

BUSINESS TAXES

BUSINESS AND OCCUPATION TAX - DEDUCTIONS

82.04.280(6) RADIO AND TV BROADCASTING

Description: A B&O tax deduction is allowed for radio and television broadcasters for: (1) income received from network, national, and regional advertising, and (2) that portion of revenue represented by their out-of-state audience.

Purpose: The deduction reflects a perception that broadcasts which cross the state's boundaries and advertising income derived from outside the state may constitute interstate commerce.

Category/Year Enacted: Commerce. 1967, as a result of a Court decision.

Primary Beneficiaries: Interstate broadcasters.

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	\$ 1,305	\$ 1,393	\$ 1,482	\$ 1,566
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Not if the tax would be considered as interfering with interstate commerce.

82.04.298(2) GROCERY CO-OPS

Description: A deduction from gross proceeds of sales is allowed for the cost of goods by a qualified grocery cooperative that does not make sales at wholesale to its members/owners. However, any commission income is subject to tax under the service classification.

Purpose: To provide a deduction for qualified grocery cooperatives on goods distributed to its members when the cooperative retains the title to the goods.

Category/Year Enacted: Business incentive. 2001

Primary Beneficiaries: Two cooperatives.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Due to confidentiality requirements, the impact of this deduction cannot be publicly stated because it is believed to affect fewer than three taxpayers.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?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

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82.04.333 SMALL TIMBER HARVESTERS

Description: Previously, small timber harvesters (sales of less than \$100,000 annually) were exempt from extracting B&O tax. In 2007, the statute was amended so that the exemption becomes a deduction for all small timber harvests as defined under the timber tax statute (Chapter 84.33 RCW). In addition to sales of less than \$100,000 annually, the small harvester definition includes firms that harvest less than two million board feet annually.

Purpose: To assist one-time or infrequent timber harvesters.

Category/Year Enacted: Other business. 2007

Primary Beneficiaries: Approximately 3,100 timber harvesters. (However, some 75 percent of these would still be covered by the small business tax credit.)

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	\$ 407	\$ 417	\$ 428	\$ 438
Local taxes - not considered.				

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

82.04.4271 YOUTH ORGANIZATION FEES

Description: A B&O tax deduction is allowed for nonprofit youth organizations for membership fees, dues and fees paid for the use of camping and recreational facilities.

Purpose: To support the programs and social benefits provided by these organizations. Dues are ordinarily deductible under RCW 82.04.4282, but not when the payment is in exchange for specific goods or services. Therefore, this deduction is necessary to cover the typical charges of YMCAs, church camps, and similar organizations.

Category/Year Enacted: Nonprofit - charitable or religious. 1981

Primary Beneficiaries: Approximately 200 nonprofit youth organizations.

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	\$ 393	\$ 405	\$ 417	\$ 430
Local taxes - not considered.				

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

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82.04.4272 DELIVERY CHARGES FOR DIRECT MAIL

Description: A B&O tax deduction is allowed for delivery charges made for direct mail, if the charges are separately stated on the billing given to the purchaser. Direct mail refers to printed material delivered without charge to a mass audience or to a mailing list provided by the purchaser.

Purpose: To clarify the taxation of delivery charges for direct mail.

Category/Year Enacted: Other business. 2005

Primary Beneficiaries: Direct mail service providers.

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	\$ 10	\$ 11	\$ 11
Local taxes - not considered.				

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

82.04.4281 INVESTMENT INCOME OF NONFINANCIAL FIRMS

Description: Deduction is provided for interest, dividends and capital gain income earned by persons who are not engaged in banking, loan, security or other financial businesses. A change in 2002 established a 50 percent threshold for loan income before it is taxable.

Purpose: The B&O tax is intended to apply for the privilege of engaging in business. This deduction reflects the perspective that investment income by nonfinancial firms is not considered as engaging in business.

Category/Year Enacted: Tax base. 1935; clarified in 2002.

Primary Beneficiaries: Nonfinancial corporations (21% of the total); individuals and noncorporate business entities (61%); and pension trusts (18%).

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	\$336,000	\$363,600	\$386,300	\$412,300
Local taxes - not considered.				

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

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82.04.4281 SUBSIDIARY DIVIDENDS

Description: A B&O tax deduction is provided for amounts derived as dividends received from subsidiaries and interest received on loans to related companies if the total investment and loan income is less than five percent of the firm's annual gross receipts.

Purpose: To provide a positive environment for capital investment in Washington and to provide equivalent treatment for similarly situated taxpayers.

Category/Year Enacted: Tax base. 1970; clarified in 2002.

Primary Beneficiaries: Holding companies of financial institutions and other parent corporations.

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	\$ 6,387	\$ 6,875	\$ 7,168	\$ 7,467
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes, although firms could easily shift such income to affiliated out-of-state entities.

82.04.4282 MEMBERSHIP DUES AND FEES

Description: B&O tax deduction is allowed for amounts derived from bona fide initiation fees and dues. The value of any significant goods or services provided to members may not be claimed as a deduction if the goods or services are provided to members without additional charge.

Purpose: To recognize that initiation fees and membership dues are in part or in whole paid solely for the privilege of membership and not in return for significant goods or services.

Category/Year Enacted: Nonprofit - other. 1935

Primary Beneficiaries: Private clubs (health, sports, social, etc.) and their members.

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	\$ 790	\$ 836	\$ 884	\$ 935
Local taxes - not considered.				

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

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82.04.4282 CONTRIBUTIONS AND DONATIONS

Description: B&O tax deduction is allowed for amounts received as contributions, donations and endowment funds, provided that no specific service is performed as a condition for receiving these funds.

Purpose: Donations are not considered as income derived from engaging in business.

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Private schools and colleges and other nonprofit organizations, such as hospitals and religious, fraternal and charitable groups.

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	\$ 3,944	\$ 4,172	\$ 4,413	\$ 4,669
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No, assuming that receipt of contributions and donations would not otherwise be considered as engaging in business.

82.04.4282 TUITION FEES

Description: B&O tax deduction is provided for tuition fees and charges, including fees by privately operated kindergartens. Tuition fees are defined by RCW 82.04.170 to include charges for room and board, as well as fees for library, laboratory, or health services and other special fees, made by an educational institution.

Purpose: To reduce the cost of education provided by private schools and colleges.

Category/Year Enacted: Nonprofit - other. 1935, private kindergartens added in 1985.

Primary Beneficiaries: Private schools, colleges and kindergartens.

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	\$ 18,010	\$ 18,813	\$ 19,653	\$ 20,530
Local taxes - not considered.				

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

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82.04.4282 TRADE SHOWS

Description: Deduction from B&O tax is allowed for nonprofit trade or professional organizations for charges made in conjunction with trade shows, conventions and educational seminars, as long as the event is not open to the general public. The deduction covers admission fees and charges for occupying space.

Purpose: To encourage trade shows, conventions and educational seminars to take place in this state.

Category/Year Enacted: Nonprofit - other. 1989

Primary Beneficiaries: Nonprofit organizations that sponsor trade shows.

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	\$ 773	\$ 830	\$ 891	\$ 957
Local taxes - not considered.				

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

82.04.4283 CASH DISCOUNTS

Description: B&O tax deduction is allowed for cash discounts taken by purchasers, as long as the discount taken was included in the amount of gross revenue reported by the seller for B&O tax purposes.

Purpose: To recognize that cash discounts allowed do not represent income to the seller.

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Businesses that offer cash discounts to purchasers.

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	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No; the B&O tax would probably not apply to income that is not actually received by the seller.

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82.04.4284 CREDIT LOSSES

Description: B&O tax deduction is allowed for firms that maintain their books on an accrual basis equal to the amount of loss resulting from nonpayment of accounts. The result is equivalent treatment for cash and accrual basis taxpayers.

Purpose: To recognize that no income is actually received by the seller on unpaid transactions.

Category/Year Enacted: Other business. 1935

Primary Beneficiaries: Firms that use the accrual method of accounting.

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	\$ 5,713	\$ 5,968	\$ 6,235	\$ 6,513
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Unlikely; although the transaction was made, no income was received by the seller.

82.04.4285 MOTOR VEHICLE FUEL TAXES

Description: The amount of state and federal taxes on motor vehicle fuel that is included in the sales price is deductible for B&O purposes by wholesalers and retailers of the fuel. Currently, the state levies a tax of 28 cents per gallon and the federal government imposes a tax of 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel. Both are paid at the distributor level and are passed on to consumers in the retail price.

Purpose: To eliminate double taxation.

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Retail fuel dealers and purchasers of fuel.

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	\$ 16,441	\$ 17,430	\$ 17,779	\$ 18,113
Local taxes - not considered.				

*Estimates based on both wholesale and retail levels and include both state and federal tax.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Unlikely; although there is no specific reason that B&O tax could not apply to the portion of the sales price of fuel represented by state and federal fuel taxes.

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82.04.4286 DEDUCTION FOR CONSTITUTIONAL REASONS

Description: B&O tax deduction is provided for gross income derived from activities which the state is prohibited from taxing under the Washington State Constitution, the federal constitution, or federal law. One area covered by these prohibitions relates to interstate commerce. The state cannot tax sales of tangible personal property when delivery is made outside the state and sales by out-of-state firms that do not carry on any local activity significantly associated with the seller's ability to establish or maintain a market in this state (commonly referred to as nexus). Because exports of goods produced in this state are subject to manufacturing or extracting B&O tax, the constitutional exemptions for exported products essentially benefit only retailers and wholesalers. Most imports are subject to B&O tax, except for transactions involving no local activity (e.g., mail order and Internet purchases). Another important area the state cannot tax relates to business activities engaged in by Indians and Indian tribal entities in Indian country.

Purpose: To avoid a violation of the state or federal constitutions.

Category/Year Enacted: Commerce. 1935

Primary Beneficiaries: Firms engaged in interstate and foreign commerce and Indian tribal enterprises.

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	\$634,879	\$662,521	\$691,370	\$721,478
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No.

82.04.4287 PROCESSING HORTICULTURAL PRODUCTS

Description: B&O tax deduction is provided for income received for washing, sorting and packing fresh, perishable horticultural products, if the work is performed for the farmer/producer.

Purpose: To support the agricultural industry.

Category/Year Enacted: Agriculture. 1935

Primary Beneficiaries: Processors of fresh horticultural 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	\$ 946	\$ 946	\$ 946	\$ 946
Local taxes - not considered.				

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

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82.04.4289 NURSING HOMES AND OTHER FACILITIES

Description: B&O tax deduction is allowed for nonprofit nursing homes, kidney dialysis facilities, hospice agencies and homes for unwed mothers operated by religious or charitable organizations. The deduction covers compensation received for patient care and the sale of prescription drugs to patients.

Purpose: To reduce the cost of caring for patients of these facilities.

Category/Year Enacted: Nonprofit - health or social welfare. 1945. Nonprofit hospitals removed from the deduction in 1993 when they became subject to B&O tax to provide funding for health care; hospice facilities added in 1998.

Primary Beneficiaries: Organizations which operate these facilities and their patients.

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	\$ 2,233	\$ 2,367	\$ 2,437	\$ 2,511
Local taxes - not considered.				

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

82.04.4291 INTERGOVERNMENTAL CHARGES

Description: A local government jurisdiction may deduct from its gross income that is subject to B&O tax any income received from other political subdivisions that would otherwise be taxable under the service classification.

Purpose: This deduction allows local governments to perform services for other jurisdictions (computer operations, accounting, etc.) without incurring B&O tax liability.

Category/Year Enacted: Government. 1970

Primary Beneficiaries: Cities and counties.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) The impact of this deduction is included under the exemption for local government business income, RCW 82.04.419.

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

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82.04.4292 INTEREST ON REAL ESTATE LOANS

Description: B&O tax deduction is allowed for interest earned on first mortgage loans and securities secured by first mortgages of nontransient residential property.

Purpose: To reduce the cost of purchasing a home and to stimulate residential construction in Washington relative to other states.

Category/Year Enacted: Other business. 1970

Primary Beneficiaries: Financial institutions, the real estate industry and home buyers to the extent that the benefit of the deduction is passed through to borrowers.

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	\$ 72,155	\$ 76,558	\$ 81,190	\$ 86,606
Local taxes - not considered.				

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

82.04.4293 INTEREST ON GOVERNMENT OBLIGATIONS

Description: B&O deduction is provided for interest income from obligations of Washington State and its political subdivisions and municipal corporations.

Purpose: To provide state tax treatment comparable to federal income tax treatment of state and municipal bonds. Also, this helps to reduce the cost of state and local government construction projects which are financed by bonds.

Category/Year Enacted: Government. 1970

Primary Beneficiaries: Financial institutions that hold public bonds.

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	\$ 3,665	\$ 4,325	\$ 4,853	\$ 5,216
Local taxes - not considered.				

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

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82.04.4294 INTEREST ON AGRICULTURAL LOANS

Description: Financial businesses may deduct income derived as interest on certain agricultural and aquatic loans. To qualify, the lending institution must be owned exclusively by its borrowers or members and be solely engaged in making loans and providing financial services to farmers, ranchers, producers of aquatic products, their cooperatives, rural residents for housing, or persons engaged in furnishing farm-related or aquatic-related services to these individuals or entities.

Purpose: To support the agricultural industry by reducing the cost of loans issued by cooperatives.

Category/Year Enacted: Agriculture. 1970

Primary Beneficiaries: Two entities involved in making agricultural loans to farmers or cooperatives.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Due to confidentiality requirements, the impact of this deduction cannot be publicly stated because it is believed to affect fewer than three taxpayers.

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

82.04.4295 MANUFACTURING COMPLETED IN WASHINGTON

Description: For products manufactured outside the state that are brought into Washington for minor final assembly (less than two percent of the sales value) and then sold outside the state, the value initially created outside the state is allowed as a deduction from B&O tax.

Purpose: To stimulate trade and importing of products through Washington ports.

Category/Year Enacted: Business incentive. 1977

Primary Beneficiaries: Out-of-state manufacturers of motor vehicles (e.g., imported pickup trucks whose beds are attached 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	\$ 2,460	\$ 2,622	\$ 2,795	\$ 2,979
Local taxes - not considered.				

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

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82.04.4296 FUNERAL HOME REIMBURSEMENT

Description: B&O tax deduction is allowed for amounts received by a funeral home as reimbursement for expenditures made by the home as an accommodation to persons paying for a funeral. The expenditures must be for goods and services provided by a person not affiliated or associated with the funeral home. The amounts are deductible only if billed to the person paying for the funeral at the same cost and if they are separately itemized on the billing statement.

Purpose: To reduce the cost of funerals and simplify the billing of various components of funerals (e.g., charges for flowers).

Category/Year Enacted: Other business. 1979

Primary Beneficiaries: Funeral 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	\$ 12	\$ 13	\$ 13	\$ 13
Local taxes - not considered.				

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

82.04.4297 GRANTS TO NONPROFIT ORGANIZATIONS

Description: Deduction from B&O tax is provided to nonprofit organizations or local government entities for grants received from federal, state or local governments for the support of health or social welfare programs. Examples of programs covered by the deduction include health care; family and drug counseling; services for the sick, elderly and handicapped; day care; vocational training and employment services; legal services for the indigent; and services for low-income homeowners or renters. Also deductible are Medicare/Medicaid receipts of nonprofit and public hospitals.

Purpose: To reduce the cost of providing such services.

Category/Year Enacted: Nonprofit - health or social welfare. 1979

Primary Beneficiaries: Nonprofit social service organizations and their clients.

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	\$ 74,060	\$ 76,282	\$ 78,570	\$ 80,928
Local taxes - not considered.				

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

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82.04.4298 CONDOMINIUM MAINTENANCE FEES

Description: A B&O tax deduction is allowed for funds received by cooperative housing associations, condominium associations and residential property associations from members of the association, if the funds are used for repair, maintenance, management and improvement of the residences and the commonly held property.

Purpose: To provide comparable tax treatment for these payments by condo owners and the funds set aside by homeowners for similar maintenance and upkeep purposes.

Category/Year Enacted: Other business. 1979

Primary Beneficiaries: Condominium associations and their members.

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	\$ 4,657	\$ 4,797	\$ 4,941	\$ 5,089
Local taxes - not considered.				

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

82.04.4311 PUBLIC/NONPROFIT HOSPITALS; GOVT. SUBSIDIZED BENEFITS

Description: B&O tax deduction is allowed for public and nonprofit hospitals and community health centers for health care services received from the federal Medicare program, state health programs under Chapter 74.09 RCW, or the state's basic health program. The deduction applies regardless if the revenues were received directly from these programs or through managed health care organizations. The deduction is limited to payments from these governmental programs and does not extend to patient copayments or deductibles.

Purpose: To recognize that the provision of health services to people who receive federal or state subsidized health benefits by reason of age, disability or income level is a necessary and vital governmental function. As such, it would be inconsistent to tax such receipts.

Category/Year Enacted: Nonprofit - health or social welfare. 2002 (Health centers added in 2005.)

Primary Beneficiaries: Nonprofit and public hospitals and community health centers.

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	\$ 70,538	\$ 73,712	\$ 77,029	\$ 80,495
Local taxes - not considered.				

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

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82.04.432 MUNICIPAL SEWER CHARGES

Description: City sewer utilities are permitted to deduct from income subject to B&O tax any payments to other cities or other governmental agencies for interception, treatment or disposal of sewerage.

Purpose: Collection of sewerage is taxable under the state public utility tax. Interception, treatment and disposal of sewerage are subject to the state B&O tax. This deduction eliminates pyramiding of the tax when multiple utilities are involved in the provision of sewerage services. Because of the deduction provided by RCW 82.04.4291 (intergovernmental charges), this income is not taxed at all.

Category/Year Enacted: Government. 1967

Primary Beneficiaries: Cities.

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	\$ 1,491	\$ 1,591	\$ 1,692	\$ 1,788
Local taxes - not considered.				

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

82.04.4322 ARTS/CULTURAL ORGANIZATIONS - GOVERNMENT GRANTS **82.04.4324 ARTS/CULTURAL ORGANIZATIONS - MANUFACTURED ITEMS** **82.04.4326 ARTS/CULTURAL ORGANIZATIONS - TUITION** **82.04.4327 ARTS/CULTURAL ORGANIZATIONS - BUSINESS INCOME**

Description: These four statutes provide B&O tax deductions for nonprofit artistic or cultural organizations, including performing arts groups such as music, theater, dance; and art history museums. Four types of income are covered: government grants, tuitions, manufactured items, and business income (e.g., charges for admission. Because data are typically not available on each source of income, these are considered jointly.

Purpose: To support the programs of artistic and cultural organizations.

Category/Year Enacted: Nonprofit - arts or cultural. 1981; business income added in 1985.

Primary Beneficiaries: Nonprofit arts and cultural organizations.

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	\$ 3,085	\$ 3,178	\$ 3,273	\$ 3,371
Local taxes - not considered.				

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

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82.04.433 FUEL FOR COMMERCIAL VESSELS

Description: A B&O tax deduction is provided for income derived from the sale of fuel that is consumed outside of Washington territorial waters of the U.S. in vessels engaged in foreign commerce.

Purpose: To foster foreign trade and encourage ocean-going vessels to purchase fuel in Washington.

Category/Year Enacted: Other business. 1985

Primary Beneficiaries: Fuel dealers and commercial vessels engaged in foreign commerce.

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	\$ 2,725	\$ 3,079	\$ 3,478	\$ 3,929
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Unlikely; the tax might be interpreted as an interference with interstate commerce.

82.04.4331 HEALTH INSURANCE CLAIMS

Description: A B&O tax deduction was provided to insurance companies for amounts paid on medical or dental claims for state employees incurred prior to July 1, 1990.

Purpose: To prevent placing commercial insurers at a competitive disadvantage in bidding for state contracts by providing commercial insurance firms with a deduction that was available to health care contractors and health maintenance organizations.

Category/Year Enacted: Tax base. 1988

Primary Beneficiaries: None. The state now self-insures and no commercial insurer was selected to provide the uniform health plan for state employees.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No.

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82.04.4332 FOREIGN BRANCH CAMPUSES

Description: A B&O tax deduction is provided for tuition fees received by an in-state branch of a foreign university. To qualify, the university must be in compliance with RCW 28B.90, grant degrees, and be exempt from federal income tax.

Purpose: To encourage foreign universities to locate branches in Washington.

Category/Year Enacted: Nonprofit - other. 1993

Primary Beneficiaries: Two branches of foreign universities have been approved by the Higher Education Coordinating Board and are eligible for the deduction. Only one is taking the deduction.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Cannot be disclosed for confidentiality reasons.

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

82.04.4334 SALES OF ALTERNATIVE FUEL

Description: Deduction from B&O tax is provided for income from the sale or distribution of biodiesel or E85 motor fuel. Biodiesel fuel is derived from vegetable oils or animal fats. E85 fuel is a blend of ethanol and hydrocarbon in which the ethanol portion is comprised of from 75 to 85 percent denatured fuel ethanol. This deduction is scheduled to expire on July 1, 2015.

Purpose: To encourage the production and sale of alternative fuels.

Category/Year Enacted: Business incentive. 2003, amended in 2006.

Primary Beneficiaries: Dealers of alternative fuels.

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	\$ 51	\$ 90	\$ 157	\$ 275
Local taxes - not considered.				

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

BUSINESS TAXES

82.04.4335 SALES OF WOOD BIOMASS FUEL

Description: Deduction from B&O tax is provided for income from the sale or distribution of wood biomass fuel. Such fuel is derived from the residue of wood, forest or field products or dedicated energy crops. The deduction is scheduled to expire on July 1, 2009.

Purpose: To encourage fuel dealers to sell alternative fuels.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: None to date.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None to date; there are no known wood biomass fuel dealers currently operating in the state.

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

82.04.4337 MEDICAID RECEIPTS OF ADULT BOARDING HOMES

Description: A deduction from B&O taxable income is allowed for proprietary adult boarding homes licensed under Chapter 18.20 RCW for amounts received from Medicaid for residential care.

Purpose: To make the tax treatment of boarding homes the same as nursing homes.

Category/Year Enacted: Other business. 2004

Primary Beneficiaries: Adult boarding homes that are organized for-profit.

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	\$ 2,265	\$ 2,379	\$ 2,498	\$ 2,622
Local taxes - not considered.				

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

BUSINESS TAXES

82.04.4338 AUXILIARY POWER FOR DIESEL TRUCKS

Description: Exemption from B&O tax is provided for income associated with the development and operation of electrical power service hookups for diesel freight trucks at highway truck stops.

Purpose: To reduce diesel engine air pollution by encouraging truck stop operators to provide electric power to truck systems and for truck drivers to utilize the available "shore" power through the use of onboard electrification systems.

Category/Year Enacted: Other business. 2006

Primary Beneficiaries: Approximately 175 truck stop operators.

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	\$ 2	\$ 2	\$ 3
Local taxes - not considered.				

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

82.04.4339 GRANTS FOR SALMON HABITAT RESTORATION

Description: Governmental grants received by nonprofit organizations for purposes of restoring salmon habitat are deductible from B&O tax liability.

Purpose: To encourage restoration of salmon habitat

Category/Year Enacted: Other business. 2004

Primary Beneficiaries: Approximately 40 organizations involved in restoring salmon habitat.

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	\$ 400	\$ 400	\$ 400	\$ 400
Local taxes - not considered.				

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

BUSINESS TAXES

82.04.540(2) WAGES PAID FOR CLIENTS

Description: Deduction from state B&O tax is provided for a professional employer organization (PEO) for the cost of wages, salaries, benefits, and other payments made to covered employees who are co-employed by the PEO and a client of the PEO.

Purpose: To exclude from B&O tax payroll expenses being passed through the PEO to the covered employees.

Category/Year Enacted: Tax Base. 2006

Primary Beneficiaries: Approximately 25 professional employer organizations.

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	\$ 2,117	\$ 2,180	\$ 2,303	\$ 2,433
Local taxes - not considered.				

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

82.04.620 PHYSICIAN ADMINISTRATION OF PRESCRIPTION DRUGS

Description: This B&O deduction allows physicians or clinics to deduct amounts received for the infusion or injection of drugs for human use pursuant to a prescription. The deduction may not exceed the current federal reimbursement rate under Medicare. The injection must be covered or required under a health care program which is subsidized by the federal or state government.

Purpose: To improve patient care by encouraging physicians to administer drugs in their own facilities, rather than referring their patients to a hospital where the wait time and cost of care may be greater.

Category/Year Enacted: Other business. 2007

Primary Beneficiaries: Doctors, clinics and their patients

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	\$ 800	\$ 1,200	\$ 1,200	\$ 1,200
Local taxes - not considered.				

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