

Increase service B&O tax rate to 2.5 percent, increase the tax filing threshold and small business credit for all taxpayers

Description

Effective July 1, 2017, this proposal:

- Increases the service and other activities business and occupation (B&O) tax rate by 1.0 percent, increasing the rate from 1.5 percent to 2.5 percent.
- Increases the tax filing threshold to \$100,000 and the small business credit for service businesses to \$125 per month.

Effective July 1, 2018, this proposal:

- Increases the registration threshold for all businesses subject to the B&O tax to \$100,000 per year.
- Increases the tax filing threshold to \$100,000 and small business credit to \$125 per month for all businesses.

Current Law

Persons engaged in business in Washington state are subject to the B&O tax. The measure of tax is the value of products, gross proceeds of sales or the gross income of the business.

The service and other activities classification has a tax rate of 1.5 percent and applies to income from:

- Service activities, such as medical, architectural, legal and janitorial services, and
- Activities that are not specifically taxed under another B&O tax classification, such as commissions, solid waste collection charges and movie admission charges.

A \$70 per month B&O small business credit is available for service-oriented businesses. All other businesses are eligible for a \$35 per month credit.

Revenue Impact

This proposal affects approximately 170,000 taxpayers who pay service B&O tax and has the following state impacts:

	FY 2018	FY 2019	FY 2020	FY 2021
B&O Tax	\$1,062,000,000	\$1,214,000,000	\$1,273,000,000	\$1,336,000,000
B&O Tax Credits	(\$22,700,000)	(\$69,200,000)	(\$74,700,000)	(\$76,300,000)
Fiscal Year Total	\$1,039,300,000	\$1,144,800,000	\$1,198,300,000	\$1,259,700,000
Biennial Total		\$2,184,100,000		\$2,458,000,000

- *The service B&O tax rate and small business credit increase for service businesses assume a July 1, 2017 effective date, resulting in 11 months of increased collections for FY 2018.*
- *The small business credit increase for all other businesses assumes a July 1, 2018 effective date.*
- *Estimates reflect the November 2016 Economic and Revenue Forecast Council forecast.*