

HOUSE BILL REPORT

HB 2335

As Passed Legislature

Title: An act relating to consolidating business and occupation tax rates into fewer categories.

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.

Brief History:

Committee Activity:

Finance: 1/14/98, 1/15/98 [DP].

Floor Activity:

Passed House: 2/27/98, 88-6.

Passed Legislature.

HOUSE COMMITTEE ON FINANCE

Majority Report: 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; Kastama; Mason; Pennington; Schoesler; Thompson and Van Luven.

Staff: Rick Peterson (786-7150).

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, 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 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 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 of Bill: The number of B&O rates is reduced to six rates by:

- (a) Eliminating the 0.011 percent rate for wholesaling wheat, oats, corn, and barley, and exempting these activities from tax;
- (b) 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) join manufacturing wheat into flour; soybeans into oil, seafood manufacturing, and processing and selling meat at wholesale in this category;
- (c) Moving international charter freight brokers and stevedoring (formerly 0.363 percent) to join travel agent commissions, nuclear fuel sales and manufacturing and international investment management at 0.275 percent; and
- (d) Moving insurance agent/broker commissions (formerly 0.55 percent) to 0.484 percent together with manufacturing, wholesaling, extracting and others.

The resulting six B&O rate categories are:

- 0.138 % Manufacturing wheat into flour, 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.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1998.

Testimony For: This bill simplifies the B&O tax by consolidating tax rates. Many B&O tax rates were very close together and the bill merges them. The bill has a minimal revenue impact. According to the Department of Revenue business taxpayers and tax practitioners are interested in regulatory reform. The department is interested in getting them the tax simplification they want.

Testimony Against: None.

Testified: Representative Brian Thomas, sponsor; Marty Brown, Governor's office; and Fred Kiga, Department of Revenue.