

SENATE BILL REPORT

SB 6173

As of January 24, 2006

Title: An act relating to excise tax relief for small businesses.

Brief Description: Providing excise tax relief for small businesses.

Sponsors: Senators Franklin, Rasmussen and Benton.

Brief History:

Committee Activity: Ways & Means: 1/24/06.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are generally no deductions for the costs of doing business. Currently, there are nine different B&O tax rates. The three principal rates are:

Manufacturing/wholesaling 0.484 percent,
Retailing 0.471 percent,
Services 1.5 percent.

Businesses are authorized a credit against tax equal to \$35 per month (\$420 per year). The credit provides a complete exemption up to a certain income and is eliminated at twice the exemption amount. The exemption amount for the various classifications varies based on the tax rate. The lower the tax rate, the more benefit is received by the taxpayer from the credit. The exemption amount for the various classifications is as follows:

Manufacturing/wholesaling \$86,777,
Retailing \$89,172,
Services \$28,000.

Non-retailing businesses with incomes of \$28,000 per year or less are required to register with the Department of Revenue but do not need to file tax returns.

Initiative 601 limits the annual growth in state General Fund expenditures to the "fiscal growth factor." The fiscal growth factor is the average rate of state population increase and inflation during the prior three fiscal years. Beginning July 1, 2007, the fiscal growth factor is the average growth in state personal income for the prior ten fiscal years.

Summary of Bill: Annually, beginning in calendar year 2007, the small business credit must be increased by the fiscal growth factor for the fiscal year that ends June 30th of the prior calendar year. Increases are rounded to the nearest multiple of one dollar. The credit is not decreased for a negative fiscal growth factor.

The \$28,000 income requirement for exemption from filing returns is also increased each year by the fiscal growth factor.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This is an important bill for small business. It is a little help that is of great value in encouraging business.

Testimony Against: None.

Who Testified: PRO: Senator Rosa Franklin, prime sponsor.