

Alert | State & Local Tax (SALT)



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Washington Introduces Business & Occupation – Margins Tax Swap Bill

Since 2017, the Washington Tax Structure Work Group (TSWG)—a group of bipartisan Washington legislators, representatives from the Governor’s office, the Washington Department of Revenue, Washington State Association of Counties, and Association of Washington Cities—has been tasked with reviewing Washington’s tax structure. The primary goal of TSWG’s review was to identify ways to make “Washington’s tax code more fair, adequate and transparent.” See [TSWG overview](#). Since May 2022, the TSWG has been discussing a proposal that would repeal the Washington Business and Occupation (B&O) Tax and replace it with a Texas-style Margins Tax. On Jan. 19, 2023, [S.B. 5482](#)—a bill that, if enacted, would make that swap effective Jan. 1, 2027—was introduced by four members of the TSWG (Senators Frame, Wagoner, Wellman, and Nguyen).

S.B. 5482, as introduced, would impose a Texas-style Margins Tax at a rate of 3.1966%. Furthermore, the bill includes an “easy computation and rate” at 1.75% for businesses with \$5 million or less of gross income and would be computed based on the business’s gross receipts without any deductions.

The bill also proposes a framework for filing the return and the computation of the “taxable margin” under the general Margins Tax. First, a business would be required to file on a combined basis and deduct payments between affiliate members (i.e., intercompany eliminations). Next, the taxable margin would be equal to a business’s worldwide gross income less cost inputs (or cost of goods sold), compensation

capped at \$400,000 per employee, \$1 million (the standard deduction), or 30% of a business's worldwide gross income.

Notably, S.B. 5482 does not address whether Washington localities would also be required to replace their B&O taxes with a Margins Tax. In addition, S.B. 5482 appears to maintain several surcharges, including the 1.2% surcharge on specified financial institutions, currently in place for purposes of the B&O Tax, and the rate being proposed in S.B. 5482 is significantly higher than the Texas Margins Tax general rates of 0.75% (for businesses other than retail or wholesale) and 0.375% (for retail and wholesale) and the EZ computation rate of 0.33%. S.B. 5482 is scheduled for a public hearing in the Senate Committee on Business, Financial Services, Gaming and Trade on Jan. 26 at 10:30 a.m.

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