

# Repeal preferential B&O tax rate for royalties

**Description** This proposal would eliminate the preferential B&O tax rate for income from royalties. The tax rate on royalty income would increase from 0.484% to 1.5%.

- Current Law**
- Gross income from royalties is subject to B&O tax at a rate of 0.484%.
  - Royalties include all income earned from licensing the use of intangible property to others.
  - Washington taxes only that portion of royalty income related to the use of intangible property in this state.

**Original Purpose and Current Analysis** The preferential rate clarified the treatment of royalty income by recognizing the mobility of these funds.

*Note:* Prior to July 1, 1998, royalty income was subject to the service and other activities B&O tax rate.

- At the time, Washington taxed 100% of a taxpayer’s royalty income regardless of where the intangible property was used. Taxpayers domiciled in Washington were subject to B&O tax on worldwide royalty income.
- With the 2010 adoption of single factor apportionment, royalty income is now attributed to the state in which the intangible property is used. The 2010 legislation did not restore the pre-1998 tax rate.

**Citizen Commission Recommendation** Not reviewed by the Citizen Commission.

**Revenue Impact** General Fund Impacts (\$ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
1,300	\$13.8	\$15.8	\$29.6	\$16.5	\$17.2	\$33.7

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*