

SENATE BILL REPORT

SHB 2671

AS REPORTED BY COMMITTEE ON WAYS & MEANS, MARCH 2, 1994

Brief Description: Reducing gross receipts taxes for small businesses.

SPONSORS: House Committee on Revenue (originally sponsored by 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)

HOUSE COMMITTEE ON REVENUE

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Anderson, Bauer, Bluechel, Cantu, Gaspard, Hargrove, Hochstatter, Ludwig, Moyer, Pelz, Sutherland and Williams.

Staff: Terry Wilson (786-7715)

Hearing Dates: March 2, 1994

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 some specific activities and types of income are exempt from the tax. Deductions for the costs of doing business are not allowed. A threshold exemption exists for 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%
Manufacturing, wholesaling, & extracting	0.515%
Miscellaneous services	2.13%
Selected business services	2.5%

SUMMARY:

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.

SUMMARY OF PROPOSED COMMITTEE AMENDMENT:

The B&O tax threshold is increased on January 1 of each year by the change in the consumer price index.

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: July 1, 1994

TESTIMONY FOR:

This helps new business.

TESTIMONY AGAINST: None

TESTIFIED: Paul Parker, WASE (pro)