

Business & Occupation Tax

RCW Chapter 82.04

Tax Base Gross receipts of all businesses having a substantial nexus with Washington.

- The term “gross receipts” means gross income, gross sales, or the value of products, whichever is applicable to a particular business.
- Having a substantial nexus generally means, in the case of apportionable business activities and most wholesaling activities, having an economic presence in the state that is measured by Washington payroll, property, or receipts “economic nexus” standards.
- A retailing activity has substantial nexus with Washington if it exceeds economic nexus standards based on Washington receipts or if it has a physical presence in Washington.
- For other business activities, a physical presence in the state creates substantial nexus with Washington.

Tax exemptions may reduce the tax liability for this tax base. For more information, refer to the [Tax Exemption Study](#).

Tax Rate Businesses are taxed according to the activities in which they engage and may be subject to more than one tax and/or rate, depending on the source of their income and business activity.

A firm that manufactures a product and sells it at wholesale within the state is taxed as a wholesaler, not a manufacturer. These firms report on both the manufacturing and wholesaling tax lines but take a multiple activities tax credit for the manufacturing activity.

Various business and occupation (B&O) tax rates apply to different classifications of business activities. The rates are as follows:

Classifications of Business Activities	Tax Rates
Manufacturing, wholesaling, and certain other activities ¹	0.484%
Retailing, retail sellers of digital goods, and radioactive waste cleanup for the U.S.	0.471%
Extracting timber & manufacturing timber/wood products ²	0.3424%
Manufacturing aluminum (until 1/1/2027); repair of commercial aircraft (until 7/1/2040); manufacturing or selling commercial aircraft & components (until 7/1/2040)	0.2904%
Travel agents, tour operators, stevedoring, freight brokers, licensed boarding homes, repair of aircraft, manufacturing	0.275%

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computer microchips or semiconductor materials, solar energy equipment manufacturing (until 6/30/2027), international investment management services	
Processing meat (at wholesale); processing soybeans, canola, and dry peas; manufacturing wheat into flour; processing raw seafood, fresh fruit, vegetables and dairy	0.138%
Disposal of low-level radioactive waste	3.3%
Development of aerospace products	0.9%
Gambling contests of chance ³	1.63%
Services; public/nonprofit hospitals; all other activities	1.5%
Printing/publishing newspapers (until 7/1/2024)	0.35%

¹Extracting, extracting for hire, insurance producers, title insurance agents, surplus line broker commissions, child care, processing for hire, printing and publishing, manufacturing, wholesaling, warehousing, radio and tv broadcasting, public road construction, government contracting, chemical dependency center, canned salmon labelers, retailing of interstate transportation equipment.

²The tax rate for extracting/wholesaling of timber and manufacturing of timber or wood products includes a surtax of 0.052 percent (RCW 82.04.261). The basic B&O tax rate on these activities is 0.2904 percent (until July 1, 2024) plus the permanent surtax enacted in 2006, the receipts of which are dedicated to the forest and fish support account.

³Applies to operators of certain gambling activities which gross more than \$50,000 annually.

Tax exemptions may reduce the tax liability for this tax base. For more information, refer to the [Tax Exemption Study](#).

Recent Collections (\$000)

Fiscal Year	Collections	% Change	% of All State Taxes
2018	\$4,156,327	8.6%	19.7%
2017	\$3,826,274	5.3%	19.9%
2016	\$3,633,250	7.0%	20.1%
2015	\$3,396,730	4.5%	20.1%
2014	\$3,250,359	-1.8%	20.3%
2013	\$3,311,594	5.8%	21.6%
2012	\$3,130,753	3.9%	21.7%
2011	\$3,014,373	16.9%	21.1%
2010	\$2,577,618	-2.8%	19.2%
2009	\$2,650,526	-7.8%	17.3%

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Distribution of Receipts Receipts from B&O taxes are deposited into the State General Fund, with the following exceptions:

- The 0.13 percent tax on contests of chance and pari-mutuel wagering are deposited into the Problem Gambling Account.
- The 0.052 percent surtax on extracting timber and manufacturing timber and wood products is deposited into the Forest and Fish Support Account.

Levied by State

There is no statutory or administrative relationship between the state B&O tax and the local gross receipts taxes levied by some cities. Legislation adopted in 2003 required cities to adopt their local business taxes according to a model ordinance, which is linked with the state B&O tax definitions.

For information about local B&O taxes refer to the [Association of Washington Cities \(AWC\)](#).

Administration Department of Revenue.

The B&O tax is generally reported on the Combined Excise Tax Return. Firms whose annual gross income does not exceed \$28,000 are not required to file excise tax returns if they have no other state excise taxes to report. However, any business that collects any retail sales tax must file, regardless of the amount of sales tax collected.

History

2018 Changed various regulations and requirements on tax credits for purchases of clean alternative fuel commercial vehicles. Extended the tax credit for purchases of clean alternative fuel commercial vehicles to include vehicles providing commercial services and vehicles transporting passengers. Marketplace fairness requires businesses that have more than \$267,000 in retail sales into Washington or at least 25 percent of total sales receipts from this state to pay retailing B&O tax.

2017 Created an exemption from B&O tax on wholesale sales by an eligible distributor of commercial fertilizer, agricultural crop protection products, and seed, to an eligible retailer when there is a specified percentage of common ownership between the distributor and retailers. Created preferential tax rates for solar energy manufacturers extended to June 30, 2027. Created a B&O tax credit for utilities that provide electricity, natural gas, or manufactured gas to a silicon smelter.

Reclassified martial arts training from a retail sale to a service and other B&O taxable activity.

- 2016 Expanded the B&O tax deduction for health and social welfare organizations providing mental health services under a government-funded program to include chemical dependency services. Expanded the current B&O tax deduction for behavioral health organizations (BHOs) to include amounts received by BHOs from the state of Washington for distribution to a health and social welfare organization for providing chemical dependency services. Extended the expiration date for the B&O tax deduction for health and social welfare organizations providing mental health services under a government-funded program to January 1, 2020. Extended the expiration date for the B&O tax deduction for BHOs to January 1, 2020. Extended the tax credit for purchases of alternative fuel commercial vehicles to include leased vehicles. Makes premiums on stand-alone dental plans subject to the insurance premiums tax, which made the premiums exempt from the B&O tax.
- 2015 Tax on royalty income increased to 1.5%. Extended the tax exemption for fruit and vegetable, dairy, and seafood processors to July 1, 2025. Aluminum smelter preferences were extended to July 1, 2027. Preferential tax rate for newspapers reinstated to 0.35%, including advertising and online subscription revenue, until July 1, 2024. Included eligible apiarists in the definition of “farmer.” Expanded economic nexus to include wholesalers that exceed applicable nexus thresholds. Adopted “click through” nexus.
- 2014 Established that compressing and liquefying natural gas to be used for transportation purposes is a manufacturing process for B&O and sales tax purposes. Excluded marijuana and marijuana products from certain agricultural tax preferences.
- 2013 Aerospace tax preferences were extended to July 1, 2040. The 0.3% surtax on Service and Other Activities ended. Ten year expiration applied to new tax preferences unless exempted or a specific expiration date is stated in the legislation.
- 2012 Reinstated until July 1, 2017, the tax credit for contributions made to the Washington Motion Picture Competiveness program. Created a deduction for amounts received for dispute resolution services for qualified dispute resolution centers and qualified nonprofit organizations. Extended the Customized Employee Training Program until July 1, 2017, and the B&O tax credit until July 1, 2021, for

employers participating in the program. Temporarily extended the tax exemption for fruit and vegetable, dairy, and seafood processors. Temporarily modified the tax rate of newspapers. The definition of newspaper was changed to include electronic versions.

- 2011 Created tax deductions for amounts received from the state by regional support networks to be distributed to a health or social welfare organization for mental health services and for amounts received by a health or social welfare organization for provided child welfare services under a government funded program. Clarified real estate firm tax liabilities. Created a tax exemption for employee meals provided by restaurants without a specific charge. Created a preferential tax rate for certain solar energy manufacturers.
- 2010 Established economic nexus standards and single factor apportionment for Service & Other and related business activities. Established authority to invalidate tax avoidance transactions and assess additional penalties on these transactions. Eliminated the Direct Seller, Board of Director Compensation, and Property Management Salary tax exemptions. Ended the tax credit for New Employment for International Services. Clarified definitions and tax applications for manufacturers of products derived from certain agricultural products. Expanded corporate officer liability to include unpaid B&O tax. Modified the Interest Earned on First Mortgage Residential Loans deduction. Temporarily increased the Service and Other tax rate from 1.5% to 1.8% through June 30, 2013.
- 2009 New legislation specifically extended retail sales tax to digital goods, digital codes, and digital automated services. The bill also created specific B&O tax classifications for sellers of digital goods – 0.471 percent for retailers and 0.484 percent for wholesalers.
- Also in 2009, a permanently reduced tax rate of 0.2904 percent was allowed for printing and publishing of newspapers.
- 2006 An additional 0.052 percent surtax for the timber industry was added.
- 2005 Income derived from processing fresh fruit and vegetables is made exempt of B&O taxes and this exemption was expanded to include dairy and seafood products in 2006.
- A 0.13 percent tax on games of chance and pari-mutuel wagering was enacted.
- 2003 A variety of business incentives were adopted, including preferential tax

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rates on manufacturing commercial aircraft, smelting of aluminum, and production of semiconductor materials.

1998 The internal distribution tax was repealed.

Many of the specialized rates, which numbered as many as 13 different B&O tax rates in the 1990's, were consolidated into the existing 0.275 or 0.138 percent rates.

1994 The current small business tax credit was adopted; this provided significantly broader tax relief for very small companies. Prior to 1994, the B&O tax featured a threshold equivalent to \$1,000 of taxable income per month. If a firm had gross receipts above this level, the B&O tax fully applied to all of the firm's income.

1993 New classifications for business services were created with rates as high as 2.5 percent and existing rates were increased. By 1997, the new classifications were eliminated and the tax rates for all activities were returned to the pre-1993 levels.

Also, public and nonprofit hospitals were made fully taxable at the service rate, with the receipts dedicated to health care programs.

1987 The U.S. Supreme Court ruled that Washington's B&O tax presented the potential for double taxation of the same income for firms that operate in multiple states. In response, "multiple activity" tax credits were enacted for in-state firms that both manufacture and sell at wholesale or retail and for firms that operate both in Washington and in other states.

1974 From 1974 through 1983, an increasing percentage of the inventory tax was creditable against B&O tax liability in order to help deal with personal property taxes on business inventories; until inventories were exempted outright from property tax.

1970 The B&O tax was broadened to include financial institutions under the service classification, following a revision in federal tax requirements.

1965 The initial tax incentive to encourage economic development was enacted in 1965. This manufacturer's tax credit was intended to help manufacturing firms invest in new facilities. Another credit was adopted two years later; this continues to assist firms with costs incurred in upgrading pollution control facilities.

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- 1959 The Legislature attempted to extend the tax to income derived from the rental of real estate. However, the State Supreme Court ruled that the tax constituted double taxation, because the income was essentially derived from the real estate itself and this was already subject to property tax
- 1955 A tax on "internal distributions" was applied to firms that distribute products they own to two or more of their own outlets. The internal distribution tax was enacted to help offset the advantage for integrated firms e.g., those that distribute products they own to their retail outlets.
- 1935 The Revenue Act of 1935 included the current B&O tax as a replacement for the Business Activities Tax. Initial tax rates were 0.25 percent for all business activities, except services which were taxed at 0.5 percent. Subsequent rate increases were enacted via surtaxes in 1951, 1955, 1959, 1976, 1982, and 1983.
- 1933 The Business Activities Tax of 1933 was the state's first gross receipts tax on business. It was adopted as a temporary, emergency revenue measure during the Depression. The gross receipts form of taxation was upheld by the State Supreme Court in 1933 when it determined that a gross receipts tax was a proper measure of the privilege of engaging in business, rather than a tax on income.
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