

# SENATE BILL REPORT

## HB 2789

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As Reported By Senate Committee On:  
Ways & Means, February 26, 1996

**Title:** An act relating to tax reporting and registration requirements of small businesses with no tax liability.

**Brief Description:** Simplifying tax reporting and registration requirements for small businesses.

**Sponsors:** Representatives Van Luven, Sheldon, Schoesler, Morris, Silver, Ogden, Thompson, Blanton, Patterson, Tokuda, Romero, Conway, Cole and Poulsen; by request of Governor Lowry.

**Brief History:**

**Committee Activity:** Ways & Means: 2/23/96, 2/26/96 [DP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rinehart, Chair; Loveland, Vice Chair; Bauer, Cantu, Drew, Finkbeiner, Fraser, Hargrove, Hochstatter, Johnson, Kohl, Long, McDonald, Pelz, Quigley, Roach, Sheldon, Snyder, Spanel, Strannigan, Sutherland, West and Winsley.

**Staff:** Terry Wilson (786-7433)

**Background:** The business & occupation tax (B&O) is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities (except utility activities) conducted within the state. There are no deductions for the costs of doing business. Although there are several different rates, the principal rates are:

Manufacturing/wholesaling/extracting	0.506%
Retailing	0.471%
Services	
- Business Services	2.0%
- Financial Services	1.6%
- Other activities	1.829%

Businesses are authorized a credit against tax. The credit provides a complete exemption up to a certain income and is eliminated at twice the exemption amount. The exemption amount for the various classifications is as follows:

Manufacturing/wholesaling/extracting	\$83,040
Retailing	\$89,172
Services	
- Business Services	\$21,000
- Financial Services	\$26,250
- Other activities	\$22,951

Public utility business activities are exempt from the B&O tax. Instead, these activities are subject to the public utility tax. While 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 vary from .642 percent to 5.029 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 no tax is due.

**Summary of Bill:** 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.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 1996.

**Testimony For:** This should reduce paperwork for both the state and small business. Many taxpayers will not have to file every year. This increases efficiency. Efforts can be directed to other taxpayers. The \$142,000 request for implementation is needed, but the department will change its priorities in order to do this if the money isn't appropriated.

**Testimony Against:** None.

**Testified:** Representative Schoesler, prime sponsor (pro); Ryan Spiller, Department of Revenue (pro).