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**Finance Committee**

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**HB 2992**

**Brief Description:** Modifying the business and occupation tax structure for rural manufacturers and timber and wood product manufacturers, extractors, and wholesalers.

**Sponsors:** Representatives Chapman, Maycumber and Muri.

**Brief Summary of Bill**

- Provides a preferential business and occupation (B&O) tax rate to eligible manufacturers beginning January 1, 2019.
- Extends the expiration date of the timber and wood products preferential B&O tax rate and surcharge.

**Hearing Date:**

**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.

Extraction, production, and wholesaling of timber and wood products are subject to a preferential B&O rate of 0.2904 percent and a surcharge of 0.052 percent, for a total B&O rate of 0.3424 percent. The revenue from the surcharge is dedicated to the Forest and Fish Support Account. The surcharge is no longer collected for the fiscal year if either:

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1. the fund balance reaches \$8 million in the fiscal year; or
2. the federal government appropriates at least \$2 million to the account.

The preferential rate and surcharge are currently set to expire January 1, 2024.

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.

### **Summary of Bill:**

The general manufacturing, wholesaling, and retailing B&O tax rates for eligible manufacturers are reduced incrementally over the course of six years, beginning January 1, 2019. The rates will be phased in as follows:

1. Until December 31, 2018, current B&O rates apply.
2. 0.4517 percent from January 1, 2019, through December 31, 2019;
3. 0.4195 percent from January 1, 2020, through December 31, 2020;
4. 0.3872 percent from January 1, 2021, through December 31, 2021;
5. 0.3549 percent from January 1, 2022, through December 31, 2022;
6. 0.3227 percent from January 1, 2023, through December 31, 2023; and
7. 0.2904 percent from January 1, 2024, and thereafter.

An "eligible manufacturer" is a manufacturer or processor for hire, engaged in manufacturing within an eligible area. Petroleum refiners are excluded from the definition of eligible manufacturer.

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 and has a population no greater than 100,000.

The expiration date of the timber and wood products preferential B&O rate and surcharge are aligned with the expiration date in the bill. The mechanism to discontinue the collection of the surcharge if a federal appropriation of at least \$2 million dollars is received is eliminated.

A tax preference performance statement is provided. The Legislature categorizes the tax preference as one intended to increase jobs and lower the unemployment rate in rural counties. The specific public policy objective is to decrease the gap between the unemployment rate in rural counties and urban counties, without compromising the underlying financial structure of the Forest and Fish Support Account. If the aggregate unemployment rate in rural counties is no greater than 1.5% higher than the aggregate unemployment rate in nonrural Washington counties, the Legislature intends the Joint Legislative Audit and Review Committee to recommend extending the expiration date.

**Appropriation:** None.

**Fiscal Note:** Requested on 2/16/2018.

**Effective Date:** The bill takes effect on January 1, 2019, except section 4 relating to tax on manufacturers, which takes effect if the contingency in RCW 82.32.790(2) occurs.