

HOUSE BILL REPORT

HB 2215

As Reported By House Committee On:
Finance

Title: An act relating to small business tax relief.

Brief Description: Providing for small business tax relief.

Sponsors: Representatives Boldt, B. Thomas, Schoesler, Pennington, Mastin, Koster, Carrell, Campbell, Smith, Huff, L. Thomas, Elliot, Thompson, Cooke, Goldsmith, Backlund, Hargrove and Benton.

Brief History:

Committee Activity:

Finance: 1/10/96, 1/11/96 [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; Carrell, Vice Chairman; Boldt, 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. 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 percent
Retailing - 0.471 percent
Services:
- Business Service - 2.5 percent
- Financial Services - 1.7 percent
- Other activities - 2.09 percent

A small business credit is provided for the B&O tax. The maximum amount of credit is \$420 per year. The \$420 credit offsets any tax liability of \$420 per year or less. The credit is phased out dollar-for-dollar by the amount the B&O tax liability exceeds

\$420. If tax liability is more than \$420 and less than \$840, the credit is equal to \$840 minus the initial tax liability. For example, if the initial liability is \$600, the credit is \$240 (\$840 minus \$600) and the net tax due is \$360 (\$600 minus \$240). If tax liability exceeds \$840 (twice the maximum credit), the credit is zero and the full amount of tax is due.

All taxpayers are eligible to use this credit to reduce their B&O taxes. However, because the credit phases out at higher gross income amounts, only the smallest firms will see a tax reduction.

Public utility business activities are exempt from the B&O tax. Instead, these activities are subject to a very similar gross receipts tax, the public utility tax. The principal difference between the B&O and public utility taxes is a higher rate schedule applied under the public utility tax. Although many businesses that are subject to public utility tax are also subject to regulation by the Utilities and Transportation Commission, there is no direct connection between regulatory status and tax status.

Public utility tax rates are as follows:

Railroad, express, telegraph, natural gas, and sewerage collection - 3.852 percent

Light and power - 3.873 percent

Water distribution - 5.029 percent

Taxicabs, limousine services, other urban transportation carriers,
and marine vessels for hire under 65 feet (except tugboats) - 0.642 percent

Motor transportation (except urban transportation), tugboats, and public utilities
not elsewhere classified - 1.926 percent

Businesses with public utility gross receipts less than \$6,000 per year are exempt from the public utility tax.

All businesses with gross income over \$12,000 per year are required to register with the Department of Revenue and file returns at least annually, even if tax is not due.

Summary of Substitute Bill: The small business credit for the business and occupation tax is increased from \$420 to \$600 per year for existing businesses and \$1,200 per year for new businesses. A new business is defined as one which registered for the first time during the previous three years. Restructured businesses and branch operations of existing businesses in this state do not qualify as new businesses.

The tax exemption threshold for the public utility tax is increased from \$6,000 to \$24,000 per year.

The threshold for filing tax returns is increased from \$12,000 to \$24,000 per year.

Substitute Bill Compared to Original Bill: Adds a \$100 per month (\$1,200 per year) maximum credit for new businesses.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect July 1, 1996.

Testimony For: Increasing the small business B&O tax credit provides tax relief to small business. The B&O tax is especially burdensome for new businesses. The credit should be doubled for new businesses. Increasing the threshold where filing tax returns is necessary will reduce administrative costs for taxpayers and the Department of Revenue. Since the adoption of the small business tax credit, taxpayers have had difficulty with properly calculating the credit. Increasing the small business tax credit will make more businesses eligible for the credit and will likely increase the number of incorrect tax returns.

Testimony Against: None.

Testified: Representative Marc Boldt, sponsor of bill; and J. Ryan Spiller, Department of Revenue.