

Resolution calling for Micro Business Exemption from Washington State Business and Occupation (B&O) Tax (Amend RCW 82.04)

WHEREAS in Washington state there are approximately 590,908 Small Businesses (99.5% of all businesses) who employ 1.3 million people (51.5% of all Washington employees)¹; yet the majority of all businesses are non-employer businesses, and most non-employers are self-employed individuals operating very small unincorporated businesses ²;

WHEREAS the profit self-employed individuals earn after all their expenses, if any, is equivalent to their wage or salary from their business activity; recent figures from Washington state show the median income for self-employed individuals at their own incorporated businesses was \$50,668, while for individuals who were self-employed at their own unincorporated firms, this figure was \$24,405³;

WHEREAS self-employed individuals pay federal self-employment tax that is approximately twice the amount that employees pay for their contribution to social security, reducing their take home pay accordingly compared to employees in other businesses⁴;

WHEREAS Washington state is the only state that assesses a B&O Tax (currently 1.5% of a Service Business's Total Revenue) regardless of profitability, and even businesses that are losing money are still taxed;

WHEREAS the B&O Tax is effectively a *de facto* income tax on small business owners, including those self-employed, that employees of other businesses do not have to pay; the B&O tax rate for a service business with a 10% net income before tax is equivalent to a *de facto* 15% tax on that income, exceeding the highest of state income tax rates levied by any other state (e.g., California Income Tax ranges from 8.84% on LLCs and corporations, up to 12.3% on personal self-employment income);

WHEREAS the additional B&O Tax surcharges of at least 20% passed in HB2158⁵ will apply to a great many businesses and will now raise the *de facto* state income tax rate for service businesses with a 10% net income before tax to 18%, far above the state income tax rate in any other state⁶;

WHEREAS the Small Business Tax Credit available to certain business types apply at such low levels of total revenue, beginning to phase out at total annual revenue of \$56,066 and disappearing at total revenue above \$112,067, are insufficient to assure that self-employed individuals earning less than median household income are not subject to a *de facto* income tax⁷;

¹ <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-WA.pdf>

² <https://catalog.data.gov/dataset/nonemployer-statistics>

³ <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-WA.pdf>

⁴ <https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center>

⁵ <http://lawfilesexext.leg.wa.gov/biennium/2019-20/Pdf/Bills/House%20Passed%20Legislature/2158-S2.PL.pdf>

⁶ <https://www.jdsupra.com/legalnews/washington-state-legislature-passes-79935/>

⁷ https://dor.wa.gov/sites/default/files/legacy/Docs/Forms/Excstx/ComExcstxRtrn/SBC_Annual.pdf

THEREFORE, BE IT RESOLVED that we, the WSDCC, recognize that it is inherently unfair for self-employed individuals who have a job working for themselves in providing products or services should be subject to a *de facto* income tax in the form of the B&O tax;

THEREFORE, BE IT FURTHER RESOLVED that we, the WSDCC, call upon the Washington State Legislature to amend RCW 82.04 so that businesses in which the owners are self-employed active participants, whether established as sole proprietorships, partnerships, LLCs, or corporations, shall be exempt from the B&O tax on total annual revenue up to \$500,000, and the B&O tax shall only apply on the portion of their total annual revenue in excess of \$500,000;

THEREFORE, BE IT FINALLY RESOLVED that a copy of this resolution will be sent to all Democratic Washington State legislators.

Submitted by the Small Business Caucus to the Washington State Democratic Central Committee for consideration at its January 31, 2020 meeting in Vancouver, Washington.
(Date Submitted 10/22/2019)

Small Business Caucus signatures

Chair: K. Perry Campbell _____

Vice Chair: Yanah G. Cook _____