

FINAL BILL REPORT

EHB 1821

C 7 L 97

Synopsis as Enacted

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

Sponsors: Representatives B. Thomas, Mulliken, Bush, Zellinsky, Kastama, Sullivan, Wensman, Carrell and Schoesler.

House Committee on Finance
Senate Committee on Ways & Means

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. Including 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. Generally the credit is equal to 2.5 percent of a firm's spending in research and development. However, nonprofit organizations receive a credit 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: Effective July 1, 1998, B&O tax rates are reduced to their pre-1993 levels 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.

Votes on Final Passage:

House 97 1
Senate 46 0 (Senate amended)
House 95 0 (House concurred)

Effective: July 1, 1998