



KEY POINTS

- ❖ Architecture employment, billings and wages are struggling.
- ❖ Historic high B&O tax rates, which pyramid for design firms, hurt job growth and creation.
- ❖ Let the B&O Surcharge expire in 2013, as promised by lawmakers in 2010.

- ❖ Businesses use common paymasters for administrative savings and regulatory compliance.
- ❖ DOR recently started charging taxes for common paymasters, increasing costs to firms.
- ❖ DOR revenue projections are overstated as businesses will shift their business models to avoid the high taxes
- ❖ Pass commonsense paymaster clarification.

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TAX IMPACTS ON ARCHITECTS

TAXES—BACKGROUND

Washington State’s future depends in large part on a sustainable state economy that promotes investor confidence and provides the state with the resources to deliver essential programs and services.

The state’s current tax structure which relies heavily on business taxes weakens our businesses’ economic competitiveness and destabilizes our economy. According to Ernst & Young, businesses paid 56.8% of all state/local taxes collected in Washington State, the 9th highest in the nation. The national average for the business tax burden is 47.9%. Washington needs comprehensive tax reform to more equitably distribute the tax burden, improve our competitive position and stabilize the state’s revenue.

B&O TAX SURCHARGE ON SERVICE PROFESSIONS SHOULD END

In 2010, the legislature implemented a 3 year surcharge of an additional 20% on service businesses, increasing the Business & Occupations Tax rate from 1.5% to 1.8% of gross income. Since this surcharge was enacted architecture firms have paid \$32.9 million more in taxes than if the surcharge were not in place.

Service businesses pay the highest B&O tax rate (set at 1.8% of gross income). Currently, service businesses’ rates are up to 3.8 times higher than other classifications.

The high rates paid by architects are further compounded because architecture firms are required to count consultant services contracted by them as part of the firm’s gross income. The result is the double-taxation of fees as the consultant pays B&O taxes on their fees and the architect pays B&O taxes on the same fees.

The surcharge should be allowed to expire as promised when it was enacted.

SUPPORT COMMON PAYMASTER CLARIFICATION (S-0835/H-0522, PENDING INTRODUCTION)

Many businesses use centralized paymaster services for employee wages and reimbursements. Historically, the monies that simply pass through the paymaster from the employer to the employee are not considered taxable revenue. A recent Department of Revenue interpretation would tax the wages that flow through a centralized service.

This bill would affirm the historical tax treatment that a common paymaster is not taxable on payroll transfers made within a centralized system for affiliated companies. This activity creates no economic benefit other than administrative cost savings. DOR is placing an unrealistic burden on businesses that rely upon such services.

While there is a fiscal note on the bill, very little, if any, of the projected revenue has been or ever will be paid. Businesses will simply change their systems to report payroll at the affiliate level. As a result, business administrative burdens would increase and costs rise while tax revenues would remain exactly the same.

The AIA|WA urges lawmakers to take immediate action to ensure that businesses are not forced to disrupt current efficient operations to avoid paying unnecessary and unfair taxes. Please pass this common sense solution.