

WASHINGTON STATE FINISHES SESSION – NEW TAX IMPLICATIONS

The Legislature completed its 2019 session this past April, resulting in significant changes that will likely impact business owners and residents of Washington State. Outlined below is a summary of the major tax proposals, including which were adopted and which (at least this year!) were not.

ADOPTED

'Services & Other Activities' B&O Tax Surcharges

Entering session, there was a proposed Workforce Education Surcharge of roughly 66.66% (1% effective B&O rate) applicable to businesses subject to the current 'service & other activities' B&O tax. While such a significant across-the-board tax increase did not occur, a tiered version of the bill did pass (HB 2158) that levies additional B&O surcharges on service-oriented and advanced computing businesses effective January 1, 2020.

The bill imposes a 0.3% B&O surcharge on select businesses activities, increasing the current 1.5% B&O tax rate to 1.8%. Selected business activities include 43 categories, "including, but not limited to architecture and engineering services, legal services, insurance carriers, financial services, medical services, software publishing, scientific research, electronic shopping, and telecommunications services." Advanced computing businesses are subject to an increase of 0.5% or the originally proposed 1% when revenues exceed \$25 or \$100 billion,

respectively. These surcharges are expected to raise an additional \$300+ million each year.

'Specified Financial Institutions' B&O Tax Increase

In addition to the B&O surcharges on services and advanced computing, the legislature passed a bill (HB 2167) targeting big banks that also takes effect January 1, 2020. The bill imposes an additional 1.2% B&O Tax (in addition to the current 1.5%) on 'specified financial institutions.'

Graduated REET (Real Estate Excise Tax)

The House and Senate passed a bill (SB 5998) that raises the taxes on the sale of costly real estate and reduces taxes on the sale of less expensive homes. Effective January 1, 2020, Senate Democrats believe this will result in a \$175 million increase in annual revenues while reducing the amount of taxes paid for most individual property sales. The current REET, a flat rate of 1.28%, is being adjusted to a graduated rate of 1.1% for sales under \$500,000, 1.28% for sales between \$0.5 and \$1.5 million, 2.75% between \$1.5

and \$3 million, and 3% for sales in excess of \$3 million.

Long-term Care Payroll Tax & Benefits

Washington became the first state to approve a publicly-funded long-term care program with the passage of the Long-Term Care Trust Act (HB 1087). The law imposes a new payroll tax (0.58% of resident wages) set to take effect January 1, 2022 that will provide a long-term care benefit to eligible residents. Beginning in 2025, eligible residents can receive up to \$36,500 (\$100 for a maximum 365 days) in lifetime benefits to apply to the costs of their long-term care. This is expected to help reduce the burden of Medicaid costs for the State of Washington.

NOT ADOPTED

WA Capital Gains Tax

On the agenda this session was a WA Capital Gains Tax slated to pass, but ultimately the House and Senate could not overcome disparities in their proposals prior to the end of session. The tax would have been a 9% tax imposed on long-term capital gains income in excess of \$25,000 or \$50,000 for single or married taxpayers, respectively. Both House and Senate proposals were estimated to raise roughly \$780 million over two years.

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As there are a lot of tax changes occurring, consider contacting Shannon & Associates, LLP with any specific questions or concerns.

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