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## Finance Committee

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### HB 1716

**Brief Description:** Supporting employers providing child care assistance to employees by establishing a business and occupation tax credit for businesses and requiring the department of revenue to provide a report to the legislature.

**Sponsors:** Representatives Rule, Corry, Stokesbary, Reeves, Chapman, Jacobsen and Eslick.

Brief Summary of Bill
<ul style="list-style-type: none"><li>• Establishes a business and occupation tax credit for businesses that provide child care assistance to employees.</li><li>• Requires the Department of Revenue to provide a report to the Legislature on the potential cost of the credit as well as an implementation plan for the administration of the credit.</li></ul>



**Hearing Date:** 3/23/23

**Staff:** Kristina King (786-7190).

**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 (businesses with taxable income of

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less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. In general, the credit is \$70 per month for service businesses and \$35 per month for all other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have 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 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.

There is no B&O credit in code for employers that provide child care assistance for their employees.

#### Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

#### **Summary of Bill:**

The bill establishes a B&O tax credit for employers beginning January 1, 2026, equal to all costs related to providing child care assistance to employees. The term "child care assistance" is defined as any portion of the employee's salary or wage that is provided by the employer to the employee to be used to offset the employee's expenses related to child care, including tuition. The tax credit has an expiration date of January 1, 2034.

The bill requires the DOR to provide a report by January 1, 2025, to the Legislature that includes information on the number of businesses in the state that provide child care assistance to their employees, the estimated cost of the credit once implemented, and an implementation plan for the administration of the credit.

The bill includes a TPPS.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.