

FINAL BILL REPORT

HB 1741

C 357 L 99

Synopsis as Enacted

Brief Description: Simplifying tax reporting by revising the active nonreporting threshold so that it parallels the small business credit.

Sponsors: Representatives Fortunato, Lovick and Thomas; by request of Department of Revenue.

House Committee on Finance
Senate Committee on Ways & Means

Background:

B&O Tax Reporting Threshold. Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Deductions for the costs of doing business are not allowed.

The principal B&O tax rates and categories are as follows:

<u>Type of Business</u>	<u>Tax Rate</u>
Manufacturing, wholesaling, and extracting	0.484 percent
Retailing	0.471 percent
Services	1.5 percent

A small business credit is provided for the B&O tax. The maximum amount of tax credit is \$420 per year. The \$420 credit offsets any tax liability. The credit is phased out dollar-for-dollar by the amount the B&O tax liability exceeds \$420. If the tax liability is more than \$420 but less than \$840, the tax credit is equal to \$840 minus the initial tax liability.

The maximum amount of gross receipts exempted by the small business credit varies based on the B&O tax rate. The lower the B&O tax rate, the more benefit received by the taxpayer from the credit. The maximum gross receipts amounts exempted by the credit are as follows:

<u>Type of Business</u>	<u>Maximum Gross Receipts Exempted by Small Business Tax Credit</u>
Manufacturing, wholesaling, and extracting	\$86,777

Retailing	\$89,172
Services	\$28,000

A taxpayer whose gross receipts exceed \$28,000 may have a tax liability in excess of the small business credit.

Non-retailing businesses with gross receipts of \$24,000 per year or less must register with the Department of Revenue (DOR) but do not need to file tax returns. When this provision was originally enacted, the threshold at which a taxpayer's tax liability may have exceeded the small business credit was \$24,000. This threshold amount has risen to \$28,000 from \$24,000 as a result of some tax surcharges that expired and legislative changes that were made to B&O tax rates in 1997.

Filing Tax Returns and Remittances. The DOR collects the state's major excise taxes, such as retail sales and B&O taxes. The taxes collected by the DOR are reported on the combined excise tax return. Taxpayers who report on the combined excise tax form with annual tax liability of \$240,000 or more must pay taxes through an electronic funds transfer process. Although funds are transferred electronically, the tax return document itself still must be delivered or mailed to the DOR.

There is no express statutory authority for the DOR to accept remittances from other taxpayers who voluntarily choose to remit electronically or to accept returns from any taxpayer who wishes to transfer this information electronically.

Summary:

B&O Tax Reporting Threshold. Non-retailing businesses with gross receipts of \$28,000 per year or less must register with the DOR but do not need to file tax returns.

Filing Tax Returns and Remittances. The DOR may allow electronic filing of returns or remittances from any taxpayer. The return or remittance is deemed filed according to procedures to be set forth by the department.

Notes on Final Passage:

House 96	0	
Senate 48	0	(Senate amended)
House 97	0	(House concurred)

Effective: July 1, 1999