

HOUSE BILL REPORT

HB 1738

As Reported by House Committee On: Finance

Title: An act relating to relieving burdens on small businesses by updating the tax return filing thresholds to reflect inflation.

Brief Description: Relieving burdens on small businesses by updating the tax return filing thresholds to reflect inflation.

Sponsors: Representatives Kraft, Stokesbary, Walsh, Vick and Young.

Brief History:

Committee Activity:

Finance: 2/19/19, 3/21/19 [DPS], 1/16/20, 1/28/20 [DP2S].

Brief Summary of Second Substitute Bill

- Increases the business and occupation tax annual gross receipts filing threshold to \$56,000 for service businesses and \$36,000 for all other businesses.
- Increases the mandatory business registration threshold to \$56,000 for service businesses and \$35,000 for all other businesses.
- Increases the public utility tax (PUT) annual gross receipts filing threshold to \$30,000.
- Increases the small business exemption for PUT gross receipts threshold to \$2,500 per month.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 10 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

Minority Report: Without recommendation. Signed by 1 member: Representative Chapman.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Staff: Nick Tucker (786-7383).

Background:

Business and Occupation Tax.

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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

A business is not required to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue (DOR) and has annual gross proceeds of sales, gross income, or value of products for all the B&O tax classifications of less than \$28,000 per year, or less than \$46,667 if at least 50 percent of its taxable income is from services or activities not classified elsewhere (service businesses).

Public Utility Tax.

The gross income derived from the operation of publicly and privately owned utilities is subject to the public utility tax (PUT). The tax is imposed in lieu of the B&O tax and is applied only on sales to consumers. Other income of the utility, such as retail sale of tangible personal property, is subject to the B&O tax. There are six different PUT rates, depending on the specific utility activity. The rates are:

- 3.852 percent on telegraph companies, distribution of natural gas, and the collection of sewage;
- 3.8734 percent on the generation or distribution of electrical power;
- 0.642 percent on urban transportation and watercraft vessels under 65 feet in length;
- 1.926 percent on motor transportation, railroads, railroad car companies, and all other public service businesses;
- 5.029 percent on the distribution of water; and
- 1.3696 percent on log transportation.

A taxpayer who engages in one or more businesses subject to the PUT is fully exempt from the tax if their total gross income is \$2,000 or less per month. Any taxpayer that has a total gross income greater than \$2,000 per month does not receive an exemption or deduction under this provision.

A business does not have to file an excise tax return for the PUT if the business does not owe other taxes or fees to the DOR and has annual gross proceeds of less than \$24,000.

State Business Registration.

All businesses in the state are required to register with the DOR and obtain a registration certificate, unless otherwise exempt. A taxpayer is exempt from the registration requirement if:

1. their gross receipts subject to the B&O tax or the PUT is less than \$12,000 per year;
 2. they do not owe other taxes or fees to the DOR; and
 3. they are not otherwise required to obtain a business license.
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Summary of Second Substitute Bill:

The statutory filing threshold for B&O taxes is increased to \$56,000 in annual gross receipts for service businesses and \$36,000 for all other businesses. The threshold for mandatory business registration is increased to \$56,000 in annual gross receipts for service businesses and \$35,000 for all other businesses.

The statutory filing threshold for the PUT is increased to \$30,000. For taxpayers who engage in one or more businesses subject to PUT, the total gross income threshold for the PUT small business exemption is increased to \$2,500 per month.

Second Substitute Bill Compared to Original Bill:

The gross receipts filing threshold for non-service B&O taxpayers is increased to \$36,000, instead of \$35,000.

The effective date is changed to January 1, 2021, instead of 90 days after the adjournment of the session in which the bill is passed.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect on January 1, 2021.

Staff Summary of Public Testimony:

(In support) This bill will help small business by reducing the amount of burdens on them, thus allowing them to grow. The current administrative and tax burdens on small businesses makes it almost impossible for them to continue operating.

The majority of businesses in the state are small businesses. According to the fiscal note, the bill will help 53,000 taxpayers. Small business vibrancy is critical to the state, given the revenue they can produce for the state. The early startup stage of these businesses is especially important. Ultimately, these small businesses will create more jobs and more revenue.

The bill will also help reduce administrative burden on the DOR. The implementation costs are greater than the loss in state revenue. It has been decades since these thresholds were last adjusted.

(Opposed) None.

Persons Testifying: Representative Kraft, prime sponsor; Mark Johnson, Washington Retail Association; Tommy Gantz, Association of Washington Business; and Patrick Connor, National Federation of Independent Business.

Persons Signed In To Testify But Not Testifying: None.