
Finance Committee

ESB 5517

Brief Description: Clarifying the apportionment of business and occupation taxes on travel agent or tour operator businesses conducted both within and outside the state.

Sponsors: Senators B. Sheldon, Schmidt, Kohl-Welles, Oke, Poulsen, West and Rasmussen.

Brief Summary of Engrossed Bill

- Provides Business and Occupation tax apportionment of gross income for travel agents and tour operators.

Hearing Date: 3/27/03

Staff: Bob Longman (786-7139).

Background:

Washington's major business tax is the Business and Occupation (B&O) tax. 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. Different tax rates apply to six separate categories of business activity. The rate for travel agents and tour operators is 0.275 percent. Before 1996, travel agents and tour operators were taxed at the general rate for most service business which is 1.5 percent.

The B&O tax is imposed on the gross receipts from all business activities conducted within the state. If a taxpayer is subject to the 1.5 percent service rate and has a place of business outside the state that contributes to the performance of a service, the taxpayer must apportion to this state the portion of gross income derived from services rendered in this state. If is not practical to use separate accounting methods to determine the amount of services rendered in this state, the taxpayer must apportion income to this state in proportion to the cost of doing business within this state relative to the total cost of doing business both within and without this state. These apportionment provisions do not apply to travel agents and tour operators. Travel agents and tour operators must pay tax on all services rendered in this state.

Summary of Bill:

For B&O tax purposes, a travel agent or tour operator doing business both within and without Washington is required to apportion gross receipts based on a three-factor apportionment formula. The three factors are property, payroll, and sales. The factors must be calculated in a manner consistent with the Multistate Tax Compact.

If this method of apportionment does not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition or the department may require the use of an alternative apportionment method, if reasonable, such as separate accounting, the exclusion of any one or more of the factors, or the inclusion of one or more additional factors.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.