
Finance Committee

HB 1030

Brief Description: Increasing the amount of the small business business and occupation tax credit.

Sponsors: Representatives Orcutt, McDonald, Haler, Roach, Bailey, Serben, Kretz, Morrell, Schindler, Woods, Shabro, Dunn, Ahern, Strow, Pearson, Newhouse, Kristiansen and Wallace.

Brief Summary of Bill

- Increases the small business tax credit under the Business and Occupation tax from \$35 to \$55 per month.

Hearing Date: 2/28/05

Staff: Rick Peterson (786-7150).

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the state General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

A small business credit is provided under the B&O tax. The maximum amount of credit is \$35 per month (or \$420 per year), offsetting any tax liability of up to \$420 on an annual basis. The credit is phased out dollar-for-dollar by the amount of the B&O tax liability that exceeds \$420 annually. This means that if the tax liability is more than \$420 and less than \$840, the credit is equal to \$840 minus the initial tax liability. For example, if the initial liability is \$600, the credit is \$240 (\$840 minus \$600) and the net tax due is \$360 (\$600 minus \$240). If tax liability exceeds \$840 (twice the maximum credit), the credit is zero and the full amount of the tax is due.

All taxpayers are eligible to use this credit to reduce their B&O taxes. However, since the credit phases out at higher gross income amounts, only the smallest firms see a tax reduction.

Summary of Bill:

The small business credit under the B&O tax is increased to \$55 per month (or \$660 on an annual basis).

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.