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HOUSE BILL 2264

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State of Washington

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2014 Regular Session

By Representatives MacEwen, Vick, Holy, Zeiger, Warnick, Hayes, Pike, Morrell, Short, Fagan, and Haler

Read first time 01/15/14. Referred to Committee on Finance.

1 AN ACT Relating to providing business and occupation tax relief by  
2 allowing businesses to deduct cost of goods sold, compensation, or a  
3 portion of gross income; adding a new section to chapter 82.04 RCW; and  
4 providing an effective date.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** A new section is added to chapter 82.04 RCW  
7 to read as follows:

8 (1) In computing tax under this chapter, a person may deduct the  
9 greater of:

10 (a) Thirty percent of gross income;

11 (b) Cost of goods sold; or

12 (c) Compensation, but not to exceed twenty-five thousand dollars  
13 for each month in the tax reporting period.

14 (2) The definitions in this subsection apply throughout this  
15 section unless the context clearly requires otherwise.

16 (a) "Benefits compensation" means the cost of all benefits, to the  
17 extent deductible for federal income tax purposes, the person provides  
18 to its officers, directors, owners, partners, and employees, including

1 workers' compensation benefits, health care, employer contributions  
2 made to employees' health savings accounts, and retirement.

3 (b) "Compensation" means wages and cash compensation and benefits  
4 compensation, paid to officers, directors, owners, partners, and  
5 employees of the person.

6 (c)(i) "Cost of goods sold" means all direct costs of acquiring or  
7 producing the goods subject to tax under this chapter, including: (A)  
8 Labor costs; (B) cost of materials that are an integral part of  
9 specific property produced; (C) cost of materials that are consumed in  
10 the ordinary course of performing production activities; (D) handling  
11 costs, including costs attributable to processing, assembling,  
12 repackaging, and inbound transportation costs; (E) storage costs,  
13 including the costs of carrying, storing, or warehousing property; (F)  
14 depreciation, depletion, and amortization, reported on the federal  
15 income tax return on which the report under this chapter is based, to  
16 the extent associated with and necessary for the production of goods,  
17 including recovery described by 26 U.S.C. Sec. 197 of the federal  
18 internal revenue code; (G) the cost of renting or leasing equipment,  
19 facilities, or real property directly used for the production of the  
20 goods, including pollution control equipment and intangible drilling  
21 and dry hole costs; (H) the cost of repairing and maintaining  
22 equipment, facilities, or real property directly used for the  
23 production of the goods, including pollution control devices; (I) costs  
24 attributable to research, experimental, engineering, and design  
25 activities directly related to the production of the goods, including  
26 all research or experimental expenditures described by 26 U.S.C. Sec.  
27 174 of the federal internal revenue code; (J) geological and  
28 geophysical costs incurred to identify and locate property that has the  
29 potential to produce minerals; (K) taxes paid in relation to acquiring  
30 or producing any material, or taxes paid in relation to services that  
31 are a direct cost of production; (L) the cost of producing or acquiring  
32 electricity sold; and (M) a contribution to a partnership in which the  
33 taxable entity owns an interest that is used to fund activities, the  
34 costs of which would otherwise be treated as cost of goods sold of the  
35 partnership, but only to the extent that those costs are related to  
36 goods distributed to the taxable entity as goods-in-kind in the  
37 ordinary course of production activities rather than being sold.

1 (ii) "Cost of goods sold" also includes the following costs in  
2 relation to the person's sale of goods: (A) Deterioration of the  
3 goods; (B) obsolescence of the goods; (C) spoilage and abandonment,  
4 including the costs of rework labor, reclamation, and scrap; (D) if the  
5 property is held for future production, preproduction direct costs  
6 allocable to the property, including costs of purchasing the goods and  
7 of storage and handling the goods; (E) postproduction direct costs  
8 allocable to the property; (F) the cost of insurance on a plant or a  
9 facility, machinery, equipment, or materials directly used in the  
10 production of the goods; (G) the cost of insurance on the produced  
11 goods; (H) the cost of utilities, including electricity, gas, and  
12 water, directly used in the production of the goods; (I) the costs of  
13 quality control, including replacement of defective components pursuant  
14 to standard warranty policies, inspection directly allocable to the  
15 production of the goods, and repairs and maintenance of goods; and (J)  
16 licensing or franchise costs, including fees incurred in securing the  
17 contractual right to use a trademark, corporate plan, manufacturing  
18 procedure, special recipe, or other similar right directly associated  
19 with the goods produced.

20 (d) "Wages and cash compensation" means the amount entered in the  
21 medicare wages and tips box of internal revenue service form W-2 or any  
22 subsequent form with a different number or designation that  
23 substantially provides the same information. The term also includes,  
24 to the extent not otherwise included in this subsection (2)(d): (i)  
25 Net distributive income from a taxable entity treated as a partnership  
26 for federal income tax purposes, but only if the person receiving the  
27 distribution is a natural person; (ii) net distributive income from  
28 limited liability companies and corporations treated as S corporations  
29 for federal income tax purposes, but only if the person receiving the  
30 distribution is a natural person; (iii) stock awards and stock options  
31 deducted for federal income tax purposes; and (iv) net distributive  
32 income from a limited liability company treated as a sole  
33 proprietorship for federal income tax purposes, but only if the person  
34 receiving the distribution is a natural person.

35 NEW SECTION. **Sec. 2.** This act takes effect July 1, 2014.

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