

# SENATE BILL REPORT

## SB 6117

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As Passed Senate, January 9, 1996

**Title:** An act relating to reducing business and occupation taxes by reducing the 1993 service rate increases by fifty percent and increasing tax credits in distressed areas.

**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.

**Brief History:**

**Committee Activity:** Ways & Means: 1/3/96.  
Passed Senate, 1/9/96, 46-3.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** David Schumacher (786-7715); Terry Wilson (786-7715)

**Background:**

**B&O Taxes.** 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.

**Distressed Area B&O Credit.** 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 of Bill:** 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.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** The tax increases passed in 1993 placed a considerable hardship on some businesses. Now that the state has a budget surplus, some of that money should be returned.

**Testimony Against:** In the face of potentially large federal budget cuts it is not prudent to reduce the tax base now. The Legislature should wait until the federal picture is more clear. Also, a large portion of the benefit of the tax cuts go to large businesses.

**Testified:** Jim Bolst, WA Society of CPAs (pro); David West, WA Citizen Action (con); O.K. Johnson, WA Amusement Operation Assn.(pro); David Wood, People for Fair Taxes (con); Greg Devereaux, WFSE (con); Lonnie Johns-Brown, NASW/NOW (con); Scott Merriman, WA Environmental Council (con); Peggy Bruton, League of Women Voters, WA (con); Glen Hudson, Realtors (pro); Jeff Johnson, WSLC, AFL-CIO (con); Karen Davis, WEA (con); Carolyn Logue, NFIB (pro).