

# SENATE BILL REPORT

## SB 5042

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As of February 15, 2013

**Title:** An act relating to narrowing the business and occupation tax deduction for investment and related income.

**Brief Description:** Narrowing the business and occupation tax deduction for investment and related income.

**Sponsors:** Senator Hasegawa.

**Brief History:**

**Committee Activity:** Ways & Means: 2/14/13.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Juliana Roe (786-7438)

**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 with the state, without any deduction for the costs of doing business. 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. There are a number of different rates.

Nonfinancial businesses are allowed a B&O tax deduction for income related to investments, dividends from the capital account by a parent from its subsidiary entities, and interest from loans between subsidiary and parent entities.

**Summary of Bill:** Nonfinancial businesses may deduct no more than \$1 million per calendar year for income related to investments, dividends from the capital account by a parent from its subsidiary entities, and interest from loans between subsidiary and parent entities.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Staff Summary of Public Testimony:** PRO: The initial intent of this B&O tax exemption was the concept that for most of these companies, financial investments were not the core of their businesses. Now, investments have become a part of their profit strategies and a part of their business models. This exemption is no longer appropriate.

CON: This concept of taxation of investments and investment income is closer to an income tax situation. There is currently no B&O tax on investment income and dividends. There is no tax on the concept of the value of investments. This creates a tax structure that does not exist. It is a slippery slope. The next thing you know we will be adding all other intangibles. You should look at a more comprehensive approach.

**Persons Testifying:** PRO: Senator Hasegawa, prime sponsor.

CON: Sharon Hanek, citizen.