

FINAL BILL REPORT

ESSB 6038

C 195 L 24
Synopsis as Enacted

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, Liias, Nguyen, Nobles, Randall, Salomon, Valdez and Wellman).

Senate Committee on Ways & Means
House Committee on Human Services, Youth, & Early Learning
House Committee on Finance

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. 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.

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.

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 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.

Summary: The B&O tax exemption for child care services is expanded 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.

Votes on Final Passage:

Senate	48	1	
House	95	1	(House amended)
Senate	46	1	(Senate concurred)

Effective: October 1, 2024