

HOUSE BILL REPORT

HB 1689

As Reported By House Committee On:
Finance

Title: An act relating to increasing the amount of the small business business and occupation tax credit.

Brief Description: Providing for small business tax relief.

Sponsors: Representatives Mulliken, B. Thomas, Koster, Thompson, Boldt, Mielke, Ogden, Conway, Gardner and Smith.

Brief History:

Committee Activity:

Finance: 2/19/97, 3/7/97 [DP].

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; Morris; Pennington; Schoesler 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 several different rates on the gross receipts of business activities conducted within the state.

A small business credit is provided for the B&O tax. The maximum amount of credit is \$35 per month. Most small businesses pay B&O tax on annual returns. So, for these taxpayers, the maximum amount of credit is \$420 per year. The \$420 credit offsets any tax liability of \$420 per year or less. The credit is phased out dollar-for-dollar by the amount the B&O tax liability exceeds \$420. If 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 tax is due. Since the credit phases out at higher gross income amounts, only the smallest firms see a tax reduction.

Summary of Bill: The small business credit for the business and occupation tax is increased from \$420 to \$600 per year.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill helps small businesses in all industries. Small businesses have a high mortality rate and this relief will be helpful. The B&O tax is burdensome for start-up businesses, one small business paid 80 percent of their first year's income to B&O taxes. This bill will help successful small businesses grow into successful large businesses. This is a wise approach that provides a business climate for people to start their own business and for small businesses to survive.

Testimony Against: None.

Testified: (Pro) Representative Mulliken, prime sponsor; Representative Morris; Lois Eyrse, citizen; and Tom Parker, National Association for the Self-employed.