

---

**SUBSTITUTE HOUSE BILL 2691**

---

**State of Washington**

**58th Legislature**

**2004 Regular Session**

**By** House Committee on Trade & Economic Development (originally sponsored by Representatives Eickmeyer, Armstrong, Haigh, Bush, Sehlin, Benson, Ruderman, Skinner, McDermott, Simpson, G., Chase, Morrell, Campbell, Kessler, Woods, Linville, Edwards and Roach)

READ FIRST TIME 02/04/04.

1 AN ACT Relating to a business and occupation tax exemption for  
2 qualifying small businesses; and adding a new section to chapter 82.04  
3 RCW.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** A new section is added to chapter 82.04 RCW  
6 to read as follows:

7 (1) This chapter does not apply to amounts received by a small  
8 business when the requirements of this section are met. For the  
9 purposes of this section, a small business is a person whose:

10 (a) Value of products, gross proceeds of sales, or gross income of  
11 the business is less than two hundred thousand dollars during a base  
12 period as specified under this section. For purposes of determining  
13 eligibility under the two hundred thousand dollar limitation in this  
14 subsection (1), persons taxable under this chapter on multiple  
15 activities associated with the same product, as identified in RCW  
16 82.04.440, need only include the value of products or gross proceeds of  
17 sales for a single activity associated with the same product; and

18 (b) Taxes due and paid under this chapter for the base period  
19 exceed the net income reported on the person's federal income tax

1 return for the same base period. For purposes of determining net  
2 income reported on the person's federal income tax return, a sole  
3 proprietor may subtract the amount of self-employment tax shown on  
4 schedule 1040 SE from the net income reported on schedule C of the  
5 federal income tax return.

6 (2) The small business selects the base period. The base period is  
7 a twelve-month period that is covered by a single federal income tax  
8 return. The small business must have operated during the entire  
9 twelve-month period.

10 (3) The small business may take the exemption on twelve monthly tax  
11 returns if the business files tax returns monthly, four quarterly tax  
12 returns if the business files tax returns quarterly, or one annual tax  
13 return if the business files tax returns annually. Once a person has  
14 claimed the exemption on a tax return, the person may not later change  
15 the claim to a different tax return.

16 (4) For small businesses filing returns on a monthly or quarterly  
17 basis, the base period must end no earlier than six months before the  
18 period covered by the first return on which a person qualifies under  
19 this section. A monthly or quarterly filer may not claim the exemption  
20 for any tax period starting more than twenty-four months after the  
21 first month covered by the first return on which the exemption is  
22 claimed. Annual filers may claim the exemption on one of the two  
23 annual tax returns due following the last month in the base period.

24 (5) The amount of the exemption claimed must be reported on the  
25 small business' tax return as prescribed by the department. A claim by  
26 a person not entitled to this exemption is fraud or misrepresentation  
27 of a material fact and subject to interest and penalties prescribed by  
28 law.

29 (6) The exemption provided in this section is not available for any  
30 period during or after which the small business:

31 (a) Purchases or otherwise acquires, directly or indirectly, in  
32 bulk and not in the ordinary course of business, tangible or intangible  
33 assets of another taxpayer; or

34 (b) Is a surviving corporation of a statutory merger.

--- END ---