

HB 1261

Bill Analysis

January 30, 1997

Brief Description: Requiring a ranged table in standard increments for the business and occupation tax small business credit.

Bill Sponsors: Representatives Mulliken, Pennington, Boldt and Wensman.

Staff: Linda Brooks (786-7153)

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state.

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 month or less. The credit is phased out dollar-for-dollar by the amount the B&O tax liability exceeds \$420. If the 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 the tax is due.

All taxpayers are eligible to use this credit to reduce their B&O taxes. However, since the credit phases out at higher gross income amounts, only the smallest firms see a tax reduction.

Summary of Bill: The Department of Revenue may prepare a ranged table in standard increments as a reference tool for taxpayers. The table cross references tax liabilities with tax credits. For example, if the taxpayer has a tax liability of \$600, the table shows that the taxpayer may claim a tax credit of \$240. By making the table available, taxpayers no longer have to mathematically compute the credits.

Tax credit values are unchanged. No taxpayer will owe a greater amount of tax as a result of the B&O tax credit table.

Fiscal Note: Requested

House of Representatives
Office of Program Research
Finance Committee

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Effective Date: If enacted, this measure shall take effect ninety days after adjournment of session in which the bill is passed.