

HB 1218

Bill Analysis

February 19, 1997

Brief Description: Reducing business and occupation taxes. Increases the small business credit by adding another credit equal to the lesser of \$210 or 40 percent of tax due.

Bill Sponsors: Representatives Morris, Dunshee, Mielke, Blalock, Conway, Murray, Ogden, Cooper, Mason and Butler.

Staff: Rick Peterson (786-7150)

Background: Washington's major business tax is the business and occupation tax (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%
Retailing	0.471%
Services	
- Selected Business Services	2.0%
- Financial Services	1.6%
- Other activities	1.75%

Selected business services include: computer services; data processing; legal services; accounting; business consulting; business management; protective services; and public relations. Financial services businesses provide banking, loan, investment advisory, or other financial services. The other businesses not taxed under a specific B&O tax classification are in the service and other activities group. This group includes medical doctors, dentists, real estate management, cable TV, beauty and barber shops, and advertising services among many others.

Real estate brokers pay B&O tax at 1.75 percent on real estate commissions.

A small business credit is provided for the B&O tax. The maximum amount of credit is \$420 per year. The \$420 credit offsets any tax liability of \$420 per year or less. The credit is phased out dollar-for-dollar by the amount the B&O tax liability exceeds \$420. If tax liability is more than \$420 and less than \$840, the credit is equal to \$840 minus the initial tax liability. For example, if the initial liability is \$600, the credit is \$240 (\$840 minus \$600) and the net tax due is \$360 (\$600 minus \$240). If tax liability exceeds \$840 (twice the maximum credit), the credit is zero and the full amount of tax is due. Since the credit phases out at higher gross income amounts, only the smallest firms see a tax reduction.

House of Representatives
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Finance Committee

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Summary of Bill: Taxpayers subject to one of the service rates under the B&O tax are allowed a credit in addition to the small business credit. The credit is equal to the smaller of \$2520 per year, or 40 percent of the tax otherwise due.

Fiscal Note: Requested

Effective Date: The bill contains an emergency clause and takes effect July 1, 1997.