

## BUSINESS TAXES

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### B&O TAX EXEMPTIONS - BUSINESS ACTIVITIES

#### **82.04.062      PRECIOUS METALS AND BULLION**

Description: Sales of precious metals and monetized bullion are exempt from B&O tax. However, dealers of such metals and bullion are subject to B&O tax under the service classification on any commissions they receive for buying and selling precious metals on behalf of customers.

Purpose: The exemption was enacted in conjunction with legislation providing relief from retail sales tax for dealers that were in competition with precious metals dealers in other states where such transactions are not subject to sales tax.

Category/Year Enacted: Other business. 1985

Primary Beneficiaries: Coin and bullion dealers.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 200	\$ 200	\$ 200	\$ 200
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?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

#### **82.04.110      ALUMINUM MASTER ALLOYS**

Description: This statute stipulates that persons who produce aluminum master alloys are considered as processors for hire rather than manufacturers, regardless of the portion of aluminum provided by their customers. As a result, these producers are taxed on the amounts they charge customers for processing. If they were considered to be manufacturers, they would instead be taxed on the total market value of the finished product.

Purpose: To provide tax relief to the aluminum industry.

Category/Year Enacted: Business incentive. 1997

Primary Beneficiaries: One firm.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000)      Due to confidentiality requirements, the impact of this exemption 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If the exemption were repealed, would the taxpayer savings be realized as increased revenues?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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### 82.04.120 SEAFOOD PROCESSING

Description: The definition of "to manufacture" for B&O tax purposes excludes cutting, grading or ice glazing of seafood that has been cooked, frozen or canned outside of Washington. As a result, seafood processors who perform these activities on their own seafood are not subject to manufacturing B&O tax.

Purpose: To encourage these activities and the associated jobs to take place within Washington.

Category/Year Enacted: Business incentive. 1975

Primary Beneficiaries: Fewer than 10 firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 20	\$ 20	\$ 20	\$ 20
Local taxes - not considered.				

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

### 82.04.120 SEED CONDITIONING

Description: The definition of "to manufacture" for B&O tax purposes excludes conditioning of seed for use in planting. The term "seed" may be applied to a wide variety of plant products and includes those intended for home use as well as agricultural applications. Persons who condition seed for others or for resale to farmers are also exempt from B&O tax per RCW 82.04.331.

Purpose: To encourage such businesses to locate in Washington.

Category/Year Enacted: Agriculture. 1987

Primary Beneficiaries: Firms that prepare and distribute seed.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 130	\$ 130	\$ 130	\$ 130
Local taxes - not considered.				

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

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### 82.04.120 HAY CUBING

Description: The definition of "to manufacture" for B&O tax purposes excludes the activity of cubing hay or alfalfa (i.e., compacting hay into very small "cubes" to facilitate shipping, principally to foreign markets). As a result, farmers who cube these items for sale at wholesale are not subject to B&O tax on this income. Persons who cube hay/alfalfa for others are taxed under the service classification if the activity takes place on the grower's land and under wholesaling when the activity is performed elsewhere.

Purpose: To improve the competitive position of Washington firms that cube hay for export.

Category/Year Enacted: Agriculture. 1997

Primary Beneficiaries: A relatively small number of firms engaged in this activity.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 208	\$ 208	\$ 208	\$ 208
Local taxes - not considered.				

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

### 82.08.2403 FISH CLEANING

Description: B&O tax exemption is provided for the cleaning of fresh-water fish. Cleaning is defined as the removal of the head, fins, or viscera from the fish without further processing.

Purpose: To support the fishing industry.

Category/Year Enacted: Business incentive. 1994

Primary Beneficiaries: A very small number of firms benefit from this exemption.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 9	\$ 9	\$ 9	\$ 9
Local taxes - not considered.				

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

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### 82.04.255 SHARED REAL ESTATE COMMISSIONS

Description: This statute allows real estate brokerage offices to pay tax only on their share of commissions when multiple brokerage offices participate in a transaction. Individual associate brokers and salespersons are not subject to B&O tax where the brokerage office has paid tax on the gross commission. Charges to associate brokers to recover expenses or for use of facilities are not included within this exemption and represent taxable income to the broker.

Purpose: To eliminate pyramiding of B&O tax on shared commissions.

Category/Year Enacted: Other business. 1970

Primary Beneficiaries: Real estate brokers and agents.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 15,832	\$ 16,307	\$ 16,796	\$ 17,401
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
Yes, although some associates would likely be reclassified as employees to avoid the tax.

### 82.04.280 RENTAL OF REAL ESTATE

Description: Originally in 1935, RCW 82.04.390 included the prohibition against taxing income derived from the rental of real estate. In 1959 RCW 82.04.280 was amended to subject the rental of real estate to B&O tax at a rate of 0.25 percent. The following year the State Supreme Court ruled the tax to be unconstitutional in *Apartment Operators Association of Seattle v. Schumacher*, 56 Wn. 2d 46.

Purpose: The Court held that the B&O tax on rental income constituted a tax on property. The State Constitution requires that property taxes be levied uniformly and the additional of a B&O tax, in addition to property taxes, would result in non-uniform taxation.

Category/Year Enacted: Other business. 1935; reaffirmed by the Court in 1960.

Primary Beneficiaries: Owners of residential and commercial property which is rented or leased.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 41,834	\$ 43,340	\$ 44,890	\$ 46,516
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Not unless the Court reversed its opinion.

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### 82.04.310 PUBLIC UTILITIES

Description: Business activity that is subject to the state public utility tax is exempt from B&O tax. The public utility tax is imposed on income from certain public service business, such as light and power, water distribution, and air, water and motor transportation.

Purpose: To guarantee that income subject to the public utility tax is not also subject to the B&O tax, because the utility tax is in lieu of B&O tax. However, public service businesses are taxable under the B&O tax for income derived from activities that are not subject to utility tax, e.g. retail sales of tangible personal property.

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Private and municipal utilities and transportation providers.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 39,059	\$ 40,230	\$ 41,437	\$ 42,680
Local taxes - not considered.				

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

### 82.04.315 INTERNATIONAL BANKING FACILITIES

Description: B&O tax exemption is provided for the income of international banking facilities (IBF) located in Washington. An IBF means a branch or agency of a foreign bank, a set of segregated accounts for international banking maintained by a commercial bank with its principal office located in this state, or an Edge corporation or qualifying agreement corporation under section 25 of the Federal Reserve Act.

Purpose: To encourage international trade transactions through Washington financial institutions.

Category/Year Enacted: Business incentive. 1982

Primary Beneficiaries: Banks headquartered in this state which provide international banking services.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 270	\$ 280	\$ 290	\$ 300
Local taxes - not considered.				

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

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### 82.04.317 WHOLESALE AUTO AUCTIONS

#### 82.04.422(1)

Description: Sales of motor vehicles by motor vehicle manufacturers, their financial subsidiaries (at least 50 percent owned by the manufacturer), and vehicle dealers are exempt from wholesaling B&O tax, if the sales take place at a wholesale auto auction and the purchaser is a vehicle dealer.

Purpose: To encourage out-of-state auto manufacturers to sell their rental and lease return vehicles and other surplus vehicles at wholesale auctions conducted in this state.

Category/Year Enacted: Other business. 1997 and 2001

Primary Beneficiaries: Auto manufacturers, vehicle dealers and firms that conduct wholesale auto auctions.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 5,671	\$ 6,036	\$ 6,211	\$ 6,391
Local taxes - not considered.				

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

### 82.04.320 INSURANCE PREMIUMS

Description: Income that is subject to the state insurance premiums tax is exempt from B&O tax.

Purpose: To avoid subjecting insurance premiums to more than one state business tax.

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Insurance companies and ultimately policy holders.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$282,543	\$295,257	\$308,544	\$322,429
Local taxes - not considered.				

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

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### 82.04.322 HEALTH MAINTENANCE ORGANIZATIONS

Description: Health maintenance organizations, health care service contractors and certified health plans are exempt from B&O tax on income that is subject to the state insurance premiums tax.

Purpose: To avoid subjecting insurance premiums to more than one state business tax.

Category/Year Enacted: Tax base. 1993

Primary Beneficiaries: HMOs, HCSCs and CHPs and their members.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$127,904	\$137,625	\$148,084	\$159,338
Local taxes - not considered.				

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

### 82.04.330 AGRICULTURAL PRODUCERS

#### 82.04.410

Description: B&O tax exemption is provided for farmers who grow, raise, or produce agricultural products for sale at wholesale. Ag products are defined in RCW 82.04.213 to include any product of plant cultivation or animal husbandry, plantation Christmas trees, animals, birds, insects and fish, as well as the products obtained from animals, such as eggs, milk and honey. RCW 82.04.410 specifically exempts hatching eggs and poultry used in production of poultry products.

Purpose: To aid an industry that was severely depressed in 1935 when the exemption was enacted. The exemption recognizes the low profit margins and high transportation costs faced by most farmers. Furthermore, farmers in Washington have little ability to affect the prices for their products which are determined by national markets, and thus they cannot pass on the tax to their customers.

Category/Year Enacted: Agriculture. 1935

Primary Beneficiaries: Approximately 30,000 producers of agricultural products. However, only about 10,000 - 12,000 of these would have taxable income in excess of the small business tax credit.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 26,230	\$ 26,755	\$ 27,290	\$ 27,840
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
Yes, although registration of many small and part-time farming operations would be required.

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### **82.04.330 CHRISTMAS TREE PRODUCERS** **82.04.100**

Description: Income associated with extraction and wholesaling of plantation Christmas trees is exempt from B&O tax. Only Christmas trees grown by agricultural methods qualify for the exemption.

Purpose: To recognize that production of Christmas trees is similar to other agricultural production.

Category/Year Enacted: Agriculture. 1987

Primary Beneficiaries: Approximately 300 growers of Christmas trees.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 330	\$ 345	\$ 360	\$ 376
Local taxes - not considered.				

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

### **82.04.331 WHOLESALING CONDITIONED SEED**

Description: B&O tax exemption is provided to persons making wholesale sales to farmers of seed that is conditioned for use in planting. The exemption is also provided for conditioning seed that is owned by other persons. The exemption does not apply to seed packaged for retail sale, flower or vegetable seeds, or seeds or portions of plants used to grow ornamental flowers, shrubs, trees, ferns or mosses.

Purpose: To assist firms that provide seed for use in commercial agriculture.

Category/Year Enacted: Agriculture. 1998

Primary Beneficiaries: The seed conditioning industry.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 484	\$ 492	\$ 503	\$ 513
Local taxes - not considered.				

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

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### 82.04.332 WHOLESALE OF GRAIN

Description: Wholesale sales of various grains, including wheat, oats, barley, dry peas, dry beans, lentils and triticale, are exempt from B&O tax. The exemption does not extend to wholesale sales of products manufactured from these grains. Farmers who produce and sell such grains at wholesale are already exempt under RCW 82.04.330; this exemption covers subsequent wholesale sales.

Purpose: To assist wholesalers of grain.

Category/Year Enacted: Agriculture. 1998. Previously, this activity was subject to a very low B&O tax rate. As part of a consolidation of tax rates, this category was entirely exempted in 1998.

Primary Beneficiaries: Approximately 690 firms previously reported under this classification.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax*	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Local taxes - not considered.				

\*Estimate based on the existing wholesaling tax rate of 0.484%.

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

### 82.04.333 SMALL TIMBER HARVESTERS

Description: Gross income from timber sales of less than \$100,000 per year is exempt from B&O extracting tax, if the extractor qualifies as a small timber harvester under RCW 84.33.035(14), i.e., one who harvests less than two million board feet of timber annually.

Purpose: To relieve one-time or infrequent timber harvesters from registration and B&O tax liability.

Category/Year Enacted: Other business. 1990

Primary Beneficiaries: Approximately 2,100 small harvesters.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 245	\$ 245	\$ 245	\$ 245
Local taxes - not considered.				

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

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### 82.04.335 AGRICULTURAL FAIRS

Description: Nonprofit organizations that conduct agricultural fairs are exempt from B&O tax. The exemption applies only during the time the fair is actually open to the public and does not include income from admissions to specific exhibits, entertainment or other business activities conducted with the fairgrounds by third party concessionaires.

Purpose: To support agricultural fairs.

Category/Year Enacted: Agriculture. 1965

Primary Beneficiaries: Approximately 55 county or community fairs or youth livestock shows.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 151	\$ 153	\$ 154	\$ 156
Local taxes - not considered.				

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

### 82.04.337 EXPORTED PROCESSED HOPS

Description: B&O tax exemption is allowed for the sale of hops that are processed into extract, pellets or powder in this state and then shipped outside the state for first use. Income received for other types of processing or warehousing hops is not exempt from the tax.

Purpose: To recognize that processing of hops into extract, pellets or powder is merely to facilitate shipment of the product and does not constitute a manufacturing activity.

Category/Year Enacted: Agriculture. 1987

Primary Beneficiaries: Hop growers and approximately eight processing firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 270	\$ 270	\$ 270	\$ 270
Local taxes - not considered.				

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

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### 82.04.340 BOXING AND WRESTLING MATCHES

Description: Persons that conduct boxing, kickboxing, martial arts or wrestling matches that are licensed by the Department of Licensing are exempt from B&O tax on such income.

Purpose: To recognize that this income is subject to the 5.0 percent boxing and wrestling tax in RCW 67.08.105.

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Promoters of these events.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 5	\$ 5	\$ 5	\$ 5
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
Unlikely, since the income is already subject to a higher gross receipts tax.

### 82.04.350 HORSE RACING

Description: Persons who conduct horse racing events that are licensed by the State Horse Racing Commission are exempt from B&O tax.

Purpose: To exempt income that is taxable under the parimutuel tax (RCW 67.16.105).

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Operators of horse racing tracks - one major facility and five smaller ones.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 2,416	\$ 2,416	\$ 2,416	\$ 2,416
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
Unlikely, since the income is subject to parimutuel tax.

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### 82.04.360 INCOME OF EMPLOYEES

Description: Income derived by employees from the performance of services in the capacity of an employee or servant is exempt from B&O tax.

Purpose: The B&O tax applies to the privilege of engaging in business. Employees do not generally exercise the same degree of full and independent responsibility as do owners of a firm. Therefore, employees are not considered as engaging in business. Further, in the absence of this exemption, a gross receipts tax applied to wages and salaries might be considered as a personal income tax which, under prevailing rulings of the State Supreme Court, is not permissible without a constitutional amendment.

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Employees

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$578,854	\$606,060	\$630,303	\$655,515
Local taxes - not considered.				

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

### 82.04.360 LIFE INSURANCE EMPLOYEES

Description: Persons who meet the Internal Revenue Code definition of "statutory employee" are considered employees for purposes of B&O tax liability and thus are exempt. Statutory employees are independent contractors for federal income tax purposes but receive W-2s and have FICA taxes withheld. A statutory employee must sell life insurance on a full-time basis and work primarily for one company.

Purpose: To establish a distinction between employees, whose wages are not subject to B&O tax, and independent contractors who are subject to the tax.

Category/Year Enacted: Other business. 1991

Primary Beneficiaries: Approximately 3,250 sellers of life insurance.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 625	\$ 663	\$ 699	\$ 733
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes, although there could be compliance difficulties in locating these sellers.

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### 82.04.390 REAL ESTATE SALES

Description: B&O tax does not apply to proceeds derived from the sale of real estate. However, the tax does apply to commissions, fees and interest relating to real estate sales. (NOTE: sales of real property are subject to the state and local real estate excise taxes.)

Purpose: To reflect the legislative policy of not considering the sale of real property as constituting "engaging in business."

Category/Year Enacted: Tax base. 1935

Primary Beneficiaries: Sellers (and buyers) of real property.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$188,000	\$174,000	\$182,000	\$191,000
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
It is unlikely that B&O tax would apply to sales of real property, while the Court has determined that B&O tax cannot apply to the rental of real property (1960 decision, see RCW 82.04.280 above).

### 82.04.392 INCOME FROM TRUST ACCOUNTS

Description: B&O tax exemption is provided for amounts received by mortgage brokers from trust accounts for third-party costs. The trust account must be operated in accordance with RCW 19.146.050 and any rules adopted by the Dept. of Financial Institutions.

Purpose: To treat these items like a tax-exempt pass-through, rather than as income to the institutions.

Category/Year Enacted: Other business. 1997

Primary Beneficiaries: Mortgage lenders such as banks and savings and loan establishments.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 997	\$ 1,036	\$ 1,078	\$ 1,122
Local taxes - not considered.				

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

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### 82.04.394 ON-SITE PROPERTY MANAGEMENT

Description: B&O tax exemption is allowed for amounts received by a property management company, if the payments are received from a property management trust account for payment of wages and benefits to on-site personnel.

Purpose: To treat these amounts as a tax-exempt pass-through. Even though on-site personnel are supervised by the management company, the wages are ultimately the obligation of the owner.

Category/Year Enacted: Tax base. 1998

Primary Beneficiaries: Property management companies

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 631	\$ 650	\$ 669	\$ 689
Local taxes - not considered.				

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

### 82.04.405 FEDERALLY-CHARTERED CREDIT UNIONS

Description: Credit unions organized under federal law are exempt from B&O tax.

Purpose: The Federal Credit Union Act prohibits state taxation of federally chartered credit unions. Accordingly, the exemption was established when the B&O tax was extended to financial institutions.

Category/Year Enacted: Other business. 1970

Primary Beneficiaries: Approximately 65 credit unions with federal charters.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700
Local taxes - not considered.				

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

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### 82.04.405 STATE-CHARTERED CREDIT UNIONS

Description: Credit unions organized pursuant to state law are exempt from B&O tax.

Purpose: To provide comparable tax treatment with federally-chartered credit unions.

Category/Year Enacted: Other business. 1970

Primary Beneficiaries: Approximately 94 state-chartered credit unions.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 17,387	\$ 18,083	\$ 18,806	\$ 19,558
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
Unlikely; state-chartered credit unions could simply apply for federal charters.

### 82.04.416 2nd NARROWS BRIDGE

Description: Income derived from the operation of state route #16 corridor transportation systems and facilities which are constructed and operated under Chapter 47.46 RCW is exempt from B&O tax. This statute addresses the second bridge across the Tacoma Narrows. It exempts any income received by an operator of the bridge tolling systems. The state intends to contract with a private firm to operate the toll booths. The income the state pays to the firm will be exempt from B&O tax under this statute. (The actual toll receipts are considered as receipts of the state and are not subject to state business tax.)

Purpose: To lower the overall cost of operation of the bridge and encourage a private firm to enter into a contract with the state to operate the facility.

Category/Year Enacted: Business incentive. 1998

Primary Beneficiaries: Businesses that contract with the state to operate the bridge toll facilities and ultimately the drivers who utilize the facility.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 0	\$ 0	\$ 0	\$ 38
Local taxes - not considered.				

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

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### 82.04.421 GROUP DISCOUNT PURCHASES

Description: Memberships in a qualifying discount program are exempt from B&O tax, if the seller delivers the membership materials to a point outside the state.

Purpose: To provide tax relief to Washington firms that sell discount purchase memberships to residents of other states.

Category/Year Enacted: Business incentive. 1997

Primary Beneficiaries: A single firm.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Due to confidentiality requirements, the impact of this exemption 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; however, the firm could easily shift its sales to nonresidents to a location outside of this state.

### 82.04.422(2) ACCOMMODATION SALES OF AUTOS

Description: Exemption from wholesaling B&O tax is provided for dealers of motor vehicles for new vehicles sold at wholesale to other dealers for the purpose of adjusting inventory levels. To qualify, the vehicles must be of the same make and be sold for no more than the original acquisition price, plus reasonable expenses for preparation for sale or transfer.

Purpose: To recognize that these sales are for the convenience of dealers to enable them to meet customer demand and do not represent profit for the seller.

Category/Year Enacted: Tax base. 2001

Primary Beneficiaries: Dealers of new motor vehicles.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 92	\$ 98	\$ 100	\$ 105
Local taxes - not considered.				

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

## BUSINESS TAXES

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### 82.04.423 DIRECT SELLERS

Description: The gross income of businesses selling consumer products in Washington exclusively to or through direct seller's representatives is exempt from B&O tax. The business must not own or lease real property in this state, regularly maintain a stock of goods in this state, be incorporated under Washington law; or operate a permanent retail establishment in this state. (Commissions received by the sales representatives are subject to B&O tax.)

Purpose: To stimulate trade and encourage out-of-state manufacturers to use Washington-based agents.

Category/Year Enacted: Other business. 1983

Primary Beneficiaries: Out-of-state manufacturers that conduct business in Washington through independent sales representatives.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 5,964	\$ 6,337	\$ 6,733	\$ 7,155
Local taxes - not considered.				

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

### 82.04.424 SELLERS WITH LIMITED CONNECTION TO WASHINGTON

Description: Taxpayers are exempt from B&O tax if their in-state activities consist solely of advertising, taking orders for products, or processing payments and these activities are conducted via a website on a computer server that is located in Washington but is owned and operated by another firm.

Purpose: At the time this exemption was enacted, these activities were protected from state taxes by the federal Internet Tax Freedom Act (ITFA) which expired on November 1, 2003. However, it is expected that ITFA will be reenacted by Congress.

Category/Year Enacted: Other business. 2003

Primary Beneficiaries: A very small number of firms might benefit from this exemption.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Minimal, if ITFA is not reenacted. None, if it is.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
Unlikely, particularly if the federal Internet Tax Freedom Act is extended by Congress.

## BUSINESS TAXES

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### 82.04.425 ACCOMMODATION SALES

Description: B&O tax does not apply to wholesale sales between businesses regularly selling the same type of property, provided the sale is at cost and the buyer has an existing order for the product from a customer. The exemption also applies if the sale occurs within 14 days as a reimbursement in-kind for a previous accommodation sale. Additionally, if a wholly-owned subsidiary sells goods to its parent company, and the parent sells the goods in a transaction that is exempt by reason of RCW 82.08.0262, and the parent pays B&O tax, then the sale by the subsidiary to the parent is exempt from B&O tax.

Purpose: To exempt wholesale sales made between businesses solely for the purpose of adjusting inventories in order to satisfy customer demand.

Category/Year Enacted: Tax base. 1955

Primary Beneficiaries: Firms that make accommodation sales to other firms and corporations with wholly-owned subsidiaries who both manufacture and sell transportation equipment.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 977	\$ 1,043	\$ 1,114	\$ 1,190
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?  
Yes, although it is unlikely that firms would make accommodation sales to other sellers if they were required to pay B&O tax on such sales.

### 82.04.426 MANUFACTURING OF SEMICONDUCTOR MICROCHIPS

Description: Firms that manufacture semiconductor microchips are exempt from B&O tax for nine years. The exemption is contingent upon commencement of commercial operations by a new semiconductor microchip fabrication facility with an investment in new buildings/equipment amounting to at least \$1 billion. It is believed that such a condition will be met by January 1, 2006 and the exemption is assumed to become effective at that time; it will expire nine years after the effective date.

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

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: It is believed that, at most, this exemption will be utilized by one or two firms.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Due to confidentiality requirements, the impact of this exemption 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.

## BUSINESS TAXES

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### **82.32.045(4) \$28,000 MINIMUM TO FILE TAX RETURN**

Description: Firms whose gross income is less than \$28,000 annually are not required to file excise tax returns. The provision does not apply to businesses that collect and remit retail sales tax. The minimum amount is equal to the amount of annual income below which there would be no B&O tax liability under the service classification as a result of the small business tax credit in RCW 82.04.4451.

Purpose: To reduce administrative costs for taxpayers and the Department.

Category/Year Enacted: Other business. 1996.

Primary Beneficiaries: Small businesses.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 41,000	\$ 41,000	\$ 41,000	\$ 41,000
Local taxes - not considered.				

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

### **82.32.420 WAIVER OF DELINQUENCY PENALTIES, Y2K**

Description: Excise tax penalties and interest are forgiven for firms with fewer than 50 employees, if the delinquency was a result of computer problems associated with the "Y2K" date change on January 1, 2000. The exemption applies only to tax liability through December 31, 2003, and the exemption will expire at the end of 2006.

Purpose: To provide penalty and interest relief to firms that encounter computer problems that impact the filing of their state excise tax returns, including data received from third parties.

Category/Year Enacted: Other business. 1999

Primary Beneficiaries: None currently.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None.

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