

# FINAL BILL REPORT

## EHB 1023

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### FULL VETO

As Passed Legislature

**Brief Description:** Reducing business and occupation tax rates.

**Sponsors:** Representatives B. Thomas, Foreman, Chandler, Lisk, Cooke, Carlson, Brumsickle, Silver, Ballasiotes, Dyer, Sherstad, Dellwo, Benton, Skinner, Kremen, Hargrove, Tokuda, Costa, Horn, Delvin, Schoesler, Buck, Johnson, Thompson, Beeksma, Goldsmith, Radcliff, Hickel, Backlund, Crouse, Cairnes, Elliot, Reams, Pennington, Mastin, Carrell, Mitchell, K. Schmidt, Quall, Chappell, G. Fisher, Grant, Smith, Robertson, Sehlin, Honeyford, Van Luven, Pelesky, Blanton, Koster, Lambert, D. Schmidt, Mulliken, Boldt, McMorris, Clements, Fuhrman, Campbell, L. Thomas, Huff, Mielke, Talcott, McMahan, Stevens, Morris, Hymes and Casada.

### House Committee on Finance

#### Background:

#### B&O Taxes

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. Although there are several different rates, the principal rates are:

Manufacturing, wholesaling, & extracting	0.506%
Retailing	0.471%
Services:	
- Business Services	2.5%
- Financial Services	1.7%
- Other activities	2.09%

Selected services subject to the 2.5 percent rate include the following:

- ð Stenographic, secretarial, and clerical services;
- ð Computer services, including computer programming, custom software modification, custom software installation, custom software maintenance, custom software repair, training in the use of custom software, computer systems design, and custom software update services;
- ð Data processing and information services, but excluding information services to the media through an information network;

- ð Legal, arbitration, and mediation services, including paralegal services, legal research services, and court reporting services;
- ð Accounting, auditing, actuarial, bookkeeping, tax preparation, and similar services;
- ð Design services whether or not performed by persons licensed or certified, including engineering services and architectural services;
- ð Business consulting services, including administrative management consulting, general management consulting, human resource consulting or training, management engineering consulting, management information systems consulting, manufacturing management consulting, marketing consulting, operations research consulting, personnel management consulting, physical distribution consulting, site location consulting, economic consulting, motel, hotel, and resort consulting, restaurant consulting, government affairs consulting, and lobbying;
- ð Business management services, including administrative management, business management, and office management, but excluding property management or property leasing, motel, hotel, and resort management, or automobile parking management;
- ð Protective services, including detective agency services and private investigating services, armored car services, guard or protective services, lie detection or polygraph services, and security system, burglar, or fire alarm monitoring and maintenance services;
- ð Public relations or advertising services, including layout, art direction, graphic design, copy writing, mechanical preparation, opinion research, marketing research, marketing, or production supervision, but excluding services provided as part of broadcast or print advertising; and
- ð Aerial and land surveying, geological consulting, and real estate appraising.

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 on January 1, 1995. The surtax expires July 1, 1997. The surtax is calculated by multiplying each permanent rate to which it applies by 1.045. For example, the 2 percent service rate becomes 2.09 percent during the time the 4.5 percent surtax is in effect.

#### Tax Programs in Economically Distressed Areas

The state of Washington has created various tax incentives to encourage the development or retention of businesses in economically distressed areas.

Economically distressed areas are those counties having an unemployment rate that is 20 percent higher than the state average, designated community empowerment zones within cities, or sub-county areas in non-distressed counties that are in timber impact areas.

The Distressed Area Tax Deferral program was created in 1985 to encourage economic development in eligible areas. Manufacturing, research and development, and computer-related service businesses are given a deferral on their sales and use taxes on buildings, machinery and equipment, and construction or installation labor. The business must create one job per \$750,000 of investment. The sales and use tax is forgiven on new buildings, new equipment, and modernization of existing buildings.

The Distressed Area Business and Occupation Tax Credit program was created in 1986 as an incentive for manufacturing, research and development, and computer-related service businesses to create employment opportunities in eligible areas. Businesses in eligible areas that create a new work force or increase an existing work force by 15 percent are allowed a business and occupation (B&O) tax credit equal to \$1,000 for each new full time employment position. No more than \$15 million in total tax credits are allowed per biennium. No single business may receive more than \$300,000 in tax credits.

### **Summary:**

#### B&O Taxes

Business and Occupation Tax rates are reduced as follows, effective July 1, 1995:

The permanent rate for selected business services is reduced from 2.5 percent to 2.0 percent. This rate continues to be exempt from the surtax.

The permanent rate for financial businesses is reduced from 1.7 to 1.6 percent. This rate continues to be exempt from the surtax.

The permanent rate for other services is reduced from 2.0 percent to 1.75 percent. This rate is subject to the 4.5 percent surtax, so the rate in effect until July 1, 1997, will be 1.83 percent.

#### Tax Programs in Economically Distressed Areas

The amount of tax credit available to manufacturing, research and development, and computer-related service businesses in distressed areas is increased from \$1,000 to \$2,000 for each new full time employment position. The business must either create a new work force or increase an existing work force by 15 percent to be eligible for

the tax credit. The increased credit is available for projects approved after January 1, 1996.

A business and occupation tax credit program is created for state-approved, employer provided or sponsored job training services for employees. The state-approved job training services must be provided free to the employee and be designed to enhance his or her job-related performance. The tax credit is available to manufacturing, research and development, and computer-related service businesses in distressed areas. The tax credit is equal to 10 percent of the value of the state-approved job training services. The business must request approval from the Department of Employment Security prior to claiming the credit.

**Votes on Final Passage:**

House 97 1

First Special Session

House 95 2

Second Special Session

House 91 2

Senate 41 6