

HOUSE BILL REPORT

HB 1741

As Passed Legislature

Title: An act relating to simplifying tax reporting by revising the active nonreporting threshold so that it parallels the small business credit.

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

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

Brief History:

Committee Activity:

Finance: 2/16/99, 3/8/99 [DP].

Floor Activity:

Passed House: 3/12/99, 96-0.

Senate Amended.

Passed Senate: 4/13/99, 48-0.

House Concurred.

Passed Legislature.

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.
- Department of Revenue may allow taxpayers to file returns or remittances electronically.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Carrell, Republican Vice Chair; Reardon, Democratic Vice Chair; Cairnes; Conway; Cox; Pennington; Santos; Van Luven and Veloria.

Minority Report: Do not pass. Signed by 1 member: Representative Dickerson.

Staff: Linda Brooks (786-7153).

Background:

B&O Tax Reporting Threshold

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.

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.

The maximum amount of gross receipts exempted by the small business credit varies based on the B&O tax rate. The lower the B&O tax rate, the more benefit received by the taxpayer from the credit. The maximum amount of gross receipts exempted by the credit is as follows:

<u>Type of Business</u>	<u>Maximum Gross Receipts Exempted by Small Business Tax Credit</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 (DOR) 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 some tax surcharges expiring and legislative changes that were made to B&O tax rates in 1997.

Filing Tax Returns and Remittances

The Department of Revenue (DOR) collects the state's major excise taxes, such as retail sales and B&O taxes. The taxes collected by the DOR are reported on the combined excise tax return. Taxpayers who report on the combined excise tax form with annual tax liability of \$240,000 or more are required to pay taxes through an electronic funds transfer process. Although funds are transferred electronically, the tax return document itself still must be delivered or mailed to the DOR.

There is no express statutory authority for the DOR to accept remittances from other taxpayers who voluntarily choose to remit electronically or to accept returns from any taxpayer who wishes to transfer this information electronically.

Summary of Bill:

B&O Tax Reporting Threshold

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.

Filing Tax Returns and Remittances

The DOR may allow electronic filing of returns or remittances from any taxpayer. The return or remittance will be deemed filed according to procedures set forth by the department.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: You should only have to file taxes at the same level at which you have to start paying taxes. This adjusts the filing threshold to match the level at which tax is actually owed.

Testimony Against: None.

Testified: Tim Sekerak, Department of Revenue.