

SENATE BILL REPORT

ESSB 6038

As Passed Senate, February 9, 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: Senate Committee on Ways & Means (originally sponsored by Senators Wilson, C., Lovelett, Keiser, Kuderer, Lias, Nguyen, Nobles, Randall, Salomon, Valdez and Wellman).

Brief History:

Committee Activity: Ways & Means: 1/25/24, 2/05/24 [DPS, w/oRec].

Floor Activity: Passed Senate: 2/9/24, 48-1.

Brief Summary of Engrossed First Substitute Bill

- Expands the business and occupation tax exemption for child care services for children up to age 7 to children up to age 12 and children up to age 18 who have a verified special need or are under court supervision.
- Eliminates the annual licensing fee for a child care license imposed and collected by the Department of Children, Youth, and Families.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6038 be substituted therefor, and the substitute bill do pass.

Signed by Senators Robinson, Chair; Mullet, Vice Chair, Capital; Nguyen, Vice Chair, Operating; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Rivers, Assistant Ranking Member, Capital; Warnick, Assistant Ranking Member, Capital; Billig, Braun, Conway, Dhingra, Hunt, Keiser, Muzzall, Pedersen, Randall, Saldaña, Torres, Van De Wege, Wagoner and Wellman.

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.

Minority Report: That it be referred without recommendation.

Signed by Senators Schoesler, Ranking Member, Capital; Boehnke and Hasegawa.

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.

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 Engrossed First Substitute 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 and children up to age 17 who have a verified special need or are under court supervision.

The expanded tax exemption applies to businesses primarily engaged in providing child care and expires on January 1, 2035.

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

Appropriation: None.

Fiscal Note: Available.

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

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

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: The rising cost of childcare in the state of Washington has been a real concern for all working parents. According to current research, the average annual cost for childcare for toddlers in Washington is \$14,355. There is a gap in supply and demand for childcare as evident from long waitlists in childcare centers across the state, which increases the price further. The bill will encourage more people to open childcare centers, reduce the supply and demand gap, and consequentially reduce the childcare pricing in Washington.

The lack of affordable, accessible and quality childcare is one of the biggest barriers to community members, current employees, and those who are seeking employment. The bill helps address that issue for families and then for Washington's economy.

Persons Testifying: PRO: Tathagata Pal, Legislative Liaison, Graduate and Professional Student Association at the WSU; Crystal Leatherman, Washington Retail Association.

Persons Signed In To Testify But Not Testifying: No one.