

# HB 2485

## Bill Analysis

February 4, 1998

**Brief Description:** Eliminating the business and occupation tax on internal distributions.

**Bill Sponsors:** Representatives Van Luven, Dunshee, Kastama, Gardner and Linville; by request of Department of Revenue.

**Staff:** Rick Peterson, 786-7150.

**Background:** The business and occupation tax (B&O) is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities (except utility activities) conducted within the state.

Although there are several different rates, beginning July 1, 1998 the principal rates will be as follows:

Manufacturing/wholesaling	0.484%
Retailing	0.471%
Services	1.5%

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. For this reason, the tax pyramids at each level of activity. For example, retailers are not allowed to deduct amounts paid to wholesalers, and contractors are not allowed to deduct amounts paid to a subcontractor.

Firms distributing merchandise from their own warehouses to two or more of their own retail stores must pay a B&O tax on the value of the articles distributed. This "internal distributions" tax applies (at the 0.484 wholesaling rate) to integrated firms that perform wholesale functions but are not technically wholesalers.

The intent of the internal distributions tax is to tax both independent wholesalers and integrated firms in the same way. The tax is now being avoided by large integrated retailers who have restructured to have a subsidiary or other entity operate the warehouse.

**Summary of Bill:** The "internal distributions" tax is eliminated.

House of Representatives  
Office of Program Research  
Finance Committee

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** July 1, 1998.