
**Trade & Economic Development
Committee**

HB 3117

Brief Description: Increasing small business tax relief.

Sponsors: Representatives Wallace, Simpson, D., Linville, Morrell, Simpson, G. and Santos.

<p>Brief Summary of Bill</p> <ul style="list-style-type: none">• Increasing the amount of the small business Business and Occupation tax credit.

Hearing Date: 2/5/04

Staff: Tracey Taylor (786-7196).

Background:

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2002, B&O tax collection totaled \$1.958 billion which represented approximately 16.4 percent of state revenue sources within the state general fund. Almost all businesses located or doing business in the State of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products.

Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts, freight, and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services.

Credits are amounts that have been paid to the Department of Revenue which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax

due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

Enacted in 1994, the small business B&O tax credit provides a credit against the B&O tax due of up to \$35 per month. Firms with computed B&O tax liability of \$35 or less pay no tax. The credit amount is reduced as B&O tax liability exceeds \$35 per month. The credit is phased out completely when the tax liability reaches \$70 per month. A total of 159,000 firms benefit from this tax credit.

Summary of Bill:

The amount of the maximum small business B&O tax credit for a taxpayer is increased to \$40 per month.

Appropriation: None.

Fiscal Note: Requested on February 2, 2004.

Effective Date: The bill takes effect on July 1, 2004.