

# HOUSE BILL REPORT

## HB 2210

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### 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 B. Thomas, Schoesler, Mastin, Radcliff, Dyer, Koster, Carrell, Campbell, Smith, Huff, Horn, L. Thomas, Johnson, Hickel, Thompson, Cooke, Boldt, Goldsmith, Backlund, Hargrove and Benton.

### Brief History:

#### Committee Activity:

Finance: 1/8/96 [DP].

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 10 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Hymes; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Dickerson, Assistant Ranking Minority Member; and Mason.

**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, and extracting - 0.506 percent

Retailing - 0.471 percent

Services:

- Business Services - 2.5 percent

- Financial Services - 1.7 percent

- Other activities - 2.09 percent

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, copy writing, mechanical preparation, opinion research, marketing research, marketing, or production supervision, but excluding services provided as part of broadcast or print advertising; and

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. Also in 1993, the B&O tax was extended to public and nonprofit hospitals at the rate of .75 percent through June 30, 1995, and 1.5 percent thereafter.

In addition to these permanent tax increases, a surtax of 6.5 percent was imposed on most B&O tax classifications in 1993. The surtax applies to services - other activities, but does not apply to selected business services, financial services. 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 percent. For example, the 2.0 percent service - other activities rate becomes 2.09 percent during the time the 4.5 percent surtax is in effect.

During the 1995 session, the Legislature enacted EHB 1023, which reduced the 1993 service rate increases by half. The Governor vetoed this bill.

**Summary of Bill:**

The Business and Occupation Tax service rate increases adopted in 1993 are reduced by half, effective January 1, 1997. The reductions are as follows.

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.

The permanent rate for financial businesses is reduced from 1.7 to 1.6 percent. This rate continues to be exempt from the surtax.

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 until July 1, 1997, will be 1.83 percent.

**Appropriation:** None.

**Fiscal Note:** Requested January 4, 1996.

**Effective Date:** If passed, the act shall be submitted to the people for their adoption and ratification, or rejection, at the November 1996 election. If approved by the people, the act shall take effect January 1, 1997.

**Testimony For:** The 1993 tax increases placed a harsh burden on service businesses, especially small businesses. A small group of service industries was selected for high

B&O tax rates. The business and occupation tax is on the gross, not the net. Some service businesses have very small profit margins. Not all service businesses are high-income professionals like doctors and lawyers. Some are struggling to stay in business. The increase in service B&O has a negative impact not only on the service business but also their customers. Most businesses cannot pass on the cost of business and occupation taxes to the consumer. Some businesses have been forced to reduce wages paid to employees.

**Testimony Against:** None.

**Testified:** (All in favor) Carolyn Logue, National Federation of Independent Business; Tom Dooley, Association of Washington Business; Krista Eichler, Seattle Chamber of Commerce; and Gary Smith, Independent Business Association.