

HOUSE BILL REPORT

HB 2059

As Reported By House Committee On:
Revenue

Title: An act relating to gross receipts tax rates and deductions.

Brief Description: Reducing gross receipts taxes for small businesses.

Sponsors: Representatives G. Fisher, Holm, Karahalios, Finkbeiner, Flemming, Springer, G. Cole, Ogden, J. Kohl and Appelwick.

Brief History:
Reported by House Committee on:
Revenue, March 8, 1993, DPA.

HOUSE COMMITTEE ON REVENUE

Majority Report: Do pass as amended. Signed by 11 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Anderson; Brown; Cothorn; Leonard; Morris; Romero; Rust; Thibaudeau; and Wang.

Minority Report: Do not pass. Signed by 5 members: Representatives Foreman, Ranking Minority Member; Fuhrman, Assistant Ranking Minority Member; Silver; Talcott; and Van Luven.

Staff: Rick Peterson (786-7150).

Background: Washington's major business tax is the business and occupation tax. This tax is levied on the gross receipts of all business activities conducted within the state without deductions for costs of doing business. Any business with gross receipts of less than \$12,000 per year is exempt from taxation. The business and occupation tax (B&O) is levied at varying rates, but most businesses pay at rates of 0.484 percent or 1.5 percent. A similar tax is imposed on public utilities at rates varying from 0.642 percent to 3.852 percent.

Summary of Amended Bill: Businesses below a specified threshold are exempt from business and occupation tax and public utility tax. Businesses above the threshold receive a phased out deduction. The threshold is \$144,000 per year

for retailing businesses, \$48,000 per year for sole proprietors' in-service businesses, and \$84,000 per year for all other businesses. The deduction is completely phased out at \$288,000 for retailers, \$96,000 for sole proprietors' in-service businesses, and \$168,000 for all other businesses.

Business and occupation and public utility tax rates are increased by 3.3 percent. The amendment corrects a typographical error in the bill.

Amended Bill Compared to Original Bill: Other than correction of a typographical error, no changes were recommended.

Fiscal Note: Available.

Effective Date of Amended Bill: This bill takes effect July 1, 1993.

Testimony For: This bill will help to remedy Washington's anti-entrepreneurial climate. The structure of the bill removes the notch effect that is part of the current B&O tax threshold.

Testimony Against: We can go a long way to better equalize the tax structure. We need to move to a tax structure that better represents profit. We need to take some time during the interim to look at our tax structure. This bill is an "aspirin;" what our tax system needs is "major surgery."

Witnesses: Representative Greg Fisher, prime sponsor (supports); Len McComb, Department of Revenue (supports); Richard Baxendale, Boise Cascade (opposes); Mike Tracy, Puget Power (opposes); Carol Logne, National Federation of Independent Business (opposes); Jan Gee, Washington Retail Association (opposes); and Douglas Downing, Seattle Pacific University (supports).