

# SENATE BILL REPORT

## SB 6038

---

---

As of January 24, 2024

**Title:** An act relating to reducing the costs associated with providing child care.

**Brief Description:** Reducing the costs associated with providing child care.

**Sponsors:** Senators Wilson, C., Lovelett, Keiser, Kuderer, Liias, Nguyen, Nobles, Randall, Salomon, Valdez and Wellman.

**Brief History:**

**Committee Activity:** Ways & Means: 1/25/24.

**Brief Summary of Bill**

- Expands the business and occupation tax exemption for child care services for children up to age 7 to children up to age 12.
- Eliminates licensing fees to obtain a child care license.

---

### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Tianyi Lan (786-7432)

**Background:** Business and Occupation Tax. The state business and occupation (B&O) tax is Washington's primary business tax. It is a gross receipts tax measured on the value of products, gross proceeds of sale, or gross income of the business. There are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business.

The B&O tax rate varies by classification (activity). The major rates are:

- 0.471 percent for retailing activities;
- 0.484 percent for manufacturing and wholesaling activities; and
- 1.5 percent or 1.75 percent for service and other activities, depending upon the amount of annual gross income of the business.

---

*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.*

The state B&O tax includes a number of preferential tax rates, credits, exemptions, and deductions as well as several increased rates or surcharges.

Business and Occupation Tax on Child Care Services. A preferential rate of 0.484 percent is provided for persons providing child care for periods of less than 24 hours. The service and other business activities B&O tax classification applies to child care services provided for periods in excess of 24 hours.

Income received by nursery schools, preschools, child care providers, and privately operated kindergartens for the care or education of children who are under eight years of age and not enrolled in or above the first grade is exempt from B&O tax.

Tax Preferences. 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. Washington has over 700 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 the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Child Care License Fee. Generally, any person or entity that provides child care or early learning services outside a child's own home must obtain a license from the Department of Children, Youth, and Families (DCYF). There are some exemptions from the general licensing requirement. DCYF is required to charge fees for obtaining a child care license. These fees are due with an applicant's initial license application and annually thereafter. The annual fee is as follows:

- \$30 for family home early learning programs; and
- \$125 for center early learning programs for the first 12 children plus \$12 for each additional child, up to the maximum number of children the facility is licensed to care for.

The DCYF was prohibited from imposing child care licensing fees from July 25, 2021 to June 30, 2023.

**Summary of Bill:** The bill expands the B&O tax exemption for child care services to include income derived from the care and education of children up to age 12. The tax exemption expires after ten years and is subject to review by JLARC.

The bill eliminates the license fee imposed and collected by DCYF for obtaining a child care license.

**Appropriation:** None.

**Fiscal Note:** Requested on January 6, 2024.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.