

BUSINESS TAXES

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 normal 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. It is believed that such a condition will be met by January 1, 2006 and the tax rate is assumed to become effective at that time.

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: Approximately 20 firms in the semiconductor cluster are assumed to benefit.

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	\$ 645	\$ 1,500
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?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

82.04.250(1) RETAILERS

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 149,600 firms that make retail sales.

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	\$ 14,396	\$ 15,197	\$ 16,043	\$ 16,936
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If the exemption were repealed, would the taxpayer savings be realized as increased revenues?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(3) CERTIFIED AIRCRAFT REPAIR

Description: Repair of interstate transportation equipment is normally subject to the B&O tax rate of 0.484 percent. Effective August 1, 2003, a special tax rate of 0.275 percent applies to certain qualified aircraft repair facilities. Eligible firms must be certified by the FAA as a "FAR part 145" repair facility. A quarterly report to the Department is required from firms that report B&O tax under this rate classification. The statute providing the reduced tax rate is scheduled to expire on July 1, 2006.

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

Category/Year Enacted: Business incentive. 2003

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

Possible Program Inconsistency: None evident.

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

82.04.260(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 101 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	\$ 2,480	\$ 2,618	\$ 2,764	\$ 2,918
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(1b) MANUFACTURERS OF SEAFOOD

Description: A preferential B&O tax rate of 0.138 percent is provided for manufacturers of seafood products that remain in a raw, raw frozen, or raw salted state when the manufacturing is completed. The general tax rate for manufacturing is 0.484 percent.

Purpose: To recognize the low profit margins of seafood manufacturers relative to other manufacturers.

Category/Year Enacted: Business incentive. 1959

Primary Beneficiaries: Approximately 123 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	\$ 1,467	\$ 1,549	\$ 1,635	\$ 1,726
Local taxes - not considered.				

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

82.04.260(1c) PROCESSORS OF FRUIT & VEGETABLES

Description: A preferential B&O tax rate of 0.138 percent is provided for firms that process fresh fruit and vegetables. This tax rate was reduced to 0.33 percent in 1965 and again in 1998 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. 1965 and 1998

Primary Beneficiaries: Approximately 82 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	\$ 5,915	\$ 6,244	\$ 6,592	\$ 6,958
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(1d) MANUFACTURERS OF DAIRY PRODUCTS

Description: A preferential B&O tax rate of 0.138 percent is provided for manufacturers of dairy products, as well as wholesalers of such products that are shipped out of state. The rate reduction applies to the production of milk, cheese, yogurt, ice cream and byproducts such as whey and casein; it does not apply to the further production of other products which utilize dairy products. The general tax rate for manufacturing is 0.484 percent.

Purpose: To support the dairy industry and provide an equivalent tax rate to producers of certain other agricultural commodities.

Category/Year Enacted: Agriculture. 2001

Primary Beneficiaries: Approximately eight 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	\$ 2,010	\$ 2,121	\$ 2,239	\$ 2,364
Local taxes - not considered.				

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

82.04.260(1e) 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. This preferential tax rate is scheduled to expire on July 1, 2009.

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

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: There are currently no known alternative fuel production facilities operating in the state. One such facility has been proposed for the Moses Lake area; it would have a capacity of 40 million gallons of ethanol annually. But it is unclear if, or when, such a plant might be operational.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None currently.

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 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. 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 and 1998

Primary Beneficiaries: Approximately three 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	\$ 21	\$ 23	\$ 24
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 adopted in 1998.

Primary Beneficiaries: Approximately 122 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	\$ 8,265	\$ 8,725	\$ 9,211	\$ 9,723
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, 6) NUCLEAR FUEL ASSEMBLIES

Description: A preferential B&O tax rate of 0.275 percent is provided for manufacturers of nuclear fuel assemblies and firms that sell such items at wholesale or retail. The general tax rate for manufacturing and wholesaling is 0.484 percent, while retailers are taxed at 0.471 percent.

Purpose: To encourage the location of such firms in Washington.

Category/Year Enacted: Business incentive. 1971

Primary Beneficiaries: Only one firm is believed to be reporting under this classification.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Due to confidentiality requirements, the impact of this preferential tax rate cannot be publicly stated because it is believed to affect only one taxpayer.

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

82.04.260(7) 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 524 taxpayers report under this rate 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	\$ 4,895	\$ 5,168	\$ 5,455	\$ 5,759
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(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 519 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	\$ 11,503	\$ 12,143	\$ 12,819	\$ 13,532
Local taxes - not considered.				

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

82.04.260(9) 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 34 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	\$ 5,098	\$ 5,382	\$ 5,681	\$ 5,997
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) 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 4,122 taxpayers benefit from this tax rate reduction.

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	\$ 14,280	\$ 15,075	\$ 15,914	\$ 16,799
Local taxes - not considered.				

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

82.04.260(13) 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 drops to 0.4235 percent. This rate remains in effect until the latter of: (1) June 30, 2007, or (2) the date that final assembly of a super-efficient airplane commences in Washington. If final assembly of a super-efficient airplane does commence in Washington, then the B&O tax rate for manufacturing of all commercial airplanes will drop further to 0.2904 percent. If final assembly of the super-efficient airplane does not begin in Washington, then the 0.4235 percent rate returns to 0.484 percent after December 31, 2007. If final assembly of the super-efficient plane does occur in this state, then the 0.2904 percent rate remains 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 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 0	\$ 0	\$ 21,200	\$ 33,200
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Yes; if the industry remains in this state and final assembly of the super-efficient airplane occurs here.

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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 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 4,940	\$ 5,150	\$ 5,373	\$ 5,611
Local taxes - not considered.				

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

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 28 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	\$ 5,085	\$ 5,309	\$ 5,558	\$ 5,825
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.

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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 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 331	\$ 349	\$ 368	\$ 388
Local taxes - not considered.				

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

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 DSHS.

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 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 34	\$ 34	\$ 34	\$ 35
Local taxes - not considered.				

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

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82.04.2907 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 2,100 receivers of royalty payments in Washington.

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	\$ 18,513	\$ 19,254	\$ 20,024	\$ 20,825
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.