

HB 1741

Bill Analysis

February 16, 1999

Brief Description: Simplifying tax reporting by revising the active nonreporting threshold so that it parallels the small business credit.

Bill Sponsors: Representatives Fortunato and Lovick; by request of Department of Revenue.

Brief Summary of Bill

- Non-retailing businesses with gross receipts of \$28,000 per year or less are required to register with the Department of Revenue but do not need to file tax returns.

Staff: Linda Brooks, 786-7153.

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. Deductions for the costs of doing business are not allowed.

In 1997 some temporary B&O tax surcharges expired. The Legislature also consolidated some B&O tax categories and made some rate changes in 1997. As a result of these events, B&O tax rates for some types of business activities were reduced.

Presently, the principal B&O tax rates and categories are as follows:

<u>Type of Business</u>	<u>Tax Rate</u>
Manufacturing, wholesaling and extracting	0.484 percent
Retailing	0.471 percent

Services 1.5 percent

A small business credit is provided for the B&O tax. The maximum amount of tax credit is \$420 per year. The \$420 credit offsets any tax liability. The credit is phased out dollar-for-dollar by the amount the B&O tax liability exceeds \$420. If the tax liability is more than \$420 but less than \$840, the tax credit is equal to \$840 minus the initial tax liability.

Given that there are different B&O tax rates, the maximum amount of gross receipts exempted by the small business tax credit varies by B&O tax category. The lower the B&O tax rate, the more a taxpayer benefits from the tax credit. A taxpayer's total gross receipts would have to exceed the following amounts in order for any tax to be owed after taking the small business credit:

<u>Credit</u>	<u>Type of Business</u>	<u>Maximum Gross Income Exempted by Small Business Tax</u>
	Manufacturing, wholesaling and extracting	\$ 86,777
	Retailing	89,172
	Services	28,000

Since the 1.5 percent service B&O tax rate is the highest B&O tax rate, the \$28,000 represents the threshold amount above which it is possible for a taxpayer to owe any B&O tax after taking the small business tax credit.

Non-retailing businesses with gross receipts of \$24,000 per year or less are required to register with the Department of Revenue but do not need to file tax returns. When this provision was originally enacted, the threshold amount above which it was possible for a taxpayer to owe any B&O tax after claiming the small business tax credit was \$24,000. This threshold amount has risen to \$28,000 from \$24,000 as a result of the surcharges that expired and the legislative changes that were made to B&O tax rates in 1997.

Summary of Bill:

Non-retailing businesses with gross receipts of \$28,000 per year or less are required to register with the Department of Revenue but do not need to file tax returns.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1999.