the city in the business of making sales of retail services; as to such persons, the amount of tax with respect to such business shall be equal to the gross proceeds of sales multiplied by the rate of 0.152 hundredths of one percent (0.00152).

7. Upon every other person engaging within the city in any business activity other than or in addition to those enumerated in the above subsections; as to such persons, the amount of tax on account of such activities shall be equal to the gross income of the business

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multiplied by the rate of 0.152 hundredths of one percent (0.00152). This subsection includes, among others, and without limiting the scope hereof (whether or not title to material used in the performance of such business passes to another by accession, merger, or other than by outright sale), persons engaged in the business of developing or producing custom software or of customizing canned software, producing royalties or commissions, and persons engaged in the business of rendering any type of service which does not constitute a sale at retail, a sale at wholesale, or a retail service.

B. **Square footage tax.** Upon every person who leases, owns, occupies, or otherwise maintains an office, warehouse, or other place of business within the city for purposes of engaging in business activities in the city, the tax shall be measured by the number of square feet of warehouse business floor space or other business floor space for each office, warehouse, or other place of business leased, owned, occupied, or otherwise maintained within the city during the reporting period, calculated to the nearest square foot.

1. Subject to the reductions established in subsection (B)(6) of this section, the amount of the tax due shall be equal to the sum of the number of square feet of business warehouse floor space for each business warehouse leased, owned, occupied, or otherwise maintained within the city multiplied by the rate of three cents ($0.03) quarterly for each calendar year, and the number of square feet of other business floor space for each office or other place of business leased, owned, occupied, or otherwise maintained within the city multiplied by the rate of one cent ($0.01) quarterly for each calendar year.

2. For purposes of this section, **business warehouse** means a building or structure, or any part thereof, in which goods, wares,
merchandise, or commodities are received or stored, whether or not for compensation, in furtherance of engaging in business.

3. For purposes of this section, other business floor space means the floor space of an office or place of business, other than a business warehouse.

4. For purposes of this section, the square footage 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. Persons with more than one (1) office, warehouse, or other place of business within the city must include all business warehouse floor space and other business floor space for all locations within the city. 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 only if the renter has exclusive right of possession in the space as against the landlord. Space rented for the storage of goods in a warehouse where no walls 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 warehouse business floor space of the person that operates the warehouse business, and not by the person renting the warehouse space.

6. If the square footage tax imposed in this subsection (B) is less than or equal to the gross receipts tax imposed in subsection (A) of this section, no square footage tax will be due; if the square footage tax imposed in this subsection (B) exceeds the gross receipts tax imposed in
subsection (A) of this section, the taxpayer shall also remit the excess over the gross receipts tax payable under subsection (A) of this section.

C. 

Gross receipts and square footage threshold.

1. Any person whose gross proceeds of sales, gross income of the business, and value of products, including byproducts, as the case may be, from all activities conducted within the city during any quarter are equal to or less than sixty-two thousand five hundred dollars ($62,500) during that quarter shall be exempt from the gross receipts tax imposed in this chapter. The applicable tax rates shall only apply to amounts in excess of sixty-two thousand five hundred dollars ($62,500) during any quarter. 

Gross receipts threshold: The gross receipts tax imposed in subsection (A) of this section shall not apply to any person engaging in any one (1) or more business activities which are otherwise taxable pursuant to KCC 3.28.050, whose value of products, including byproducts, gross proceeds of sales, and gross income of the business, as the case may be, from all activities conducted within the City during any calendar year, unless that person’s total gross receipts exceeds the threshold amount of two hundred fifty thousand dollars ($250,000).

2. Square footage threshold. The square footage tax imposed in subsection (B) of this section shall not apply to any person unless that person’s total floor area of business space within the city exceeds the following threshold:

a. Four thousand (4,000) taxable square feet of business warehouse space; or

b. Twelve thousand (12,000) taxable square feet of other business floor space.
This is a threshold and not an exemption. If the square footage tax applies, it applies to all business space leased, owned, occupied, or otherwise maintained by the taxpayer during the applicable reporting period.

D. **Rules.** The director may promulgate rules and regulations regarding the manner, means, and method of calculating any tax imposed under this section.

**SECTION 2. - Amendment - Revise KCC 3.29.025.** Section 3.29.025 of the Kent City Code, entitled "Registration requirements," is, effective January 1, 2018, amended as follows:

**Sec. 3.29.025. Registration requirements.** Any person who engages in any business or performs any act that is subject to the provisions of KCC Title 5 or Chapter 3.18 KCC, relating to utility business taxes, Chapter 3.20 KCC, relating to natural or manufactured gas line use taxes, Chapter 3.21 KCC, relating to gambling taxes, Chapter 3.23 KCC, relating to lodging taxes, Chapter 3.26 KCC, relating to admissions taxes, and Chapter 3.28 KCC, relating to business and occupation taxes, even if that person is not subject to any tax imposed thereby, shall apply under the rules and regulations as the department may prescribe and, upon approval, receive from the department a registration certificate applicable to all such business engaged in or activity performed. No person shall engage in any business without being registered in compliance with the provisions of this section, and any person who is so registered must also comply with Chapter 5.01 KCC.

A. **Except as provided in subsection B of this section,** any person who engages in any business or performs any act that is subject to the provisions of KCC Title 5 or Chapter 3.18 KCC, relating to utility business
taxes, Chapter 3.20 KCC, relating to natural or manufactured gas line use taxes, Chapter 3.21 KCC, relating to gambling taxes, Chapter 3.23 KCC, relating to lodging taxes, Chapter 3.26 KCC, relating to admissions taxes, and Chapter 3.28 KCC, relating to business and occupation taxes, even if that person is not subject to any tax imposed thereby, shall apply under the rules and regulations as the department may prescribe and, upon approval, receive from the department a registration certificate applicable to all such business engaged in or activity performed.

Except as provided in subsection B of this section, no person shall engage in any business without being registered in compliance with the provisions of this section, and any person who is so registered must also comply with Chapter 5.01 KCC.

B. Non-registration status. Any person whose worldwide gross proceeds of sale, gross income of business, or value of products, including byproducts, as the case may be, from all activities during any calendar year are twelve thousand dollars ($12,000) or less and the number of square feet of warehouse business floor space or other business floor space for each office, warehouse, or other place of business leased, owned, occupied, or otherwise maintained within the city during the reporting period, calculated to the nearest foot is less than five hundred and fifty (550) square feet is not required to obtain a registration certificate.

**SECTION 3. - Amendment - Revise KCC 3.29.040.** Section 3.29.040 of the Kent City Code, entitled “When due and payable – Reporting periods – Monthly, quarterly, and annual returns – Threshold provisions or relief from filing requirements – Computing time periods – Failure to file returns,” is, effective January 1, 2018, amended as follows:
Sec. 3.29.040. When due and payable – Reporting periods – Monthly, quarterly, and annual returns – Threshold provisions or relief from filing requirements – Computing time periods – Failure to file returns.

A. The tax imposed by this chapter shall be due and payable in quarterly installments. At the director’s discretion, businesses may be assigned to a monthly, or annual or non-reporting period depending on the tax amount owing or type of tax. Tax payments are due on or before the last day of the next month following the end of the assigned reporting period covered by the return.

B. Taxes shall be paid as provided in this chapter and accompanied by a return on forms as prescribed by the director. The return shall be signed by the taxpayer personally or by a responsible officer or agent of the taxpayer. The individual signing the return shall swear or affirm that the information in the return is complete and true.

C. Tax returns must be filed and returned by the due date whether or not any tax is owed, unless the taxpayer is in active non-reporting status.

D. For purposes of the tax imposed by Chapter 3.28 KCC, any person whose value of products, gross proceeds of sales, or gross income of the business, subject to tax after all allowable deductions, is equal to or less than sixty-two thousand five hundred dollars ($62,500) in the current quarter, and whose combined taxable business warehouse square footage within the city is four thousand (4,000) square feet or less, and whose combined taxable other business square footage is twelve thousand (12,000) square feet or less, shall file a return, declare no tax due on their return, and submit the return to the director. The gross receipts and
1. Notwithstanding subsection A of this section, the director may relieve any person of the requirement to file returns if the person meets exemption criteria under KCC 3.29.040(D).

2. For purposes of the tax imposed by Chapter 3.28 KCC, any person whose annual worldwide value of products, gross proceeds of sales, or gross income of the business, subject to tax after all allowable deductions, is more than twelve thousand dollars ($12,000) but less than or equal to two hundred fifty thousand dollars ($250,000) and whose combined taxable business warehouse square footage within the city is four thousand (4,000) square feet or less, and whose combined taxable other business floor space is twelve thousand (12,000) square feet or less, need not file and submit a return to the director. For persons whose value of products, gross proceeds of sales, or gross income of the business, subject to tax after all allowable deductions, is greater than the above thresholds shall file and submit a return to the director. The gross receipts and deduction amounts shall be entered on the tax return even though no tax may be due.

E. A taxpayer that commences to engage in business activity shall file a return and pay the tax or fee for the portion of the reporting period during which the taxpayer is engaged in business activity. Subject to the conditions set forth in subsection D of this section.

F. Except as otherwise specifically provided by any other provision of this chapter, in computing any period of days prescribed by this chapter the day of the act or event from which the designated period of time runs shall not be included. The last day of the period shall be included unless it is a Saturday, Sunday, or city or federal legal holiday, in which case the
last day of such period shall be the next succeeding day which is neither a Saturday, Sunday, nor city or federal legal holiday.

G. If any taxpayer fails, neglects, or refuses to make a return as and when required in this chapter, the director is authorized to determine the amount of the tax or fees payable by obtaining facts and information upon which to base the director’s estimate of the tax or fees due. Such assessment shall be deemed prima facie correct and shall be the amount of tax owed to the city by the taxpayer. The director shall notify the taxpayer by mail of the amount of tax so determined, together with any penalty, interest, and fees due; the total of such amounts shall thereupon become immediately due and payable.

SECTION 4. - Amendment - Revise KCC 3.29.120. Section 3.29.120 of the Kent City Code, entitled “Cancellation of penalties,” is amended as follows:

Sec. 3.29.120. Cancellation of penalties.

A. The director may cancel any penalties imposed under KCC 3.29.110(A) if the taxpayer shows that its failure to timely file or pay the tax was due to reasonable cause and not willful neglect. Willful neglect is presumed unless the taxpayer shows that it exercised ordinary business care and prudence in making arrangements to file the return and pay the tax but was, nevertheless, due to circumstances beyond the taxpayer’s control, unable to file or pay by the due date. The director has no authority to cancel any other penalties or to cancel penalties for any other reason except as provided in subsection (C) of this section.

B. A request for cancellation of penalties must be received by the director within thirty (30) days after the date the department mails the notice that the penalties are due. The request must be in writing and
contain competent proof of all pertinent facts supporting a reasonable cause determination. In all cases the burden of proving the facts rests upon the taxpayer.

C. The director may cancel the penalties in KCC 3.29.110(A) one (1) time if a person:

1. Is not currently registered and filing returns;

2. Was unaware of its responsibility to file and pay tax; and

3. Obtained a registration certificate and any applicable business licenses and filed past due tax returns within thirty (30) days after being notified by the department.

D. The director shall not cancel any interest charged upon amounts due.

E. The director may cancel the penalties imposed under KCC 3.29.110(A) one (1) time for a person:

1. If payment of any tax due on a return to be filed by a taxpayer was received by the director by the due date for the previous twenty four (24) months; or

2. If payment of any tax due on a return to be filed by a taxpayer was received by the director by the due date for all previous months, if the person has not been required to file a return for the previous twenty four (24) months.

**SECTION 5. - Amendment – New KCC 3.29.125.** Chapter 3.29 of the Kent City Code, entitled “Business and Occupation Tax – Administrative Provisions,” is amended to add a new section 3.29.125, entitled “Voluntary disclosure program,” as follows:
Sec. 3.29.125. Voluntary disclosure program. A person that has not obtained from the director a registration certificate as required by KCC 3.29.025 and 3.29.030 that voluntarily obtains a registration certificate prior to being notified by the department may have certain penalties waived under the voluntary disclosure program.

A. To be eligible for the program, the unregistered person:

1. Must not have been contacted by the city regarding registration; and

2. Must not have engaged in evasion or misrepresentation in reporting taxes properly due.

If the director determines that the person had been previously contacted in order to determine registration and reporting requirements or other enforcement issues, the person will not qualify for the voluntary disclosure program.

B. The director shall not assess for taxes due more than four (4) years prior to the beginning of the calendar year of registration.

C. The director shall cancel the penalties in KCC 3.29.110(A), 3.29.110(B) and 3.29.110(D).

D. The director shall not cancel any interest charged upon amounts due.

E. Underpayment of tax. If a person has obtained from the director a registration certificate as required by KCC 3.29.025 and 3.29.030, but discovers that tax less than that properly due has been paid, then an amended return shall be filed. No penalty in accordance with KCC
3.29.110(B) shall be imposed for voluntarily correcting tax due on a filed return. The penalty imposed under KCC 3.29.110(B) shall not be waived during an audit or examination of the taxpayer's records and tax returns.

SECTION 6. - Amendment - Revise KCC 3.29.140. Section 3.29.140 of the Kent City Code, entitled "Administrative appeal," is amended as follows:

Sec. 3.29.140. Administrative appeal. Any person, except one who has failed to comply with KCC 3.29.060, aggrieved by the amount of the fee or tax determined by the director to be required under the provisions of this chapter may pay the amount due and appeal from such determination by filing a written notice of appeal with the city clerk within thirty (30) days from the date written notice of such amount was mailed to the taxpayer. A two hundred fifty dollar ($250) filing fee shall be submitted with the appeal, which filing fee is required to process the appeal. The city's hearing examiner shall, as soon as practical, fix a time and place for the hearing of such appeal, and shall cause a notice of the time and place thereof to be delivered or mailed to the parties. The hearing shall be conducted in accord with the provisions of Chapter 1.04 KCC. The decision of the hearing examiner shall indicate the correct amount of the fee or tax owing:

A. Correction of tax. Any person, except one who has failed to comply with KCC 3.29.060, having been issued a notice of additional taxes, delinquent taxes, interest, or penalties assessed by the director may, within 30 days after the issuance of such notice or within the period covered by any extension of the due date granted by the director, request a correction of the amount of the assessment and a conference with the director for review of the assessment. Interest and penalties assessed shall continue to accrue during the director's review of a request for a correction, except and to the extent that the director later determines that
a tax assessment was too high or the delay in issuing a determination is
due to unreasonable delays caused by the director. The director shall
make a final determination regarding the assessment and shall notify the
taxpayer of the director's determination within 60 days after the
conference, unless otherwise notified in writing by the director. Such
determination shall be subject to appeal pursuant to subsection B of this
section. If no request for correction is filed within the time period provided
herein, the assessment covered by such notice shall become final and
immediately due and payable, and no appeal to the Hearing Examiner
shall be allowed.

B. Appeal to the Hearing Examiner. Any person aggrieved by the
amount of any fee, tax, interest or penalty determined by the director to
be due under the provisions of this chapter may, upon full payment of the
amount assessed, appeal such determination pursuant to the following
procedures:

1. Form of Appeal. It must be in writing and must contain the
following:
   a. The name and address of the taxpayer;

   b. A statement identifying the determination of the
director from which the appeal is taken;

   c. A statement setting forth the grounds upon which the
appeal is taken and identifying specific errors the director is alleged to
have made in making the determination; and

   d. A statement identifying the requested relief from the
determination being appealed.
2. Time and Place to Appeal. The appeal shall be filed with the office of the city clerk with a copy to the director no later than 30 days following the date on which the determination of the director was mailed to the taxpayer. A two hundred fifty dollar ($250) filing fee shall be submitted with the appeal, which filing fee is required to process the appeal. If no appeal is filed within the time period provided herein, the assessment covered by such notice shall become final and immediately due and payable. No refund request may be made for the audit period covered in that assessment. Failure to follow the appeal procedures in this section shall preclude the taxpayer’s right to appeal.

3. Appeal Hearing. The city’s hearing examiner shall, as soon as practical, fix a time and place for the hearing of such appeal, and shall cause a notice of the time and place thereof to be delivered or mailed to the parties. The hearing shall be conducted in accord with the provisions of Chapter 1.04 KCC and procedures developed by the hearing examiner, at which time the appellant taxpayer and the director shall have the opportunity to be heard and to introduce evidence relevant to the subject of the appeal.

4. Burden of Proof. The appellant taxpayer shall have the burden of proving by a preponderance of the evidence that the determination of the director is erroneous.

5. Hearing Record. The hearing examiner shall make an electronic sound recording of each appeal unless the hearing is conducted solely in writing. The hearing examiner may, by subpoena, require the attendance of any person at the hearing, and may also require him or her to produce pertinent books and records. Any person served with such a subpoena shall appear at the time and place therein stated and produce the books and records required, if any, and shall testify truthfully under oath administered by the hearing examiner as to any matter required of
him or her pertinent to the appeal; and it shall be unlawful for him or her to fail or refuse to do so. The city attorney shall seek enforcement of a hearing examiner subpoena in an appropriate court.

6. Decision of the Hearing Examiner. Following the hearing, the hearing examiner shall enter a decision on the appeal, supported by written findings and conclusions in support thereof. A copy of the findings, conclusions and decision shall be mailed to the appellant taxpayer and to the director. The decision shall state the correct amount of the fee, tax, interest or penalty owing.

7. Interest Accrual or Payment. Interest and/or penalties shall continue to accrue on all unpaid amounts, in accordance with KCC 3.29.090 and 3.29.110, notwithstanding the fact that an appeal has been filed. If the hearing examiner determines that the taxpayer is owed a refund, such refund amount shall be paid to the taxpayer in accordance with KCC 3.29.100.

SECTION 7. - Amendment – New KCC 3.28.071. Chapter 3.28 of the Kent City Code, entitled “,” is, effective January 1, 2018, amended to add a new section 3.29.071, entitled “Tax credit,” as follows:

Sec. 3.28.071. Tax credit. Persons with taxable gross receipts in excess of sixty-two thousand five hundred dollars ($62,500) who engage in business activities that are within the subsections of KCC 3.28.050(A) shall be taxable under each applicable subsection during a quarter in the city and shall be allowed a credit against the gross receipts taxes paid to the city on sixty-two thousand five hundred dollars ($62,500) under this chapter during the quarter. The amount of the credit shall not exceed the gross receipts tax liability arising under this chapter.

SECTION 8. - Severability. If any one or more section, subsection, or sentence of this ordinance is held to be unconstitutional or invalid, such
decision shall not affect the validity of the remaining portion of this ordinance and the same shall remain in full force and effect.

SECTION 9. - Corrections by City Clerk or Code Reviser. Upon approval of the city attorney, the city clerk and the code reviser are authorized to make necessary corrections to this ordinance, including the correction of clerical errors; ordinance, section, or subsection numbering; or references to other local, state, or federal laws, codes, rules, or regulations.

SECTION 10. - Effective Date. As indicated, the amendments and additions of Sections 1, 2, 3, and 7 of this ordinance shall take effect on January 1, 2018. All other amendments and additions shall take effect and be in force thirty days from and after its passage, as provided by law.

ATTEST:

KIMBERLEY A. KOMOTO, CITY CLERK

APPROVED AS TO FORM:

TOM BRUBAKER, CITY ATTORNEY

PASSED: 2\textsuperscript{nd} day of May, 2017.

APPROVED: 2\textsuperscript{nd} day of May, 2017.

PUBLISHED: 5\textsuperscript{th} day of May, 2017.
I hereby certify that this is a true copy of Ordinance No. 4242 passed by the City Council of the City of Kent, Washington, and approved by the Mayor of the City of Kent as hereon indicated.

KIMBERLEY A. KOMOTO, CITY CLERK