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**Finance Committee**

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**HB 2270**

**Brief Description:** Exempting payment for certain services provided by public development authorities from business and occupation taxation.

**Sponsors:** Representatives McIntire and Murray.

**Brief Summary of Bill**

- Exempts certain amounts received by certain public development authorities from the business and occupation tax.

**Hearing Date:** 3/4/05

**Staff:** Mark Matteson (786-7145).

**Background:**

*Business and occupation tax.* 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. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

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.

*Public development authorities.* Public development authorities (PDAs) are authorized to improve the administration of authorized federal grants or programs, to improve governmental efficiency and services, and to improve the general living conditions in the urban areas of the state. The provision was initially enacted to authorize counties, cities, and towns a mechanism to participate in and implement federally-assisted programs, including revenue sharing, without creating potential conflict with respect to constitutional restrictions regarding the lending of credit.

Many local governments have established public corporations for a variety of public purposes, such as the implementation of community and affordable housing programs.

PDA's are provided immunity from property taxation, but in general are subject to leasehold excise taxes on leases of property to private entities. Amounts received by PDA's for the provision of services are taxable under the business and occupation tax.

**Summary of Bill:**

An exemption from the B&O tax is provided for amounts received by a public development authority for providing services to a limited liability company, if the PDA is the sole manager; a limited partnership, if the PDA is the sole general partner; or a single asset entity required under a governmental housing assistance program, if the entity is controlled by the PDA.

**Appropriation:** None.

**Fiscal Note:** Requested on March 3, 2005.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.