

SENATE BILL REPORT

SB 5000

As of February 7, 1997

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

Brief Description: Lowering business and occupation tax rates.

Sponsors: Senators Hale, Rossi, Schow, Benton, Prince, McDonald, Wood, Sellar, Johnson, West, Horn, Stevens, Long, Winsley, Morton, Swecker, Haugen, Snyder, Loveland, Goings, Deccio, Rasmussen, Newhouse, McCaslin, Hargrove, Anderson, Strannigan, Oke, Zarelli and Roach.

Brief History:

Committee Activity: Ways & Means: 2/6/97.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

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. 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%

In 1993, the B&O tax rate on selected business services was increased from 1.5 percent to 2.5 percent, the rate on financial businesses was increased from 1.5 percent to 1.7 percent, and the rate on all other services was increased from 1.5 percent to 2.0 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.

In 1996, the 1993 service rate increases were reduced by 50 percent. The rate on selected business services was decreased from 2.5 percent to 2.0 percent, the rate on financial businesses was decreased from 1.7 percent to 1.6 percent, and the rate on all other services

was decreased from 2.0 percent to 1.75 percent. With the surtax, the rate on other services is 1.829 percent until the surtax expires on July 1, 1997.

Summary of Substitute Bill: B&O tax rates are reduced to their pre-1993 levels, effective July 1, 1997, as follows: the selected business service rate is reduced from 2.0 percent to 1.5 percent; the financial business service rate is reduced from 1.6 percent to 1.5 percent; and the "other activities" rate is reduced from 1.75 percent to 1.5 percent.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1997.

Testimony For: This bill restores service businesses to the rates they had before 1993. Small businesses drive our economy, and this bill helps small business. Big businesses do not pay the tax because they can perform the service in house. This creates jobs because high taxes result in cost cutting by businesses. This allows business to reinvest the money into the business. The tax increase created an advantage to out of state companies providing the same service. This is an opportunity to give relief to small business.

Testimony Against: None.

Testified: PRO: O.K. Johnson, Capitol Amusement Co, WA Amusement Operations; DeWayne Granacki, Connie Nicholas, Sterling Stock, Sally Feldman, Terry Hotved, WA Assn of Realtors; Lawrence Siminski, Taxpayer; Pete Rosvall, WA Collectors Assn; Robert Widmeyer, Architects & Engineers Legislative Council; Patrick Beehler, Land Surveyors Assn of WA; Dana Childers, Greater Seattle Chamber of Commerce; Carolyn Logue, NFIB; Tom Dooley, AWB; Gary Smith, IBA.