
Finance Committee

HB 1981

Brief Description: Incentivizing clean nuclear energy manufacturing through preferential business and occupation tax rates.

Sponsors: Representatives Barnard, Stearns, Leavitt, Couture, Connors, Dye, Sandlin and Hackney.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Creates a 10-year preferential business and occupation tax rate of 0.25 percent for businesses involved in retailing, wholesaling, manufacturing, and processing nuclear fuel and assemblies.

Hearing Date: 1/25/24

Staff: Kristina King (786-7190).

Background:

Business and Occupation Tax.

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 (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and activities not classified elsewhere. Several preferential rates also apply to specific

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business activities. The rate applied to the manufacturing, wholesaling, or processing for hire of nuclear fuel and assemblies is 0.474 percent. The rate applied to the retailing for nuclear fuel and assemblies is 0.471 percent.

When a business performs more than one taxable activity related to the production and sale of the same product, it reports each activity under the proper classification. However, the business may receive the multiple activities tax credit (MATC), so B&O tax is not paid more than once on the same product. A business that manufactures and sells a product wholesale in Washington does not pay both manufacturing and wholesaling B&O tax. When the MATC applies, businesses only pay B&O tax once.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Beginning January 1, 2025, a preferential B&O tax rate of 0.25 percent is created for businesses that retail, wholesale, manufacture, or process nuclear fuel or nuclear assemblies, or both. The preferential rate expires on January 1, 2036. The preferential rate is exempted from a TPPS and a JLARC review.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.