

# SENATE BILL REPORT

## SB 5196

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As Reported By Senate Committee On:  
Ways & Means, April 7, 1997

**Title:** An act relating to business and occupation taxation.

**Brief Description:** Allowing a business and occupation tax deduction for certain amusement devices.

**Sponsors:** Senators Strannigan, West, Bauer, Heavey, Prentice and Wood.

**Brief History:**

**Committee Activity:** Ways & Means: 4/4/97, 4/7/97 [DPS].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5196 be substituted therefor, and the substitute bill do pass.

Signed by Senators West, Chair; Strannigan, Vice Chair; Bauer, Long, Loveland, McDonald, Roach, Rossi, Schow, Sheldon, Swecker and Zarelli.

**Staff:** Terry Wilson (786-7433)

**Background:** Washington's major business tax is the business and occupation (B&O) tax. Although there are several different rates, the principal rates are:

Manufacturing, wholesaling, & extracting	0.506%
Retailing	0.471%
Services	
- Business Services	2.0%
- Financial Services	1.6%
- Other activities	1.829%

In addition to these permanent tax increases, in 1993 a surtax of 6.5 percent was imposed on all B&O tax classifications except selected business services, financial services, retailing, and public and nonprofit hospitals. The surtax was lowered to 4.5 percent on January 1, 1995. The surtax expires July 1, 1997. On July 1, 1997, the manufacturing, wholesaling, and extracting rate will decrease to 0.484 percent and the "other activities" rate will decrease to 1.75 percent.

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. Thus, 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. Similarly, in the amusement game industry, the owner of an amusement device pays tax on the entire gross receipts received through a game machine, without deduction for amounts

paid to the establishment in which it is located. An exception to this rule is allowed for real estate brokers who may deduct commissions paid to another brokerage.

**Summary of Substitute Bill:** For B&O tax purposes, the owner of a coin-operated video game, pinball machine, juke box, or other similar device may deduct amounts paid to the person upon whose premises the device is operated, as long as the amusement device owner pays the premises owner at the time the amounts are collected from the amusement device.

**Substitute Bill Compared to Original Bill:** The original bill contained an emergency clause and took effect on January 1, 1997.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** This bill was vetoed in 1984 and 1995. The moneys are split on the site but the owner of the device is taxed on the amount given to the location owner. This is a double tax. Owners could provide health insurance for their employees or invest in more devices with the savings.

**Testimony Against:** None.

**Testified:** Pro: John Woodring, Laura Overton, WA Amusement and Music Operation Association.