

SENATE BILL REPORT

SB 5034

As of February 9, 1995

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

Brief Description: Decreasing business and occupation tax rates.

Sponsors: Senators Quigley, Haugen, Winsley, Rasmussen and Oke.

Brief History:

Committee Activity: Ways & Means: 1/31/95.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7715)

Background: The business and 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.

There are 13 different B&O tax 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% |

In 1993, the B&O tax rate on selected business services, financial services, and all other services was increased from 1.5 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, 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.

Summary of Bill: The 4.5 percent B&O surtax is eliminated July 1, 1995, and the B&O tax rates on business services, financial services, and miscellaneous services are decreased to 1.50 percent, effective July 1, 1996.

Appropriation: None.

Fiscal Note: Requested on January 9, 1995.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Testimony For: The fiscal crisis two years ago is over because of better budgeting and a better economy. This is an opportunity to sunset the tax increase and return the money to the taxpayers. This proposal has broad-based impact. Small business wants something done about the B&O tax. Tax increases on the service industry has been devastating. This bill will help businesses succeed. Small business is the engine that drives the economy. The taxes hurt architects and land surveyors. Taxes went up 66 percent while income is declining. Jobs have been lost.

Testimony Against: We have a bad tax structure, but businesses asked for this instead of a sales tax on services.

Testified: Senator Quigley, prime sponsor (pro); Terry Hotvedt, Sam Pace, realtors (pro); Jennie Sue Brown, Architects & Engineers Legislative Council (pro); Joel Niemi, American Institute of Architects (pro); Doug Slager, Land Surveyors Association of WA (pro); Carolyn Logue, NFIB (pro).