

FINAL BILL REPORT

SB 6117

FULL VETO VETO OVERRIDE

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Synopsis as Enacted

Brief Description: Reducing business and occupation tax rates.

Sponsors: Senators Quigley, Loveland, Snyder, Rinehart, Spanel, Rasmussen, Thibaudeau, Hale, Swecker, Prince, Long, Morton, West, Deccio, Moyer, Zarelli, McCaslin, Johnson, Strannigan, Finkbeiner, Hochstatter, Wood, A. Anderson, Cantu, Sellar, Schow, McDonald, Winsley, Sheldon, Haugen, Goings, Heavey, Bauer, Drew, McAuliffe, Franklin, Newhouse and Oke.

Senate Committee on Ways & Means

Background: Washington's major business tax is the business and occupation tax (B&O) tax. It is imposed on the gross receipts of business activities within the state. Although there are many rates, the principal rates are as follows:

Manufacturing, wholesaling and extracting	0.506%
Retailing	0.471%
Services	
- Selected business services	2.5%
- Financial services	1.7%
- Other activities	2.09%

Selected business services include: computer services, data processing, legal services, accounting, business consulting, business management, protective services, and public relations.

Prior to the 1993 session, all service activity was taxed at 1.5 percent. In 1993, the three new categories and rates were established. In addition, a temporary 6.5 percent surtax was imposed on all B&O 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, and will expire July 1, 1997. Because the surtax applies to the "other activity" category, the 2.09 percent rate will decrease to 2.0 percent after July 1, 1997.

A B&O tax credit worth \$1,000 per job is available for manufacturing, research and development, and computer service companies that either create a new work force or increase an existing workforce in distressed areas. No business may receive more than \$300,000 in credits, and no more than \$15 million may be taken in any biennium by all businesses.

Distressed areas are those where unemployment for the previous three years is at least 20 percent above the state average.

Summary: B&O tax rates are reduced effective January 1, 1996 as follows: the selected business service rate is reduced from 2.5 percent to 2.0 percent; the financial business service rate is reduced from 1.7 percent to 1.6 percent; and the permanent part of the "other activities" rate is reduced from 2.0 percent to 1.75 percent. Due to the surtax, the "other activities" rate is 1.83 percent until July 1, 1997.

The tax credit for job creation in distressed areas is increased from \$1,000 to \$2,000 per job for projects approved after January 1, 1996.

A new B&O credit is authorized for employee job training. The tax credit is available to manufacturing, research and development and computer service businesses located in distressed areas that provide job related training at no charge to their employees. The tax credit is equal to 20 percent of the value of the job training not to exceed \$5,000 per business per year. This credit is available for projects approved after January 1, 1996.

Votes on Final Passage:

Senate	46	3
House	73	19

Votes on Veto Override:

Senate	41	7
House	76	21

Effective: January 24, 1996