
Finance Committee

HB 1111

Brief Description: Concerning investment income tax deductions.

Sponsors: Representatives Cody, Macri and Pollet.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Eliminates the business and occupation tax deduction for investment income for all taxpayers except individuals.
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Hearing Date: 3/16/21

Staff: Rachelle Harris (786-7137).

Background:

Business & 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.

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.

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.

B&O Investment Income Deduction.

A B&O tax deduction is provided for amounts derived from investments such as interest, dividends, and capital gains. The deduction is not available to a banking business, lending business, or security business.

This deduction does not include amounts received from loans, the extension of credit, revolving credit arrangements, installment sales, and similar interest income, except for some loans between subsidiary and parent entities.

Summary of Bill:

The B&O tax deduction for investment income is eliminated for all taxpayers except individuals. Investment income will be taxed under the service and other activities classification.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on October 1, 2021.