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**Community & Economic  
Development & Trade Committee**

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**HB 1516**

**Brief Description:** Providing business and occupation tax exemptions for new small businesses.

**Sponsors:** Representatives Roach, Hurst, Orcutt, Dunn, McDonald, Warnick, Haler, McCune, Rodne, Ericksen, Chase, Kristiansen, Morrell and Rolfes.

**Brief Summary of Bill**

- Provides a new business an exemption from paying business and occupation taxes during its first 12 months of operation.
- Provides a new small business with less than 25 permanent, full-time employees an exemption from paying B&O taxes during its first 24 months of operations and a reduced B&O tax liability for an additional three years.

**Hearing Date:** 2/7/07

**Staff:** Tracey Taylor (786-7196).

**Background:**

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2006, B&O tax collection totaled \$2.477 billion which represented approximately 16 percent of state revenue sources within the state general fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking

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facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the DOR which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

**Summary of Bill:**

A new business is exempt from the B&O tax during its first 12 months of operation. If a business has less than 25 full-time, permanent employment positions at the time it begins to engage in the normal course of business, then the business is exempt from paying the B&O tax during its first 24 months of operation. During the following 36 months of operation, the business is exempt from a portion of the B&O tax based on a sliding scale:

Year Number Percent Exempt

3	75%
4	50%
5	25%
after year 5	0%

An exemption is limited during any reporting period to an amount that does not exceed \$8,333 multiplied by the number of months in the reporting period.

For the purposes of the act, a new business is defined as a business that obtained or was required to obtain a registration certificate for the first time during the calendar year for which the exemption is first claimed. It does not include a business that has been restructured, reorganized, or transferred, unless the majority of activities to be conducted after the restructuring, reorganization, or transferral are significantly different from the activities previously conducted. In addition, a new business does not include a new branch or other facility except by an existing out-of-state entity doing business for the first time in Washington. A business that is substantially similar to a business currently operated, or operated within the past five years, by the same principals is not considered a new business.

A business wishing to take this exemption must first file an application with the DOR. The DOR must rule on an application within 20 days.

**Appropriation:** None.

**Fiscal Note:** Requested on January 29, 2007.

**Effective Date:** The bill takes effect on August 1, 2007.