



Initiative 1098: What counts as a small business?

Short Answer: I-1098 will eliminate the Business and Occupation (B&O) tax for Washington’s small businesses by increasing the B&O tax credit from \$420 to \$4,800 per year. According to a Washington Department of Revenue analysis, under I-1098, 81% of Washington businesses would be exempt from B&O tax (up from 43%); another 12% would see a B&O tax reduction. Every business that owns property would also see a 20% cut in the state portion of their property taxes. Under existing Washington tax law, different businesses have different B&O tax rates, so:

- A coffee shop, other small retail business, or child care bringing in less than about \$1 million per year in total revenue would be exempt from the B&O tax.
- Service businesses such as hair stylists or accountants would be exempt if they bring in a total of less than \$320,000 annually, because they have a different tax rate.
- Businesses up to double those amounts would get tax reductions.

Background: The B&O tax is based on a business’s gross receipts, without deductions for equipment, supplies, rent, employee pay, or other necessary costs of business. Rates are lower on types of companies that typically have high overhead, such as retailing and manufacturing, and higher on services that usually have fewer expenses to operate.

I-1098 will raise the small business credit from \$420 to \$4,800 per year. Businesses that owe less than that amount would pay nothing in B&O tax – and most would not have to file. The credit phases out gradually, so firms owing between \$4,800 and \$9,600 per year would see a reduction in their state tax. Companies owing above that level would see no change.

Annual Gross Receipts Qualifying for Small Business B&O Tax Exemption Under I-1098

Type of Business	Current B&O Tax Rate	I-1098: Businesses Exempt from B&O Tax	I-1098: Businesses with B&O Tax Reduction
Retailing	0.471%	\$1,019,108	\$2,038,216
Services	1.5%	\$320,000	\$640,000
Services (temporary rate)	1.8%	\$266,667	\$533,333
Manufacturing, wholesaling, childcare, insurance agent commissions, printing and other	0.484%	\$991,736	\$1,983,471

Source: Washington Department of Revenue, Tax Reference Manual 2010, http://dor.wa.gov/docs/reports/2010/Tax_Reference_2010/28bando.pdf.