

HOUSE BILL REPORT

HB 1261

As Reported By House Committee On:
Finance

Title: An act relating to the business and occupation tax small business credit.

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

Sponsors: Representatives Mulliken, Pennington, Boldt and Wensman; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 1/30/97, 2/25/97 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill 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; Mason; Morris; Pennington; Schoesler; Thompson and Van Luven.

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 Substitute Bill: The Department of Revenue may prepare a ranged table using standard increments of no more than \$10 for use by taxpayers in taking the small business B&O tax credit. The table will cross reference 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. If the department prepares a table, all taxpayers are required to use the table to determine their credit amounts.

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

Substitute Bill Compared to Original Bill: The substitute bill limits standard increments in a table to no more than \$10. The original bill contained no limit. The substitute bill requires taxpayers to use a table to determine their credit amounts. The original bill permitted taxpayers to choose between using a table or mathematically computing their credit amounts.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 26, 1997.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: A tax credit table makes computing the amount of the tax due easier for the small business person.

Testimony Against: None.

Testified: Representative Mulliken, prime sponsor, and Jim Hedrick, Department of Revenue.