

HOUSE BILL REPORT

HB 2322

As Reported by House Committee On:
Finance

Title: An act relating to creating a tax preference child care requirement.

Brief Description: Creating a tax preference child care requirement.

Sponsors: Representatives Senn, Thai, Reed, Ryu, Alvarado, Ramel, Riccelli, Paul and Pollet.

Brief History:

Committee Activity:

Finance: 1/23/24, 2/5/24 [DPS].

Brief Summary of Substitute Bill

- Directs the Office of Financial Management to facilitate the creation of a report and recommendations on policy options that incentivize employer-supported child care.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Thai and Wylie.

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

Staff: Kristina King (786-7190).

Background:

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.

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 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.

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.

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

Summary of Substitute Bill:

The Office of Financial Management is required to facilitate the creation of a study and report in collaboration with businesses, labor representatives, childcare advocates, parent groups, legislators, and relevant state agencies to study existing employer-provided childcare programs, explore various funding options, and include recommendations to help support and expand access to childcare. The report must contain recommendations for ways in which businesses can be a part of the solution to fund childcare and include at least three B&O tax preference policy options that incentivize businesses to provide employer-supported childcare to their employees. The report must be completed by December 31, 2024.

Substitute Bill Compared to Original Bill:

The substitute bill:

- removes the childcare requirement for B&O tax preferences;
- directs the Office of Financial Management to facilitate the creation of a report in collaboration with businesses, labor representatives, childcare advocates, parent groups, legislators, and state agencies to study existing employer-provided childcare programs, explore various funding options, and include recommendations to help support and expand access to childcare and how businesses can be a part of the solution to fund childcare, including at least three B&O tax preferences that incentivize businesses to provide employer-supported childcare to their employees; and
- requires the report to be submitted by December 31, 2024.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 5, 2024.

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

Staff Summary of Public Testimony:

(In support) Childcare is a critical economic support that Washington does not have enough of. It is difficult for working parents to secure affordable childcare for their children. Washington needs more childcare providers and more childcare facilities. This bill connects business and childcare in a way that provides choice to both the employer and employee. The bill creates a mandate for employers who receive a B&O tax preference. If the employer receives a tax credit or exemption, the employer is required to provide childcare for their employees. The bill allows for a wide variety of options with little cost to the state. Also, this mainly affects large companies, so the bill acknowledges that this requirement could place a burden on small businesses. This bill ensures that tax benefits for companies are passed on to workers. There are many fixes needed to increase childcare in Washington, and this bill is an important part of a larger solution for that problem.

(Opposed) None.

Persons Testifying: Representative Tana Senn, prime sponsor; Maggie Humphreys, MomsRising; and Erin Haick, Service Employees International Union 925.

Persons Signed In To Testify But Not Testifying: None.