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## Finance Committee

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### HB 2322

**Brief Description:** Creating a tax preference child care requirement.

**Sponsors:** Representatives Senn, Thai, Reed, Ryu, Alvarado, Ramel, Riccelli, Paul and Pollet.

<p><b>Brief Summary of Bill</b></p> <ul style="list-style-type: none"><li>• Creates a business and occupation tax preference childcare requirement.</li></ul>
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**Hearing Date:** 1/23/24

**Staff:** Kristina King (786-7190).

**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 (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.

A business does not have to file an annual B&O tax return if the business does not owe other

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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.

Tax Preference Performance Statement.

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. Currently, Washington has over 650 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 (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

**Summary of Bill:**

For all B&O tax preferences created, expanded, or extended on or after January 1, 2025, a taxpayer receiving a tax preference must provide childcare for children or wards of employees.

The types of childcare required to be provided may include but are not limited to:

- maintenance or operation of a childcare center on-site at a discounted rate;
- payments or reimbursements made directly to employees or providers for a minimum of 25 percent of childcare costs; or
- for taxpayers with at least one employee with a salary of \$250,000 or more, an annual payment made to the Fair Start for Kids Account calculated as 5 percent of the sum of the annual total compensation as of December 31st of the prior calendar year for all employees with a salary of \$250,000 or more.

Taxpayers party to a collective bargaining agreement, that does not include childcare, are exempted from this B&O requirement.

By January 1, 2031, the JLARC is required to perform a review of the effectiveness of the change in employer-supported childcare in Washington due to this B&O tax preference requirement.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.