

HOUSE BILL REPORT

EHB 2350

As Passed House:
February 14, 2018

Title: An act relating to relieving burdens on small businesses by updating the tax return filing thresholds to reflect inflation.

Brief Description: Relieving burdens on small businesses by updating the tax return filing thresholds to reflect inflation.

Sponsors: Representatives Kraft, Vick, Shea, McDonald, Walsh and Young.

Brief History:

Committee Activity:

Finance: 1/25/18, 2/5/18 [DP].

Floor Activity:

Passed House: 2/14/18, 98-0.

Brief Summary of Engrossed Bill

- Increases the business and occupation tax gross receipts filing threshold to \$58,000 for service businesses and \$35,000 for all other businesses.
- Increases the public utility tax gross receipts filing threshold to \$30,000.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

Staff: Tracey O'Brien (786-7152).

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

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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 for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, there are other tax preferences, including credits and deductions, that a business may be eligible to utilize 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.

Public Utility Tax.

The gross income derived from the operation of publicly and privately owned utilities is subject to the public utility tax (PUT). These utilities include businesses that engage in transportation, communications, and the supply of water and energy. The tax is imposed in lieu of the B&O tax and is applied only on sales to consumers. Other income of the utility, such as the retail sale of tangible personal property, is subject to the B&O tax.

There are six different PUT rates, depending on the specific utility activity. The rates are: 3.852 percent on telegraph companies, distribution of natural gas, and the collection of sewage; 3.8734 percent on the generation or distribution of electrical power; 0.642 percent on urban transportation and watercraft vessels under 65 feet in length; 1.926 percent on motor transportation, railroads, railroad car companies, and all other public service businesses; 5.029 percent on the distribution of water; and 1.3696 percent on log transportation.

Summary of Engrossed Bill:

The statutory filing threshold for B&O taxes is increased to \$56,000 in gross receipts for service businesses and \$35,000 in gross receipts for all other businesses.

The statutory filing threshold for PUT taxes is increased to \$30,000.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2019.

Staff Summary of Public Testimony:

(In support) This is an opportunity for the Legislature to help small businesses. According to the Small Business Administration, 99.5 percent of Washington’s businesses are considered “small,” with 500 or fewer employees. Small business owners are overwhelmed with paperwork when they should be focused on keeping their businesses up and running. New businesses will also benefit from this change. It has been decades since we last updated the filing thresholds. Reducing the burden on small businesses is important. Perhaps we should tie the threshold to the Consumer Price Index so the threshold increases automatically without having to wait so long between updates. This legislation would also save in administrative costs as the DOR would not have to process those returns.

(Opposed) None.

Persons Testifying: Representative Kraft, prime sponsor; Mark Johnson, Washington Retail Association; and Patrick Conner, National Federation of Independent Business Washington.

Persons Signed In To Testify But Not Testifying: None.