

HOUSE BILL REPORT

HB 2072

As Reported By House Committee On:

Finance

Title: An act relating to reducing business and occupation tax rates.

Brief Description: Reducing business and occupation tax rates.

Sponsors: Representatives Foreman, B. Thomas, Silver, Sehlin, Padden, Cooke, Lambert, Huff, Carlson, Crouse, Pelesky, Beeksma, Hickel, Sheahan, Reams, Pennington, Mielke, Mulliken, Radcliff, Robertson, Ballasiotes, Talcott, Stevens, K. Schmidt, Cairnes, Thompson, Schoesler, Dyer, Casada, Backlund, L. Thomas, Mitchell, Campbell, Elliot, Chandler, Johnson, Benton, Carrell, D. Schmidt, Smith, McMahan, Sherstad and Boldt.

Brief History:

Committee Activity:

Finance: 3/6/95 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Minority Report: Do not pass. Signed by 1 member: Representative Dickerson, Assistant Ranking Minority Member.

Staff: Bob Longman (786-7139).

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. 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%

Selected services subject to the 2.5 percent rate include the following:

- ð Stenographic, secretarial, and clerical services
- ð Computer services, including computer programming, custom software modification, custom software installation, custom software maintenance, custom software repair, training in the use of custom software, computer systems design, and custom software update services
- ð Data processing and information services, but excluding information services to the media through an information network
- ð Legal, arbitration, and mediation services, including paralegal services, legal research services, and court reporting services
- ð Accounting, auditing, actuarial, bookkeeping, tax preparation, and similar services
- ð Design services whether or not performed by persons licensed or certified, including engineering services and architectural services
- ð Business consulting services, including administrative management consulting, general management consulting, human resource consulting or training, management engineering consulting, management information systems consulting, manufacturing management consulting, marketing consulting, operations research consulting, personnel management consulting, physical distribution consulting, site location consulting, economic consulting, motel, hotel, and resort consulting, restaurant consulting, government affairs consulting, and lobbying
- ð Business management services, including administrative management, business management, and office management, but excluding property management or property leasing, motel, hotel, and resort management, or automobile parking management
- ð Protective services, including detective agency services and private investigating services, armored car services, guard or protective services, lie detection or polygraph services, and security system, burglar, or fire alarm monitoring and maintenance services
- ð Public relations or advertising services, including layout, art direction, graphic design, copywriting, mechanical preparation, opinion research, marketing research, marketing, or production supervision, but excluding services provided as part of broadcast or print advertising
- ð Aerial and land surveying, geological consulting, and real estate appraising

In 1993, the B&O tax rate on selected business services was increased from 1.5 percent to 2.5 percent, the rate on financial businesses was increased from 1.5 percent to 1.7 percent, and the rate on all other services was increased from 1.5 percent to 2.0 percent.

In addition to these permanent tax increases, in 1993 a surtax of 6.5 percent was imposed on all B&O tax classifications except selected business services, financial services, retailing, and public and nonprofit hospitals. The surtax was lowered to 4.5

percent on January 1, 1995. The surtax expires July 1, 1997. The surtax is calculated by multiplying each permanent rate to which it applies by 1.045. For example, the 2 percent service rate becomes 2.09 percent during the time the 4.5 percent surtax is in effect.

Summary of Bill: Business and occupation taxes are returned to pre-1993 levels as follows:

Effective July 1, 1995:

1. The permanent rate for selected business services is reduced from 2.5 percent to 2.0 percent. This rate continues to be exempt from the surtax.
2. The permanent rate for financial businesses is reduced from 1.7 to 1.6 percent. This rate continues to be exempt from the surtax.
3. The permanent rate for other services is reduced from 2.0 percent to 1.75 percent. This rate is subject to the 4.5 percent surtax, so the rate in effect will be 1.83 percent.

Effective July 1, 1996:

1. The permanent rate for selected business services is reduced from 2.0 percent to 1.5 percent.
2. The permanent rate for financial businesses is reduced from 1.6 to 1.5 percent.
3. The permanent rate for other services is reduced from 1.75 percent to 1.5 percent.
4. The 4.5 percent surcharge is ended.

Appropriation: None.

Fiscal Note: Requested on March 7, 1995.

Effective Date: Sections 1 and 2 contain an emergency clause and take effect July 1, 1995; sections 3, 4, and 5 take effect July 1, 1996.

Testimony For: B&O taxpayers bore the major burden of the 1993 tax increases. It is appropriate to roll back these B&O tax increases. It is our nature to be conservative, so we first proposed rolling back one-half the 1993 increase. Now with better information about the budget, we can propose rolling them all back. We will

eliminate these 1993 tax increases, balance the budget and maintain a sufficient reserve.

Testimony Against: None.

Testified: Representative Dale Foreman, prime sponsor; Tom Dooley, Association of Washington Business; Cliff Webster, Architects and Engineers Legislative Council; and Gary Smith, Independent Business Association.