HOUSE BILL REPORT
HB 1043

As Reported by House Committee On:
Finance

Title: An act relating to commute trip reduction tax credit.

Brief Description: Extending the commute trip reduction tax credit.

Sponsors: Representatives Wylie, Doglio, Fey, Ramel, Shavers, Fosse, Salahuddin, Reeves and Hill.

Brief History:
Committee Activity:
Finance: 2/11/25, 2/26/25 [DPS].

Brief Summary of Substitute Bill

- Extends the expiration of the Commute Trip Reduction tax credit.
- Reduces the per-employer limit of the Commute Trip Reduction tax credit.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase, Mena, Parshley, Penner, Ramel, Santos, Scott, Springer, Walen and Wylie.

Staff: Rachelle Harris (786-7137).

Background:

Business and Occupation Tax.
Washington's major business tax is the business and occupation (B&O) tax. The B&O tax

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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.

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 the 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 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.

Commute Trip Reduction Tax Credit.
The Commute Trip Reduction tax credit (CTR) allows employers to claim a tax credit against their B&O tax or PUT liability for a portion of financial incentives they provide to their employees to use qualifying commute alternatives. Qualifying commute alternatives are:
- ride sharing in vehicles with more than two people;
- using public transportation;
- using car sharing programs; and
- using nonmotorized commuting before January 1, 2025.

The CTR tax credit can be up to 50 percent of the amount of financial incentives paid. The annual limits for the CTR tax credit may not exceed:

- $60 per employee;
- $100,000 per employer; and
- $2.75 million statewide.

Employers must apply for the CTR tax credit each year. If total credit applications exceed the $2.75 million statewide cap, the Department of Revenue must reduce each application by an equal percentage to meet the cap.

The CTR tax credit is set to expire July 1, 2025.

<u>Tax Preference Performance Statement</u>.
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. 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 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 Substitute Bill:

The per-employer limit in the CTR tax credit is reduced to $50,000.

The use of nonmotorized commuting as a qualifying commute alternative is extended to January 1, 2035. The CTR tax credit expiration date is extended to July 1, 2035. The restriction that the credit paid is 50 percent of the amount paid to each employee is removed. The bill is exempt from the need for a TPPS.

Substitute Bill Compared to Original Bill:

Except for the per-employer limit, the substitute bill removes adjustments made to the CTR tax credit limits, keeping them at current law limits. The per-employer limit is reduced to $50,000. The substitute bill removes the restriction that the credit paid is 50 percent of the amount paid to each employee.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2025.

Staff Summary of Public Testimony:

(In support) The CTR tax credit is a great program. It has been evaluated and has been on the brink of expiration many times. It encourages employers to support their employees in commuting in other ways than cars. Other states take different approaches to this same problem, but encouraging alternative transit options is good and allows employers and employees to be conscious about their commutes and transportation. It is a small tool to address environmental challenges. This is a great tool to work towards sustainability, especially in the context of return-to-work mandates. The adjustments in the bill will help keep alternative transit a viable alternative for many.

(Opposed) None.

Persons Testifying: Representative Sharon Wylie, prime sponsor; Michael Leach, Move Redmond; and Veronica Jarvis, TDM Technical Committee.

Persons Signed In To Testify But Not Testifying: None.