

SENATE BILL REPORT

SB 5339

As of January 30, 2015

Title: An act relating to creating a business and occupation tax credit for new businesses.

Brief Description: Creating a business and occupation tax credit for new businesses.

Sponsors: Senators Padden, Rivers, Angel, Dansel, Schoesler, Becker, Warnick, Honeyford and Parlette.

Brief History:

Committee Activity: Trade & Economic Development: 1/28/15.

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Staff: Jeff Olsen (786-7428)

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. 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. However, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

Summary of Bill: An exemption from the B&O tax is created for new businesses. A new business is exempt from the B&O tax for the first 12 months of operation unless the business has fewer than 25 employment positions. A new business with less than 25 employment positions is exempt from B&O taxes for the first 24 months of operations and then subject to 50 percent of the B&O tax due in the following 12 months.

A new business is defined as a business that is required to obtain a registration certification for the first time during the year in which the exemption is claimed. A new business does not include the following:

- a business that has been restructured or reorganized unless the new activities of the business are significantly different from its previous functions;
- a new branch location or facility unless it is from an existing out-of-state entity doing business in Washington for the first time; or

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- a business that is substantially similar to a business currently operated, or operated within the past five years, by the same principals.

To qualify for the exemption, a new business must file an application as required by the Department of Revenue (DOR) within one year from when the business was required to obtain a registration certificate. The exemption from the B&O tax commences once the application is approved by DOR.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2015.

Staff Summary of Public Testimony: PRO: The Gates Commission identified that the B&O tax is difficult on new businesses, and new businesses have a higher tax burden than established firms. This policy would provide tax relief in the first three years of operation of a new business, and provide another tool to attract new business development in Washington.

OTHER: Reforming the B&O tax is a key priority for small businesses. Washington is experiencing a decline in new business starts, and an increase in business failures, regulations, and the B&O tax are contributing factors. A temporary B&O exemption will increase the odds of a new business being successful; however, ultimately the B&O tax needs a major overhaul.

Persons Testifying: PRO: Senator Padden, prime sponsor.

OTHER: Erin Shannon, WA Policy Center.