

Repeal or reduce all preferential B&O tax rates

Description

This proposal would either:

- a. Repeal all preferential business and occupation (B&O) tax rates, excluding aerospace and radioactive waste clean-up for the federal government; or
- b. Reduce the benefit all preferential B&O tax rates by 25 percent, excluding aerospace and radioactive waste clean-up for the federal government.

Current Law

For the privilege of engaging in business, a B&O tax is imposed on the gross receipts (without deductions for the cost of doing business) of businesses operating in Washington.

The state has five general B&O classifications: retailing, wholesaling, manufacturing, extracting and service. In addition, the state's B&O tax code includes preferential tax rates that benefit approximately 40 industries, from the manufacturers of certain agricultural products to travel agencies and international investment management. Industries with a preferential rate do not pay the standard B&O tax rate for their general classification.

Many of these preferential rates have been enacted in the past 15 years, often without any specific, measurable public policy objectives. For example, income from royalties, which is classified as a service, would normally require payment of the standard service B&O tax rate of 1.5 percent, but instead requires payment of a much lower rate of 0.484 percent.

The Citizen Commission for Performance Measurement of Tax Preferences has recommended terminating the preferential B&O tax rate for several industries due to a lack of evidence that the tax preference is achieving any specific public policy objective.

Revenue Impact

General Fund Impacts (\$ millions)

	# of							
	#	FY 2016	FY 2017	2015-17	FY 2018	FY 2019	2017-19	
	Impacted Taxpayers			Biennium			Biennium	
18a	15,600	\$ -	\$ 163.8	\$ 163.8	\$ 188.3	\$ 198.4	\$ 386.7	
18b	15,600	\$ -	\$ 40.9	\$ 40.9	\$ 47.1	\$ 49.6	\$ 96.7	

- *Estimates assume a July 1, 2016 effective date, representing 11 months of collections for FY 2017.*
- *Estimates reflect the November 2015 Economic and Revenue Forecast Council revenue forecast.*

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**Expenditure
 Impact**

#	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
18a	\$ 90,700	\$ 38,700	\$ 129,400	\$ 7,000	\$ 7,000	\$ 14,000
18b	\$ 90,700	\$ 32,300	\$ 123,000	\$ 7,000	\$ 7,000	\$ 14,000

Note: FY 2016 costs represent initial implementation costs and may include items such as system changes, tax return modifications and taxpayer education.