

SENATE BILL REPORT

SB 6467

As of January 28, 1998

Title: An act relating to business and occupation tax credit.

Brief Description: Increasing the business and occupation tax credit.

Sponsors: Senators West, Spanel, Anderson, Hale, Jacobsen, Snyder, Loveland, Kohl, Franklin, Brown, Fraser, T. Sheldon, Goings, B. Sheldon, Patterson, Bauer and Rasmussen; by request of Governor Locke.

Brief History:

Committee Activity: Ways & Means: 1/28/98.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state.

There are several different B&O tax rates. As of July 1, 1998, the three principal rates are:

Manufacturing and wholesaling	0.484%
Retailing	0.471%
Service	1.5%

A small business credit is provided for the B&O tax. Under the credit, if the amount of tax due is less than \$420 per year (\$35 per month), then the credit is equal to the amount of tax due. If the amount of tax due is greater than \$420 per year, then the amount of the credit is equal to \$840 minus the amount of tax due, but not less than zero. The credit results in a certain amount of income being exempt from tax, but the exemption is phased out on a dollar for dollar basis until no exemption remains at twice the amount of the exemption. The following table shows the exemption amounts and the amount at which the exemption is phased out for most businesses.

Tax Category	Exemption	Phase-out
Manufacturing/wholesaling	\$86,777	\$173,554
Retailing	\$89,172	\$178,344
Services	\$28,000	\$56,000

Summary of Bill: The small business tax credit is increased to \$50 per month (\$600 per year), effective July 1, 1998. A \$600 per year credit increases the manufacturing/wholesaling exemption to \$123,967, the retailing exemption to \$127,389, and the service exemption to \$40,000. The change applies to the entire reporting period for all reporting periods ending after July 1, 1998.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This will reduce the tax burden on small business. It relieves 17,000 taxpayers from paying any tax and reduces the tax on another 31,000.

Testimony Against: None.

Testified: Jim Hedrick, Department of Revenue (pro).