

HOUSE BILL REPORT

EHB 1821

As Passed Legislature

Title: An act relating to consolidating business and occupation tax rates into fewer categories.

Brief Description: Consolidating business and occupation tax rates into fewer categories.

Sponsors: By House Committee on Finance (originally sponsored by Representatives B. Thomas, Mulliken, Bush, Zellinsky, Kastama, Sullivan, Wensman, Carrell and Schoesler).

Brief History:

Committee Activity:

Finance: 2/19/97, 2/27/97 [DP].

Floor Activity:

Passed House: 3/18/97, 97-1.

Senate Amended.

House Concurred.

Passed Legislature.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Pennington; Schoesler; Thompson and Van Luven.

Staff: Rick Peterson (786-7150).

Background: Washington's major business tax is the business and occupation (B&O) tax. It is imposed on the gross receipts of business activities within the state. After a temporary surtax expires on July 1, 1997, the principal B&O rates will be as follows:

- Manufacturing, wholesaling and extracting -- 0.484 percent
- Retailing -- 0.471 percent
- Services:
 - Selected Business Services -- 2.0 percent
 - Financial Services -- 1.6 percent
 - Other activities -- 1.75 percent

Selected business services include computer services, data processing, legal services, accounting, business consulting, business management, protective services, and public relations. Financial service businesses provide banking, loan, investment advisory, or other financial services. The "other activities" category includes medical doctors, dentists, real estate management, cable TV, beauty and barber shops, and advertising services among many others.

In 1993, the B&O tax rate on selected business services was increased from 1.5 percent to 2.5 percent, the rate on financial businesses was increased from 1.5 percent to 1.7 percent, and the rate on all other services was increased from 1.5 percent to 2.0 percent.

In addition to these permanent rate increases, in 1993 a surtax of 6.5 percent was imposed on several B&O tax classifications. Manufacturing, wholesaling, extracting, and the "other activities" classification are among those subject to the surtax. Selected business services, financial services, and retailing are not subject to the surtax.

In 1996, the 1993 service rate increases were reduced by 50 percent. The rate on selected business services was decreased from 2.5 percent to 2.0 percent, the rate on financial businesses was decreased from 1.7 percent to 1.6 percent, and the rate on all other services was decreased from 2.0 percent to 1.75 percent. With the surtax, the rate on other services is 1.829 percent until the surtax expires on July 1, 1997.

In 1994, the Legislature enacted a B&O tax credit for high technology research and development. Firms engaged in biotechnology, advanced computing, electronic device technology, advanced material, and environmental technology pursuits are eligible for the credit if they spend at least 0.92 percent of their gross income on research and development. The amount of the credit is equal to 2.5 percent of a firm's spending in research and development; the exception is the credit that nonprofit organizations receive, which is equal to 0.515 percent of their spending in research and development. The credit is limited to \$2.0 million per year. When the credit was enacted, the highest B&O tax rate on services was 2.5 percent, and the rate on nonprofit organizations engaged in research and development was 0.515 percent.

Summary of Bill: B&O tax rates are reduced to their pre-1993 levels, effective July 1, 1997, as follows: the selected business service rate is reduced from 2.0 percent to 1.5 percent; the financial business service rate is reduced from 1.6 percent to 1.5 percent; and the "other activities" rate is reduced from 1.75 percent to 1.5 percent. In addition, the selected business service classification and the financial business classification are consolidated into the services and other activities– classification.

The rates provided in the high technology B&O tax credit are reduced to 0.484 percent for nonprofit organizations and to 1.5 percent for other eligible firms.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1998.

Testimony For: The intent of the bill is to consolidate some of the many B&O tax rates in conjunction with combining and lowering the service B&O tax rates. Consolidation will simplify the tax system for the taxpayer and the Department of Revenue. Washington food processors compete heavily with Midwestern food processes who are closer to the market and have lower tax rates than Washington. This bill will reduce the tax rate on food processors and will help them increase investment in Washington, and increase payments to employees and local growers while remaining competitive.

Testimony Against: None.

Testified: Representative Brian Thomas, prime sponsor; and Bill Fritz, Washington Food Processors Council.