
Finance Committee

HB 1907

Brief Description: Defining the rental or lease of individual storage space at self-service storage facilities as a retail transaction for the imposition of business and occupation and sales and use taxes.

Sponsors: Representatives Peterson, Gregerson, Ormsby, Parshley, Pollet, Macri and Hill.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Defines the rental or lease of individual storage space at self-service storage facilities as a retail transaction subject to the business and occupation and sales and use tax.
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Hearing Date: 2/25/25

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 for activities not classified elsewhere. There are many specialized B&O tax rates and preferential rates that apply

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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 and \$55 per month for all other businesses, 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 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.

Retail Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes are not collected when the user acquires the property, digital product, or service, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 4.1 percent, depending on the location.

Rental or Lease of Real Estate.

The rental or lease of individual self-service storage space at self-storage facilities is considered a rental or lease of real estate. Gross receipts from the rental or lease of real estate are not subject to the B&O tax. The renters or lessees are not charged retail sales and use tax on the amount of their rent or lease.

Summary of Bill:

Beginning January 1, 2026, the rental or lease of individual self-service storage space at self-storage facilities is defined in statute as a retail sale. The definition change subjects the gross receipts of the self-storage space rentals to B&O tax and subjects the amount of the rent or lease by the consumer to retail sales and use taxes.

Appropriation: None.

Fiscal Note: Requested on February 7, 2025.

Effective Date: The bill takes effect on January 1, 2026.