



April 2, 2019

B&O Tax

On Friday, March 29, the Senate released its budget and revenue bills. The Senate's budget includes much less spending than the House version and, unexpectedly, its revenue plan does not include an increase in the B&O tax. While this is good news for architects, it is important to remember that the final budget will not be one version or the other; it will be a negotiated mix of the two. Below is a very rough look at the process. Note that because Democrats control both houses, the Republicans largely aren't part of this decision-making structure. They do have input, however.

1. The House and Senate will each pass an appropriations budget that lays out what each body wants to spend over the next biennium.
2. The House and Senate finance committees will also pass respective revenue bills, although those bills are not likely to reach the floor.
3. Over the next few weeks, House and Senate budget negotiators will work together to come up with a final appropriations budget. At that point they will know exactly how much money they need to generate from taxpayers to accomplish their goals.
4. Then, House and Senate negotiators will turn to the revenue ideas in the two bills under #2 above. Parts of each will likely be included in the final version.
 - Both revenue bills include a graduated increase in the real estate excise tax, so some version of that tax is a given in the final agreement.
 - The House budget contains a capital gains tax, which faces legal scrutiny if enacted. The Senate bill does not contain a capital gains tax for budget purposes, although one is proposed in separate legislation that would offset other tax reductions. Senate Democrats are not expected to have the votes to pass a capital gains tax.
 - What's left over in terms of revenue is the B&O tax, and there will likely be negotiations over which occupations get taxed and how much (the governor's budget increases the B&O on all services, for example, while the House's version increases the B&O only on services that utilize higher education degrees). In short, the B&O tax will be in play until the final budget is passed (the session is scheduled to end on April 28, but it can go over if the governor calls a special session). Some sort of an increase is still likely, but we can't be sure.

AIA|WA Position

AIA|WA has long advocated for structural tax reform that would make Washington's taxation system more fair (our system is currently ranked as the most regressive in the nation). Last year legislators passed a bill to provide for a study committee to look at this issue, but their proposals this year fall far short of systematic reform (again, this largely refers to the Democrats, since they have the votes to make these decisions).

Last week I solicited feedback from AIA members on the House's B&O tax increase proposal. I received approximately 25 responses, almost evenly divided between opposing any new tax and supporting a 0.3% in exchange for the higher education investments.

AIA|WA will send a letter to all legislators outlining our structural issues with the B&O tax and again reiterating our support for systematic tax reform. We will indicate support for the higher education investments and report that our members are mixed on their ability to pay for it. We will ask for no increase or a smaller increase until the state's overall taxation inequalities can be addressed.

Contacting Your Legislators

If you would like to weigh in with your legislators on behalf of yourself or your firm, you should do so now. There will not be specific bill deadlines that we can follow to know when decisions are being made, and much of the decision-making will happen behind the scenes.

You can find your legislators' email addresses [here](#) (search by name). If you don't know their names you can input your address [here](#).

When contacting your legislators on this topic, you do not have to be specific about bill numbers. We suggest telling them that you oppose (or support) an increased B&O and why. Use specific examples from your firm. Some legislators know that architecture firms pay tax on revenues they distribute to subcontractors (who then pay tax on it again), but some do not. It will be useful to explain that and also to discuss the margins architects face after the tax is paid.

Note that the Senate budget does not contain the dedicated funding on higher education that is detailed in the House version (the Senate's budget contains \$400 million less in spending). If you support that, and support an increased B&O going to that fund, you can offer comments on that.

If you'd like help shaping your comments, let us know.

Capital Budget

With respect to the Capital Budget, the Senate version is \$5.25 billion and the House is \$4.61 billion. You can see the numbers by spending category [here](#). Click on the following links to read the [House](#) and [Senate](#) version of the capital budget, which includes information on specific projects. AIA|WA consistently lobbies for a robust capital budget. However, since both versions involve different member projects (and sometimes in different configurations), AIA|WA does not lobby on behalf of specific projects. Members with concerns or questions about a specific project should contact one or more of the legislators from the district where that project is located (if one of those legislators is on one of the finance committees, start there). For help, contact [Kirsten](#).

For your reference, we've attached a comparison of the three operating budgets.

Attachment: Budget Proposals

Here's a quick look at the three proposals for the operating budget. The governor's is mostly irrelevant since it doesn't have to be reconciled into a single budget as the House and Senate do – and that reconciled version will be the final budget the governor is asked to sign.

Note the Senate budget proposes less than half of the revenue that the House version does (this is partly because its version of the capital gains tax is not considered part of the budget). While the spending categories were largely similar, the Senate's appropriations were generally lower across the board.

2019-21 Operating Budget Proposals

Budget	Total 2-yr operating budget spending Current budget is \$44.7 billion	Total 2-yr Revenues	B&O tax	Capital Gains (retirement accounts & other exempt)	Real Estate Excise Tax Current 1.28%
Governor	\$54.4 billion	\$3.7 billion	2.5%	9% on some earnings	Graduated rate: lower for homes < \$250k, higher for > \$1M
House	\$52.6 billion	\$1.4 billion	1.8% Targeted to higher ed professions	9.9% on income > \$100k for individuals	Graduated rate: lower for homes < \$500k, higher for those above
Senate	\$52.2 billion	\$518 million (Capital gains tax is not part of the Senate's operating budget)	1.5% (no change)	Separate proposal not part of budget; would provide tax breaks if enacted: 8.9% on income > \$250,000 for indiv and couples	Higher than current for homes > \$1M

[Crosscut](#) comparison of House and Senate budgets.

[Spokesman-Review](#) comparison