

# FINAL BILL REPORT

## HB 2335

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Synopsis as Enacted

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

**Sponsors:** Representatives B. Thomas, Mulliken, Thompson, Morris, Gardner, Linville, Backlund, Cooke, Carrell, Kastama, Schoesler, Van Luven, Dunn and Lambert; by request of Department of Revenue.

**House Committee on Finance**  
**Senate Committee on Ways & Means**

**Background:** Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. There are many different tax rates.

In 1997, the Legislature eliminated the distinction between financial services, selected business services, and other services and consolidated these activities into a single tax rate. These changes will take place July 1, 1998. After July 1, 1998, the business and occupation tax will have 10 different rates as follows:

- 0.011 % wholesaling wheat, oats, corn, barley;
- 0.138 % manufacturing wheat into flour, manufacturing soybean oil, seafood manufacturing, slaughter, breaking and processing meat-wholesale;
- 0.275 % dry pea splitting, nuclear fuel sales, nuclear fuel manufacturing, travel agent commissions, international investment management;
- 0.330 % manufacturing fresh fruits and vegetables;
- 0.363 % international charter freight brokers, stevedoring;
- 0.471 % retailing;
- 0.484 % extracting, extracting for hire, manufacturing, retailing interstate transportation products, nonprofit research and development, wholesaling, internal distribution, newspaper printing, road and street improvements for government, storage warehouses, independent general insurance agents, radio and TV broadcasting, construction for federal government;
- 0.55 % insurance-agents/brokers commissions;
- 1.50 % nonprofit hospitals, real estate brokers, and services; and
- 3.30 % low-level radioactive waste disposal.

Privately owned kindergartens are exempt from the B&O tax. The Department of Revenue has interpreted this exemption to include any kindergarten, nursery school,

preschool, or day care center that cares for children below the first grade level. An organization caring for children of all ages must pay the B&O tax at the 1.5 percent services rate on income received from children at or above the first grade level. A specific B&O tax exemption is available to churches providing child care for periods of less than 24 hours.

**Summary:** The number of the B&O rates is reduced to six rates by:

- eliminating the 0.011 percent rate for wholesaling wheat, oats, corn, and barley, and exempting these activities from tax;
- consolidating agricultural activities at the 0.138 percent rate. Dry pea splitting (formerly 0.275 percent) and manufacturing fresh fruits and vegetables (formerly 0.330 percent) are moved to the category with manufacturing wheat into flour; manufacturing soybeans into oil, seafood manufacturing, and processing and selling meat at wholesale;
- moving international charter freight brokers and stevedoring (formerly 0.363 percent) to the category with travel agent commissions, nuclear fuel sales and manufacturing, and international investment management at 0.275 percent; and
- moving insurance agent/broker commissions (formerly 0.55 percent) to 0.484 percent to the category with manufacturing, wholesaling, extracting and others.

The resulting six B&O tax rate categories are:

- 0.138 % manufacturing wheat into flour, manufacturing soybean oil, seafood manufacturing, slaughter, breaking and processing meat-wholesale, dry pea splitting, manufacturing fresh fruits and vegetables;
- 0.275 % nuclear fuel sales, nuclear fuel manufacturing, travel agent commissions, international investment management, international charter freight brokers, and stevedoring;
- 0.471 % retailing;
- 0.484 % extracting, extracting for hire, manufacturing, retailing interstate transportation products, nonprofit research and development, wholesaling, internal distribution, newspaper printing, road and street improvements for government, storage warehouses, independent general insurance agents, radio and TV broadcasting, construction for federal government, insurance-agents/brokers commissions;
- 1.50 % nonprofit hospitals, real estate brokers, and services; and
- 3.30 % low-level radioactive waste disposal.

The B&O tax rate for businesses providing child care for periods of less than twenty-four hours is reduced from 1.5 percent to 0.484 percent.

**Votes on Final Passage:**

House	88	6	
Senate	45	0	(Senate amended)
House	85	11	(House concurred)

**Effective:** July 1, 1998