
Ways & Means Committee

HB 1077

Brief Description: Phasing-out the business and occupation tax rate for on-site property managers.

Sponsors: Representatives Kelley, Orcutt, Finn, McCune, Miloscia, Warnick, Hurst and Harris.

Brief Summary of Bill

- Extends the business and occupation tax exemption for the compensation of on-site employees to include for-profit property management companies starting July 1, 2013.

Hearing Date: 2/16/11

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. Thus, the tax pyramids at each level of activity.

Property owners often hire property management companies to manage their real property. Frequently, the property management companies also manage the personnel who perform the necessary services at the property location. The property owners may pay the on-site personnel through the property management company.

Under legislation adopted in 1998, property management companies were exempt from business and occupation (B&O) taxes on amounts they receive for and pay to an on-site employee when: (1) the employee works primarily at the owner's property; (2) the employee's duties include leasing property units, maintaining the property, collecting rents, or similar activities; and (3) under the property management agreement, the employee's compensation is the ultimate obligation of the property owner, and all actions, including hiring, firing, compensation, and

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conditions of employment, taken by the property manager are subject to the approval of the property owner. The money must be paid from a property management trust account.

In 2010 Second Engrossed Substitute Senate Bill 6143 narrowed the B&O tax exemption covering property management companies for amounts received from a property owner for compensation of on-site personnel to apply only to: (1) non-profit property management companies; and (2) property management companies receiving amounts from a housing authority for compensation of on-site personnel.

Summary of Bill:

The business and occupation tax exemption for the compensation of on-site employees is expanded to include for-profit property management companies starting July 1, 2013.

Appropriation: None.

Fiscal Note: Requested on February 14, 2011.

Effective Date: The bill takes effect on July 1, 2013.