
Finance Committee

HB 1193

Brief Description: Providing an excise tax exemption for new businesses.

Sponsors: Representatives Simpson, P. Sullivan, Kessler, Campbell, Chase and Haigh.

Brief Summary of Bill

- Exempts new business from the business and occupation tax during the first twelve months of operation.

Hearing Date: 2/28/05

Staff: Rick Peterson (786-7150).

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the state General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

A small business credit is provided under the B&O tax. The maximum amount of credit is \$35 per month (or \$420 per year), offsetting any tax liability of up to \$420 on an annual basis. The credit is phased out dollar-for-dollar by the amount of the B&O tax liability that exceeds \$420 annually. This means that if the tax liability is more than \$420 and less than \$840, the credit is equal to \$840 minus the initial tax liability. For example, if the initial liability is \$600, the credit is \$240 (\$840 minus \$600) and the net tax due is \$360 (\$600 minus \$240). If tax liability exceeds \$840 (twice the maximum credit), the credit is zero and the full amount of the tax is due.

All taxpayers are eligible to use this credit to reduce their B&O taxes. However, since the credit phases out at higher gross income amounts, only the smallest firms see a tax reduction.

Summary of Bill:

New businesses are exempt from the business and occupation tax is during the first 12 months of operation. A new business is defined as one which registers or is required to register for the first time. Restructured businesses and branch operations of existing businesses do not qualify as new businesses if their activities are substantially similar to the activities previously conducted. A substantially similar business operated with the past five years by the same principals is not eligible.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on October 1, 2005.