

## BUSINESS TAXES

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### BUSINESS AND OCCUPATION TAX - DIFFERENTIAL TAX RATES

#### **82.04.240(2) MANUFACTURING SEMICONDUCTOR MATERIALS**

Description: Firms that manufacture materials used in the production of semiconductors are subject to B&O tax at a rate of 0.275 percent, instead of the general manufacturing rate of 0.484 percent. The lower tax rate lasts for a period of 12 years from the effective date. The reduced tax rate is contingent upon commencement of commercial operations by a new semiconductor microchip fabrication facility with an investment in new buildings and equipment amounting to at least \$1 billion. This criterion has yet to be met, and it is believed that the investment will not occur during the forecast period of this study.

Purpose: To encourage retention of existing semiconductor firms in Washington and to attract similar businesses to this state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: None, because the contingency criterion has not been met.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None to date.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

#### **82.04.2404 MANUFACTURING/PROCESSING SEMICONDUCTOR MATERIALS**

Description: Firms that manufacture materials used in the production of semiconductors are subject to B&O tax at a rate of 0.275 percent, instead of the general manufacturing rate of 0.484 percent. The lower tax rate lasts for a period of 12 years from the effective date. The reduced tax rate is contingent upon commencement of commercial operations by a new semiconductor microchip fabrication facility with an investment in new buildings and equipment amounting to at least \$350 million. This criterion was met, and the reduced tax rate became effective on December 1, 2006.

Purpose: To encourage retention of existing semiconductor firms in Washington and to attract similar businesses to this state.

Category/Year Enacted: Business incentive. 2006

Primary Beneficiaries: Three firms that manufacture semiconductor materials.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 1,168	\$ 1,285	\$ 1,413	\$ 1,555
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.250(1) RETAILING

Description: Until 1983 retailers paid the same B&O tax rate as manufacturers and wholesalers. In that year the B&O rates were increased by 10 percent (to 0.484 percent) for the latter two classifications, but only by seven percent for retailers (to 0.471 percent).

Purpose: Part of the rationale for the lower retailing tax rate was the recognition that during the 1981-83 biennium the state sales tax rate was increased from 4.5 to 6.5 percent and this large increase may have adversely impacted retailing firms. Further, the state does not allow any compensation to retailers for their costs incurred in collecting the state and local sales tax.

Category/Year Enacted: Other business. 1983

Primary Beneficiaries: Approximately 175,000 firms that make retail sales.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 21,077	\$ 22,657	\$ 24,357	\$ 26,183
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.250(3) CERTIFIED AIRCRAFT REPAIR

Description: Repair of interstate transportation equipment is normally subject to the B&O tax rate of 0.484 percent. In 2003, a reduced tax rate of 0.275 percent was provided for qualified aircraft repair facilities certified by the Federal Aviation Administration as a "FAR part 145" repair facility. In 2006 the tax rate was changed to 0.2904 percent for this rate classification. The statute is scheduled to expire on July 1, 2011.

Purpose: To encourage the repair of aircraft in this state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: It is believed that four firms qualify for this tax rate.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 424	\$ 454	\$ 485	\$ 519
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.260(1a) MANUFACTURERS OF FLOUR AND OIL

Description: A preferential B&O tax rate of 0.138 percent is provided for manufacturers of flour, pearl barley, soybean oil, canola oil, canola meal, canola byproducts and sunflower oil. The general tax rate for manufacturing is 0.484 percent.

Purpose: To provide tax relief to agricultural processing firms with typically low profit margins that are unable to pass the total cost of a gross receipts tax on to final consumers because of a highly competitive market structure.

Category/Year Enacted: Agriculture. 1949; soybeans and sunflowers added in 1979; pearl barley in 1987.

Primary Beneficiaries: Approximately 105 firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 2,775	\$ 3,052	\$ 3,358	\$ 3,693
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.260(1e & f) MANUFACTURERS OF ALTERNATIVE FUELS

Description: A preferential B&O tax rate of 0.138 percent is provided for manufacturers of alcohol fuel or wood biomass fuel. The general tax rate for manufacturing is 0.484 percent. The preferential tax rate in Subsection "e" of this statute for alcohol fuel, biodiesel fuel, or biodiesel feedstock is scheduled to expire on July 1, 2009. (However, there is no such expiration for alcohol fuel or wood biomass fuel in Subsection "f".)

Purpose: To encourage the production of alternative fuels in Washington.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: There are currently a very small number of such manufacturers operating in this state.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 22	\$ 66	\$ 0	\$ 0
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.260(2) PROCESSORS OF DRIED PEAS

Description: A preferential B&O tax rate of 0.138 percent is provided for processors of dried peas. This rate was reduced from the general manufacturing rate in 1967 to 0.275 percent in 1967 and again in 1998 to 0.138 percent as part of a B&O tax rate consolidation for tax simplification purposes.

Purpose: To provide tax relief to firms with typically low profit margins that are not able to pass the total cost of a gross receipts tax on to final consumers because of a highly competitive market structure.

Category/Year Enacted: Agriculture. 1967 and 1998

Primary Beneficiaries: Approximately four firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 29	\$ 30	\$ 31	\$ 32
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.260(4) PROCESSORS OF MEAT

Description: A preferential B&O tax rate of 0.138 percent is provided for processors and wholesalers of perishable meat products. This rate was first reduced to 0.33 percent in 1967. Several other changes in the rate occurred subsequently until in 1998 it was reduced to 0.138 percent as part of a B&O tax rate consolidation for tax simplification purposes. The general tax rate for manufacturing is 0.484 percent.

Purpose: To provide tax relief to firms with typically low profit margins that are not able to pass the total cost of a gross receipts tax on to final consumers because of a highly competitive market structure.

Category/Year Enacted: Agriculture. 1967 followed by other subsequent changes until the 0.138 percent rate was adopted in 1998.

Primary Beneficiaries: Approximately 154 firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 7,381	\$ 9,131	\$ 9,268	\$ 9,407
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.260(5) TRAVEL AGENTS

Description: A reduced B&O tax rate of 0.275 percent is provided for commissions earned by travel agents and tour operators. In the absence of this statute the commissions would be subject to the service rate of 1.5 percent.

Purpose: To recognize that some of the income of these firms is derived from travel that may take place outside of the state.

Category/Year Enacted: Other business. 1975

Primary Beneficiaries: Approximately 451 taxpayers report under this rate classification.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 8,608	\$ 8,651	\$ 8,695	\$ 8,738
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.260(8) CHARTER AND FREIGHT BROKERS

Description: A preferential B&O tax rate of 0.275 percent is provided for the international activities of charter and freight brokers. This rate was reduced to 0.363 percent in 1979 and again in 1998 to 0.275 percent as part of a B&O tax rate consolidation for tax simplification purposes. The general tax rate for service activities is 1.5 percent.

Purpose: To encourage international trade through Washington.

Category/Year Enacted: Business incentive. 1979 and 1998

Primary Beneficiaries: Approximately 520 firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 19,889	\$ 21,730	\$ 23,689	\$ 25,774
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.260(7) STEVEDORING

Description: A preferential B&O tax rate of 0.275 percent is provided for revenue derived from stevedoring and similar cargo handling activities. Previously, this activity was subject to public utility tax at a rate of 1.926 percent. It was moved to the B&O tax at a rate of 0.363 percent and the rate was further reduced to 0.275 in 1998 percent as part of a B&O tax rate consolidation for tax simplification purposes. The general B&O tax rate for service activities is 1.5 percent.

Purpose: To encourage international trade through Washington.

Category/Year Enacted: Business incentive. 1979 and 1998

Primary Beneficiaries: Approximately 24 firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 9,352	\$ 9,679	\$ 10,018	\$ 10,369
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.260(9) INSURANCE AGENTS

Description: A preferential B&O tax rate of 0.484 percent is provided for revenue derived in the form of commissions by insurance agents and brokers. Previously, this activity was subject to the B&O service classification at a rate of 1.5 percent. It was reduced to 1.1 percent in 1983 and to 0.55 percent in 1995. In 1998 the rate was reduced to the current level as part of a B&O tax rate consolidation.

Purpose: To reflect the perception that insurance companies could not pass on the increased taxes to their current policy holders when the B&O service rate was increased in 1983.

Category/Year Enacted: Other business. 1983; further reduced in 1995 and 1998.

Primary Beneficiaries: Approximately 4,800 taxpayers benefit from this tax rate reduction.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 19,775	\$ 20,863	\$ 22,011	\$ 23,221
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.260(11) MANUFACTURING OF COMMERCIAL AIRCRAFT

Description: A preferential B&O tax rate is provided for manufacturers of commercial airplanes or components of commercial airplanes. Compared with the general tax rate for manufacturing of 0.484 percent, this statute allows a two-step reduction in the tax rate. Starting on October 1, 2005 the rate for manufacturing of all commercial airplanes and components dropped to 0.4235 percent. According to the statute, this rate was to remain in effect until: (1) June 30, 2007, or (2) the date that final assembly of a super-efficient airplane (the Boeing 787) commences in Washington, at which time the aircraft manufacturing rate would further drop to 0.2904 percent, whichever comes later. Assembly of the Boeing 787 commenced prior to June 30, 2007; therefore the 0.2904 percent rate became effective on July 1, 2007. This rate will remain in effect until July 1, 2024.

Purpose: To encourage the assembly of a super-efficient airplane in Washington.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Manufacturers of commercial airplanes and components of such airplanes.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 68,517	\$ 81,815	\$ 95,819	\$104,185
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.260(12) EXTRACTING/MANUFACTURING TIMBER & WOOD PRODUCTS

Description: A preferential B&O tax rate of 0.2904 percent is provided for extracting or manufacturing of timber and selling at wholesale timber and wood products. Previously these activities were subject to a B&O tax rate of 0.484 percent.

Purpose: To encourage the timber industry.

Category/Year Enacted: Business incentive. 2006

Primary Beneficiaries: Firms that extract timber or manufacture timber and wood products.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 13,500	\$ 13,500	\$ 13,500	\$ 13,500
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.260(13) SERVICES FOR SALMON CANNERS

Description: A preferential B&O tax rate of 0.484 percent is provided for firms that inspect, test, label or store canned salmon for another firm that owns the canned salmon. Previously, these activities were subject to the 1.5 percent service rate.

Purpose: To provide tax relief for firms that provide these services for salmon cannery.

Category/Year Enacted: Business incentive. 2006

Primary Beneficiaries: A very small number of firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 23	\$ 23	\$ 24	\$ 25
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.272 RESELLERS OF PRESCRIPTION DRUGS

Description: A preferential B&O tax rate is provided for resellers of prescription drugs that are registered with the Federal Drug Enforcement Administration and licensed by the State Board of Pharmacies. The tax rate is 0.138 percent, compared with the 0.484 percent rate for wholesalers and 0.471 percent for retailers. Drug resellers typically purchase drugs from the manufacturer and sell them directly to a retailer or health care provider.

Purpose: To provide tax relief to such firms that typically experience low profit margins and to encourage resellers of prescription drugs to locate in this state.

Category/Year Enacted: Business incentive. 1998 (effective July 1, 2001)

Primary Beneficiaries: Firms that warehouse and resell prescription drugs and their customers, including hospitals, physicians and health care clinics.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 10,696	\$ 11,231	\$ 11,792	\$ 12,382
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.290(1) INTERNATIONAL INVESTMENT MANAGEMENT SERVICES

Description: Firms engaged in providing management services for international investment are allowed a preferential B&O tax rate of 0.275 percent, compared with the general service rate of 1.5 percent.

Purpose: To retain international investment management services within the state. Such firms could easily move to a location outside of Washington.

Category/Year Enacted: Business incentive. 1995

Primary Beneficiaries: Approximately 41 firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 13,216	\$ 14,802	\$ 16,578	\$ 18,568
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes, although some firms could easily escape the tax by relocating.

### 82.04.2905 CHILD CARE

Description: Firms that are engaged in providing child care are allowed a preferential B&O tax rate of 0.484 percent, compared with the general services tax rate of 1.5 percent. NOTE: child care provided by churches and the care of children up to the age of eight are exempt from B&O tax.

Purpose: To reduce the cost of this service for families and to reduce the tax burden for an industry with low profit margins and one which pays its employees very low wages.

Category/Year Enacted: Other business (or Individuals, assuming the benefit is passed on to families). 1998

Primary Beneficiaries: Approximately 500 firms providing child care report under this classification.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 682	\$ 719	\$ 758	\$ 799
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.2906 TREATMENT OF CHEMICAL DEPENDENCY

Description: Taxpayers who provide intensive in-patient or recovery house residential treatment services for chemical dependency are subject to B&O tax at a rate of 0.484 percent, rather than the general medical services rate of 1.5 percent. The lower tax rate applies only to receipts from governmental sources. To qualify, the firm must be certified by the Department of Social and Health Services.

Purpose: To support the firms that provide such services.

Category/Year Enacted: Other business. 2003

Primary Beneficiaries: Firms that provide treatment for chemical dependency.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 34	\$ 35	\$ 35	\$ 35
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.2907 ROYALTY INCOME

Description: Royalty income is subject to B&O tax at a rate of 0.484 percent, rather than the service rate of 1.5 percent. This applies to authors, musicians and other recording artists, franchise fees, and royalties for patents, licenses, software and similar items.

Purpose: To clarify the treatment of royalty income and to recognize the mobility of these funds.

Category/Year Enacted: Other business. 1998

Primary Beneficiaries: Approximately 1,865 recipients of royalty payments in Washington.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)*</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 12,292	\$ 12,292	\$ 12,292	\$ 12,292
Local taxes - not considered.				

\*Based on the previous service classification.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Possibly, but compliance would be difficult as taxpayers would have greater incentive to receive royalties outside of this state.

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### 82.04.2908 ADULT BOARDING HOMES

Description: A reduced tax rate is provided for adult boarding homes that are licensed under Chapter 18.20 RCW for income derived from provision of domiciliary care. Instead of the 1.5 percent service rate, these homes are taxed at 0.275 percent.

Purpose: To make the taxation of such homes similar to the treatment of nursing homes.

Category/Year Enacted: Other business. 2004

Primary Beneficiaries: Adult boarding homes.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 9,593	\$ 10,072	\$ 10,576	\$ 11,105
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### 82.04.2909 ALUMINUM SMELTING

Description: A reduced tax rate of 0.2904 percent applies to manufacturing and wholesaling of aluminum.

Purpose: To support the aluminum industry.

Category/Year Enacted: Business incentive. 2004

Primary Beneficiaries: The aluminum industry.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) There are fewer than three firms that benefit from this lower B&O tax rate; therefore the revenue impact cannot be stated publicly.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

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### 82.04.294 MANUFACTURING SOLAR ENERGY SYSTEMS

Description: B&O tax rate on manufacturing of solar energy systems or the production of silicon components of these systems is 0.2904 percent until June 30, 2014. Firms that utilize this special tax rate must file annual reports with the Department detailing employment, wages paid, and employee benefits.

Purpose: A report by the Washington State University energy program recognized the solar electric industry as one of the state's important growth industries. The report indicates that additional incentives for the solar electric industry are needed in recognition of the unique forces and issues involved in business decisions in this industry.

Category/Year Enacted: Business incentive. 2005

Primary Beneficiaries: Manufacturers of solar electric systems and silicon components.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State tax	\$ 352	\$ 370	\$ 388	\$ 407
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.