

FINAL BILL REPORT

ESB 7902

FULL VETO

As Passed Legislature

Brief Description: Lowering business and occupation tax rates.

Sponsors: 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.

Representatives Robertson, Talcott, Sheldon, B. Thomas, Lambert, D. Schmidt, Pennington, D. Sommers, Johnson, Huff, Sterk, Mulliken, Sheahan, Thompson, Bush, Gardner, Dunn, Kenney, Alexander, Clements, Backlund, Cooke, O'Brien, Dunshee, Morris, Honeyford, Koster, Wolfe, Ogden and Schoesler.

Senate Committee on Ways & Means

House Committee on Finance

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, 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 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 percent. Also in 1993, the B&O tax was extended to public and nonprofit hospitals at the rate of .75 percent through June 30, 1995, and 1.5 percent thereafter.

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.

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 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.

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 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 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.

Summary: 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 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.

Votes on Final Passage:

Senate	44	3
House	91	7
Senate	26	23 (Senate failed to override veto)