
Finance Committee

HB 2672

Brief Description: Providing small business tax relief.

Sponsors: Representatives Schmick, Chandler and Condotta.

Brief Summary of Bill

- Increases the business and occupation (B&O) tax gross receipts filing threshold to \$150,000 for service businesses and \$125,000 for all other businesses.
- Increases the B&O small business tax credit to \$185 per month for service businesses and \$50 per month for all other businesses.

Hearing Date: 1/25/18

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 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

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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.

Summary of Bill:

The statutory filing threshold is increased to \$150,000 in gross receipts for service businesses and \$125,000 in gross receipts for all other businesses. The small business tax credit is increased to \$185 per month for service businesses and \$50 for all other businesses.

A tax preference performance statement is included. The Legislature intends the tax preference to reduce the tax burden for certain businesses and individuals. If a review of the tax preference shows an increase in businesses taking advantage of the small business tax credit, it is the intent of the Legislature to extend the tax credit.

Appropriation: None.

Fiscal Note: Requested on January 12, 2018.

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