Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1016

Brief Description: Providing employer tax incentives for the support of veterans and military families.

Sponsors: Representatives Abbarno, Shavers, Leavitt, Marshall, Jacobsen, Eslick, McClintock, Callan, Orcutt and Caldier.

Brief Summary of Bill

- Creates employer business and occupation and public utility tax credits for employing veterans and spouses of active-duty military members.

Hearing Date: 2/4/25

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 and wholesaling; 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 activities not classified elsewhere. There are many specialized B&O tax rates and preferential rates that 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. 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. The credit is $160 per month for taxpayers that report at least 50 percent or greater of their total B&O taxable amount under service and other activities, real estate brokers, and contests of chance; the credit is $55 per month for all other businesses. Both credits are 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 $125,000 per year.

Public Utility Tax.

The gross income derived from the operation of publicly and privately owned utilities is subject to the public utility tax (PUT), unless otherwise exempt. The tax is imposed in lieu of B&O tax and is applied only on sales to consumers. Other income of the utility, such as 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.

A taxpayer who engages in one or more businesses subject to the PUT is fully exempt from the tax if their total gross income is $2,000 or less per a month. Any taxpayer that has a total gross income greater than $2,000 per month does not receive an exemption or deduction under this provision.

A business does not have to file an excise tax return for the PUT if the business does not owe other taxes or fees to the DOR and has annual gross proceeds of less than $24,000.

Tax Credits for Employing Veterans.

Until June 30, 2022, businesses hiring unemployed veterans for full-time employment positions located in the state were eligible to earn credits against their B&O or PUT tax. Each credit equaled 20 percent of wages and benefits paid to or on behalf of a qualified employee up to a maximum of $1,500 for each qualified employee hired. There was no limit on the total credits the employer could receive. The total amount of credits claimed statewide could not exceed

$500,000 per fiscal year. All credits were required to be claimed before the tax preferences expired on July 1, 2023.

Tax Preference Performance Statement.
Tax preferences confer reduced tax liability upon a designated class of taxpayers. These include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. There are 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 (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:

Beginning January 1, 2026, a B&O and PUT credit is allowed to be claimed by an employer that hires a veteran or a spouse of an active-duty military member. The credit is equal to 20 percent of wages and benefits paid to or on behalf of a qualified employee up to a maximum of $3,000 for each qualified employee hired on or after January 1, 2026. The statewide credit cap per fiscal year is $5 million. The employee must be employed in a permanent full-time (at least 35 hours per week) position, or the equivalent in work hours for seasonal employers, for at least two consecutive, full calendar quarters.

If an employer discharges a qualified employee for whom the employer has claimed a credit, the employer may not claim a new credit for a period of one year from the date the qualified employee is discharged, unless the employee is discharged for misconduct connected with the workplace or is discharged for a felony or gross misdemeanor conviction.

Credits may be earned by January 1, 2036, and must be claimed before January 1, 2037.

A TPPS and JLARC review are included with a stated public policy objective to provide employment for veterans and military families.

Appropriation: None.

Fiscal Note: Available.

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