

SENATE BILL REPORT

SB 5557

As of January 13, 2022

Title: An act relating to providing sustainable support for new businesses.

Brief Description: Providing sustainable support for new businesses.

Sponsors: Senator Hasegawa.

Brief History:

Committee Activity: Business, Financial Services & Trade: 1/13/22.

Brief Summary of Bill

- Exempts new businesses from having to pay business and occupation (B&O) taxes within their first two years.
- Imposes an additional mitigation tax on B&O taxpayers to offset lost revenue from exempting new businesses from paying B&O taxes.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: Clinton McCarthy (786-7319)

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.

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

A taxpayer may be eligible to use other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. In general, the credit is \$70 per month for service businesses and \$35 per month for all other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$28,000 per year, or less than \$46,667 if at least 50 percent of its taxable income is from services or activities not classified elsewhere.

Summary of Bill: A new business is exempt from having to pay the B&O tax during the first 24 months of operation. A new business does not include:

- a business that has been restructured or reorganized; or
- a business that is substantially similar to a business that has operated within the past two years.

It is the Legislature's intent to mitigate lost tax revenue by increasing the B&O tax evenly for all persons subject to the tax. The Joint Legislative Audit and Review Committee is required to conduct a tax performance review.

The tax preference expires on January 1, 2032.

Appropriation: None

Fiscal Note: Requested on January 4, 2022.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: Washington State is one of the best states to start a new business. At the same time, the state has a high proportion of business failures. "The money ran out" is usually the reason businesses fail. Washington is ranked by US News and World Report as the best state to do business in two years in a row. The bipartisan group working on the tax code trying to make the tax structure less regressive. The B&O tax is very regressive to new businesses. The European Union doesn't charge any taxes for the first two years of a business so that they can become established and durable.

CON: A revenue system should be administered uniformly. This bill would create winners and losers. With the budget outlook and forecast, the state can afford tax relief for all

businesses. Conversations about helping startups is appreciated. Predictability of taxes is a key concern for business owners. The pandemic has brought a lot of changes to their business operations. Giving a two year tax break to new businesses gives them a tax advantage over existing businesses, which creates an unfair advantage.

Persons Testifying: PRO: Senator Bob Hasegawa, Prime Sponsor.

CON: Tommy Gantz, Association of Washington Business; Patrick Connor, NFIB.

Persons Signed In To Testify But Not Testifying: No one.