

HOUSE BILL REPORT

HB 1413

As Reported By House Committee On:

Finance

Title: An act relating to business and occupation taxation.

Brief Description: Allowing a business and occupation tax deduction for certain amusement devices.

Sponsors: Representatives Boldt, Morris, Lisk, Mulliken and Kremen.

Brief History:

Committee Activity:

Finance: 2/8/95, 2/23/95 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Staff: Bob Longman (786-7139).

Background: Washington's major business tax is the business and occupation (B&O) tax. Although there are several different rates, the principal rates are:

| | |
|--|--------|
| Manufacturing, wholesaling, & extracting | 0.506% |
| Retailing | 0.471% |
| Services: | |
| - Business Services | 2.5% |
| - Financial Services | 1.7% |
| - Other activities | 2.09% |

The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Thus, the tax pyramids at each level of activity. For example, retailers are not allowed to deduct amounts paid to wholesalers; and contractors are not allowed to deduct amounts paid to a subcontractor. Similarly, in the amusement game industry, the owner of an amusement device pays tax on the entire gross receipts received through a game

machine, without deduction for amounts paid to the establishment in which it is located. An exception to this rule is allowed for real estate brokers who may deduct commissions paid to another brokerage.

Summary of Substitute Bill: For B&O tax purposes, the owner of a coin operated video game, pinball machine, juke box, or other similar device may deduct amounts paid to the person upon whose premises the device is operated, as long as the amusement device owner pays the premises owner at the time the amounts are collected from the amusement device.

Substitute Bill Compared to Original Bill: The substitute bill allows a B&O deduction only if the amusement device owner pays the premises owner at the time amounts are collected from the amusement device.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 24, 1995.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 1995.

Testimony For: This type of business is like the real estate industry. However, realtors only pay B&O taxes on the actual amount of their business. Amusement device owners pay the tax on the entire proceeds when splitting the proceeds 50-50 with the premises owner. The premises owner then pays B&O tax on his or her 50 percent. This is unfair double taxation.

Testimony Against: None.

Testified: Representative Marc Boldt, prime sponsor; and John Woodring, O.K. Johnson, and Jim Marsh, Washington Amusement and Music Operation Association