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**Finance Committee**

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**HB 2947**

**Brief Description:** Providing business and occupation tax relief to rural manufacturers.

**Sponsors:** Representatives Chapman, Maycumber, Haler, Schmick, Steele and Tharinger.

**Brief Summary of Bill**

- Provides a preferential business and occupation tax rate to eligible manufacturers beginning January 1, 2020.

**Hearing Date:** 2/16/18

**Staff:** Richelle Geiger (786-7139).

**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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

A business that performs more than one B&O taxable activity for the same product reports each activity under the proper classification and takes the multiple activities tax credit (MATC) to ensure B&O tax is only paid once. The MATC also applies to a business that has paid gross recipient tax to another state. The MATC provides a credit equal to the lesser of the two taxes due.

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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.*

**Summary of Bill:**

The general manufacturing, wholesaling, and retailing B&O tax rates for eligible manufacturers are reduced incrementally over the course of four years, beginning January 1, 2020. The rates will be phased in as follows:

- 0.4356 percent from January 1, 2020, through December 31, 2020;
- 0.3872 percent from January 1, 2021, through December 31, 2021;
- 0.3388 percent from January 1, 2022, through December 31, 2022; and
- 0.2904 percent from January 1, 2023, and thereafter.

An "eligible manufacturer" is a manufacturer or processor for hire, engaged in manufacturing within an eligible area. An "eligible area" is a county or a statistically equivalent entity, as defined by the United States Census Bureau, located within or without the state that either has a population density of less than 100 persons per square mile or is smaller than 225 square miles.

A tax preference performance statement is provided. The Legislature categorizes the tax preference as one intended to provide relief to manufacturers located in rural counties. The specific public policy objective is to provide B&O tax relief to businesses located in rural counties, both within and without the state. If a review by the Joint Legislative Audit and Review Committee (JLARC) finds the unemployment rate in rural counties, as defined by the Office of Financial Management, is higher than the unemployment rate of the Seattle-Bremerton-Tacoma combined metropolitan statistical area, as defined by the United States Department of Labor, the Legislature intends for JLARC to recommend extending the expiration date of the tax preference.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2019, except section 3 relating to tax on manufacturers, which takes effect if the contingency in RCW 82.32.790(2) occurs.