

HOUSE BILL REPORT

HB 2671

As Reported By House Committee On:
Revenue

Title: An act relating to gross receipts tax relief for small businesses.

Brief Description: Reducing gross receipts taxes for small businesses.

Sponsors: Representatives G. Fisher, Foreman, Holm, Mastin, Kremen, Roland, Kessler, Dellwo, Karahalios, Chappell, Conway, R. Johnson, J. Kohl, Patterson, Finkbeiner, Springer, Brown, Dunshee, Shin, Campbell, Dorn, Lemmon, Bray, R. Meyers, Basich, Johanson, Pruitt, Ogden, Wolfe, Sheldon, Caver, Quall, Jacobsen, Jones, Romero, Moak, Valle, H. Myers, King, Cothorn, Morris, Backlund, Van Luven, Rayburn, Long, L. Johnson and Anderson.

Brief History:

Reported by House Committee on:
Revenue, February 2, 1994, DPS.

HOUSE COMMITTEE ON REVENUE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Foreman, Ranking Minority Member; Fuhrman, Assistant Ranking Minority Member; Anderson; Brown; Caver; Cothorn; Leonard; Romero; Rust; Thibaudeau; Van Luven and Wang.

Minority Report: Do not pass. Signed by 2 members: Representatives Silver and Talcott.

Staff: Rick Peterson (786-7150).

Background: Washington's major business tax is the business and occupation tax (B&O tax). This tax is imposed on the gross receipts from all activities engaged in for profit, except specific activities and types of income exempted from the tax. Deductions for the costs of doing business are not allowed. A threshold exemption exempts some small business. The current threshold is \$1,000 per month. Businesses with gross incomes less than the threshold are not subject to tax. Businesses with gross incomes greater than the threshold are subject to tax on their entire gross incomes.

Although there are several different B&O tax rates, the principal rates are:

Retailing activities	0.471 percent
Manufacturing, wholesaling, & extracting	0.515 percent
Other services	2.13 percent
Selected business services	2.5 percent

Summary of Substitute Bill: The B&O threshold exemption is replaced by a credit against tax due. The maximum amount of credit is \$60 per month. The credit is phased out dollar-for-dollar by the amount the B&O tax liability exceeds the maximum credit amount. The \$60 credit offsets any tax liability of \$60 or less. If tax liability is more than \$60 and less than \$120, the credit is equal to \$120 minus the initial tax liability. For example, if the initial liability is \$100, the credit is \$20 (\$120 minus \$100) and the net tax due is \$80 (\$100 minus \$20). If tax liability exceeds \$120 (twice the maximum credit), the credit is zero and the full amount of tax is due.

Substitute Bill Compared to Original Bill: The substitute bill simplifies and clarifies the language describing the tax credit. The substitute also corrects a drafting error in the original bill.

Fiscal Note: Requested January 27, 1994.

Effective Date of Substitute Bill: The bill takes effect July 1, 1994.

Testimony For: The current B&O tax threshold is too low. This bill is a good first step to providing relief for small business. There is support for the concept but concern over available revenue next biennium relative to budget and the 601 limit.

Testimony Against: We need to find a way to help mid-sized and growing businesses. This bill doesn't cover enough businesses. Many taxpayers paying at the selected services rate (2.5 percent) will get no relief because most are larger than the increased threshold.

Witnesses: Representative Greg Fisher, prime sponsor; Carolyn Logue, National Federation of Independent Business (con); and Cliff Webster, Architects and Engineers Legislative Council (con). (Testimony was taken from the public hearing on a similar measure, HB 2059).