

SENATE BILL REPORT

EHB 1821

As Reported By Senate Committee On:
Ways & Means, March 31, 1997

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, Bush, Zellinsky, Kastama, Sullivan, Wensman, Carrell and Schoesler.

Brief History:

Committee Activity: Ways & Means: 3/26/97, 3/27/97, 3/31/97 [DPA].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Fraser, Hochstatter, Kohl, Long, McDonald, Rossi, Snyder, Spanel, Swecker, Winsley and Zarelli.

Staff: David Schumacher (786-7474)

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. There are no deductions for the costs of doing business. Although there are several different rates, beginning July 1, 1997 the principal rates will be as follows:

Manufacturing/wholesaling/extracting	0.484%
Retailing	0.471%
Services	
- Business Services	2.00%
- Financial Services	1.60%
- Other activities	1.75%

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 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.

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 invest at least 0.92 percent of their gross income in research and development. The amount of the credit is equal to 2.5 percent of their investment in research and development, except credits for eligible nonprofit organizations are equal to 0.515 percent of their investment in research and development. The credit is limited to \$2.0 million per year. When the credit was enacted, the B&O tax rate on firms providing selected businesses services was 2.5 percent, and the rate on nonprofit organizations engaging in research and development was 0.515 percent.

Summary of Amended Bill: B&O tax rates are reduced to their pre-1993 levels, effective July 1, 1998, 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 changed to reflect the new B&O tax rates provided in this bill.

Amended Bill Compared to Original Bill: The original bill also consolidated many of the other tax rates in addition to the consolidation of the service rates.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill completes the rollback of the 1993 tax increases and cleans up the rest of the B&O tax by eliminating many of the different rates and consolidating the taxpayers into fewer categories.

Testimony Against: None.

Testified: Representative Brian Thomas, prime sponsor (pro).