

# HOUSE BILL REPORT

## EHB 1821

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### As Passed House

March 18, 1997

**Title:** An act relating to consolidating business and occupation tax rates into fewer categories.

**Brief Description:** Consolidating business and occupation tax rates into fewer categories.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives B. Thomas, Mulliken, Bush, Zellinsky, Kastama, Sullivan, Wensman, Carrell and Schoesler).

### Brief History:

#### Committee Activity:

Finance: 2/19/97, 2/27/97 [DP].

#### Floor Activity:

Passed House: 3/18/97, 97-1.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Pennington; Schoesler; Thompson and Van Luven.

**Staff:** Rick Peterson (786-7150).

**Background:** Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed at 13 different rates on the gross receipts of business activities conducted within the state. After a temporary surtax expires on July 1, 1997, B&O rates will be as follows:

- 0.011 percent Wholesaling wheat, oats, corn, barley;
- 0.138 percent Manufacturing wheat into flour, soybean oil, seafood manufacturing, slaughter, breaking and processing meat-wholesale;
- 0.275 percent Dry pea splitting, nuclear fuel sales, nuclear fuel manufacturing, travel agent commissions, international investment management;
- 0.330 percent Manufacturing fresh fruits and vegetables;
- 0.363 percent International charter freight brokers, stevedoring;
- 0.471 percent Retailing;

- 0.484 percent Extracting, extracting for hire, manufacturing, retailing interstate transportation products, nonprofit research and development, wholesaling, internal distribution, newspaper printing, road and street improvements for government, storage warehouses, independent general insurance agents, radio and TV broadcasting, construction for federal government;
- 0.55 percent Insurance-agents/brokers commissions;
- 1.50 percent Nonprofit hospitals;
- 1.60 percent Financial services;
- 1.75 percent Real estate brokers, other services;
- 2.00 percent Selected business services; and
- 3.30 percent Low-level radioactive waste disposal

In 1994, the Legislature enacted a B&O tax credit for high technology research and development. Firms engaged in biotechnology, advanced computing, electronic device technology, advanced material, and environmental technology pursuits are eligible for the credit if they spend at least 0.92 percent of their gross income on research and development. The amount of the credit is equal to 2.5 percent of their spending in research and development, except credits for eligible nonprofit organizations are equal to 0.515 percent of their spending in research and development. The credit is limited to \$2.0 million per year. When the credit was enacted, the highest B&O tax rate on services was 2.5 percent, and the rate on nonprofit organizations engaged in research and development was 0.515 percent.

**Summary of Bill:** The number of B&O rates is reduced to six rates by:

- Eliminating the 0.011 percent rate for wholesaling wheat, oats, corn, and barley, and exempting these activities from tax;
- Consolidating agricultural activities at the 0.138 percent rate. Dry pea splitting (formerly 0.275 percent) and manufacturing fresh fruits and vegetables (formerly 0.330 percent) join manufacturing wheat into flour; soybeans into oil, seafood manufacturing, and processing and selling meat at wholesale in this category;
- Moving international charter freight brokers and stevedoring (formerly 0.363 percent) to join travel agent commissions, nuclear fuel sales and manufacturing and international investment management at 0.275 percent;
- Moving insurance agent/broker commissions (formerly 0.55 percent) to 0.484 percent together with manufacturing, wholesaling, extracting and others; and
- Combining financial services (formerly 1.6 percent) and selected business services (formerly 2.0 percent) into the other services category (formerly 1.75 percent), and reducing the rate to 1.5 percent.

The resulting six B&O rate categories are:

0.138 percent	Manufacturing wheat into flour, soybean oil, seafood manufacturing, slaughter, breaking and processing meat-wholesale, dry pea splitting, manufacturing fresh fruits and vegetables;
0.275 percent	Nuclear fuel sales, nuclear fuel manufacturing, travel agent commissions, international investment management, international charter freight brokers, and stevedoring;
0.471 percent	Retailing;
0.484 percent	Extracting, extracting for hire, manufacturing, retailing interstate transportation products, nonprofit research and development, wholesaling, internal distribution, newspaper printing, road and street improvements for government, storage warehouses, independent general insurance agents, radio and TV broadcasting, construction for federal government, insurance-agents/brokers commissions;
1.50 percent	Nonprofit hospitals, real estate brokers, services; and
3.30 percent	Low-level radioactive waste disposal.

The rates provided in the high technology B&O tax credit are reduce to 0.484 percent for nonprofit organizations and to 1.5 percent for other eligible firms.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 1998.

**Testimony For:** The intent of the bill is to consolidate some of the many B&O tax rates in conjunction with combining and lowering the service B&O tax rates. Consolidation will simplify the tax system for the taxpayer and the Department of Revenue. Washington food processors compete heavily with Midwestern food processes who are closer to the market and have lower tax rates than Washington. This bill will reduce the tax rate on food processors and will help them increase investment in Washington, and increase payments to employees and local growers while remaining competitive.

**Testimony Against:** None.

**Testified:** Representative Brian Thomas, prime sponsor; and Bill Fritz, Washington Food Processors Council.