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## Finance Committee

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### HB 1913

**Brief Description:** Expiring the international services tax preference.

**Sponsors:** Representatives Cortes, Ryu, Reed, Reeves and Pollet.

<p style="text-align: center;"><b>Brief Summary of Bill</b></p> <ul style="list-style-type: none"><li>• Expires the international services business and occupation tax credit at the end of tax year 2024.</li></ul>
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**Hearing Date:** 1/16/24

**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.

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 (JLARC) can use to evaluate the effectiveness of the preference.

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

All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

International Services B&O Credit.

The international services B&O credit was enacted in 1998 with no expiration date. Businesses providing professional international services located in a community empowerment zone (CEZ) or a city with a population of at least 80,000 having the same characteristics as a CEZ, are eligible for a B&O tax credit up to \$3,000 per year for each job created. Eligible international services include the following services: computer, legal, accounting and tax preparation, engineering, architectural, business consulting and management, public relations and advertising, surveying, geological consulting, real estate appraisal, and financial.

The credit includes a TPPS and requires JLARC review. The stated intent of the preference is to attract and retain businesses, creating jobs and providing services to international customers. JLARC completed a full review in 2023 and reports that the preference is claimed by less than 3 taxpayers with total beneficiary savings of \$80,000. JLARC reports use is 99 percent less than originally expected and has not met the goal of attracting and retaining jobs. JLARC recommends the legislature terminate the preference.

**Summary of Bill:**

The international services B&O tax credit is expired at the end of the 2024 tax year.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2025