

HOUSE BILL REPORT

ESB 7902

As Passed House

February 26, 1997

Title: An act relating to lowering business and occupation tax rates.

Brief Description: Lowering business and occupation tax rates (Introduced with House sponsors).

Sponsors: By House Committee on Finance (originally sponsored by Senators Hale, Bauer, McDonald, Haugen, Sellar, Prentice, McCaslin, Rasmussen, West, Newhouse, Heavey, Swecker, Hargrove, Fraser, Johnson, Morton, Patterson, Rossi, Kline, Anderson, Jacobsen, Strannigan, Prince, Finkbeiner, Oke, Winsley, Long, Stevens, Horn, Benton, Schow, Wood, Roach, Deccio, Zarelli and Goings).

Brief History:

Committee Activity:

Finance: 2/25/97 [DP].

Floor Activity:

Passed House: 2/26/99, 39-59.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members. Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Conway; Morris; 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. 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%
- Retailing -- 0.471%
- Services:
 - Selected Business Services -- 2.0%
 - Financial Services -- 1.6%
 - Other activities -- 1.75%

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. With 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. The amount of the credit is equal to 2.5 percent of a firm's spending in research and development; the exception is the credit that nonprofit organizations receive, which 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 of Bill: B&O tax rates are reduced to their pre-1993 levels, effective July 1, 1997, 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 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.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1997.

Testimony For: We have an opportunity to undo a harm done to some of the state's smallest businesses by returning the B&O service tax rates to their 1993 levels. The 1993 tax increase created a serious impact on small businesses. They were not able to expand and many potential start-ups were discouraged. Sixty-eight of the beneficiaries of this tax cut have gross income of less than \$200,000. This is simply rolling back the tax on those taxpayers selected for a tax increase in 1993. The majority of these businesses are small family owned businesses. This tax reduction will allow reinvestment in the business and expansion of benefits to the employees.

Testimony Against: None.

Testified: Pro: Tom Cooley, Association of Washington Business; Dana Childers, Greater Seattle Chamber of Commerce; Carolyn Logue, National Federal of Independent Businesses; Gary Smith, Independent Business Association; O. K. Johnson, Washington Amusement & Music Operators; Terri Hotvedt, Washington Association of Realtors; and Rob Widmeyer, WCAIA. Others: Bill Fritz, Washington Food Processors Council; Tamara Warnke, Southland Corporation; and Jim Irish, Appraisers Coalition of Washington.