

Repeal preferential B&O tax rate for royalties (increases rate from 0.484% to 1.8%)

Description This proposal would eliminate the preferential B&O tax rate for royalty income. The tax rate on royalty income would increase from 0.484% to 1.8% (1.5% after June 30, 2013).

Current Law

- Gross income from royalties is subject to B&O tax at a rate of 0.484%.
- Royalties include all income earned from licensing the use of intangible property to others.
- Washington taxes only that portion of royalty income related to the use of intangible property in this state.

History

- Prior to July 1, 1998, royalty income was subject to service and other activities B&O tax at the 1.5% rate.
- At that time, Washington taxed 100% of a taxpayer's royalty income -- no matter where the intangible property was used. If a taxpayer was domiciled in Washington, it was subject to B&O tax on its worldwide royalty income.
- With the 2010 adoption of single factor apportionment royalty income is now attributed to the state in which the intangible property is used. The 2010 legislation did not restore the pre 1998 tax rate.

Revenue Impact

General Fund Impacts (\$ millions):

Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
\$0	\$18.2	\$18.2

Notes:

- *Estimates assume a July 1, 2012 effective date, representing 11 months of collections for FY 2013.*
- *Estimates reflect the September 2011 Economic & Revenue Forecast Council revenue forecast.*

Expenditure Impact

Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
\$11,700	\$54,700	\$66,400