2025 tax preference review:

Travel Agents and Tour Operators

PRELIMINARY REPORT | JULY 2025

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Legislative Auditor's conclusion

Savings for large beneficiaries are increasing. The number of small beneficiaries and their savings are decreasing.

Key points

- Travel agents and tour operators receive one of two preferential business and occupation (B&O) tax rates based on their taxable earnings. Beneficiaries saved $5.8 million in fiscal year 2024.
- From fiscal year 2020 through 2024, savings for large beneficiaries increased 107%.
- The lower preferential rate, together with the Small Business Credit, reduced B&O tax for small beneficiaries by 90%.
- However, the number of small beneficiaries and their savings are decreasing.

Two categories of beneficiaries

This report refers to beneficiaries of the tax preferences as large beneficiaries and small beneficiaries.

Large beneficiaries have more than $250,000 in taxable earnings in the prior year. They are subject to the 0.9% B&O tax rate.

Small beneficiaries have $250,000 or less in taxable earnings in the prior year. They are subject to the 0.275% B&O tax rate.

About this preference

Estimated savings: $13 million (2027-2029 biennium)

Tax type: Business and occupation (B&O) tax

Expiration date: No expiration date

Earlier JLARC reviews

JLARC staff review tax preferences every 10 years on a schedule set by the Citizen Commission for Performance Measurement of Tax Preferences. **JLARC previously reviewed the preferences in 2012**. In that study, the Legislative Auditor concluded that the Legislature should review and clarify the preference.

Executive summary

Two tax preferences provide preferential B&O tax rates for travel agents and tour operators. The inferred objective for the preferences is to provide tax relief to these businesses.

The preferences provide:

- A 0.275% B&O tax rate for travel agents and tour operators with taxable amounts of $250,000 or less (small beneficiaries).
- A 0.9% B&O tax rate for travel agents and tour operators who earn more (large beneficiaries).

Without these preferences, travel agents and tour operators would be subject to the service and other activities B&O rates of 1.5% for those with an annual income below $1 million, or 1.75% for those above it.

Preferences meet the inferred objective

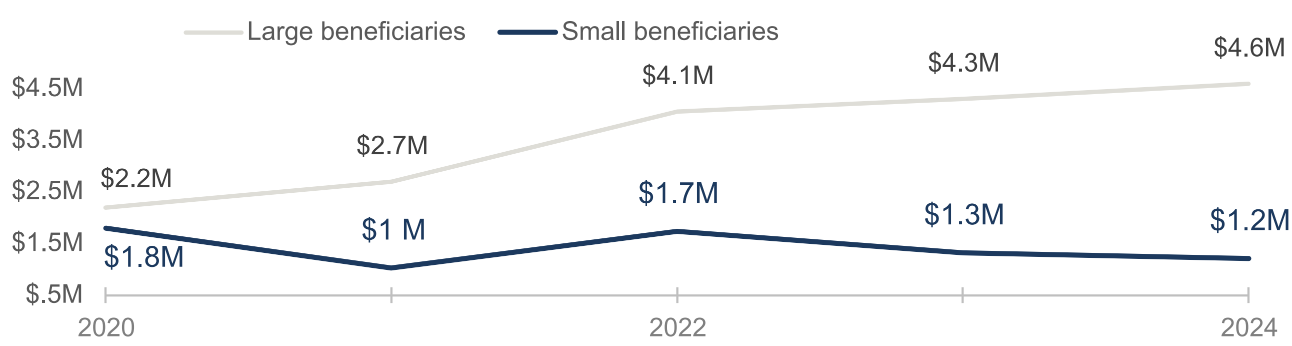
JLARC staff infer that the objective of the preferences is to provide tax relief to travel agents and tour operators, particularly those with annual incomes of $250,000 or less.

The preferential rates reduce the B&O tax owed. For small beneficiaries the preferential rate reduces B&O tax due by an average of 83%. The preferential rate provides large beneficiaries with a 48% average reduction in B&O tax.

Beneficiaries saved a total of $5.8 million in fiscal year 2024.

- Large beneficiaries saved $4.6 million in fiscal year 2024.
- Small beneficiaries saved $1.2 million in fiscal year 2024.

Figure 1: Savings for large beneficiaries increased, while savings for small beneficiaries decreased



Source: JLARC staff analysis.

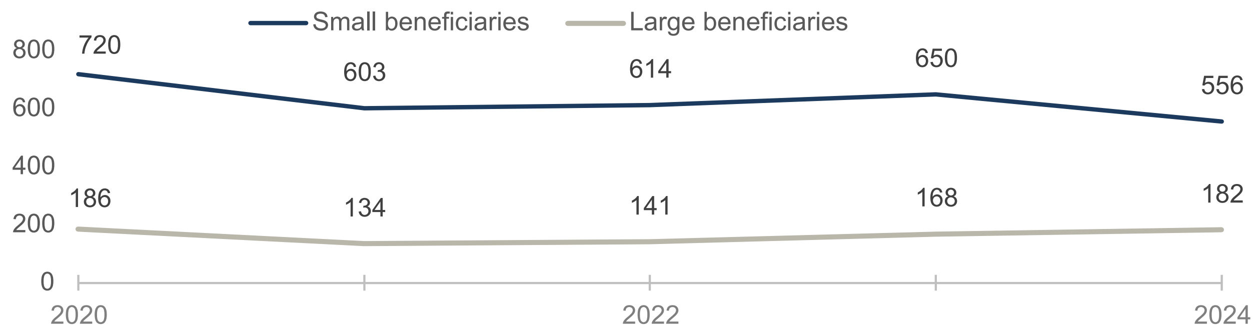
Use of the two preferences has followed diverging trends between fiscal year 2020 and fiscal year 2024:

- Savings for large beneficiaries increased 107%.
- Savings for small beneficiaries decreased by 33%.

Small beneficiaries continue to decline in number

The number of small beneficiaries decreased from 720 to 556 between fiscal years 2020 and 2024. These businesses also report reduced taxable earnings and tax savings.

Figure 2: The number of small beneficiaries continues to decline



Source: JLARC staff analysis.

The Small Business Credit further reduces the B&O tax for small beneficiaries

The Small Business Credit (SBC) allows businesses that owe less than a certain amount of B&O tax to take a credit against tax owed.

In calendar year 2023, 91% of small beneficiaries used the SBC to reduce their B&O tax by an additional 6%. This meant that the total B&O tax due for small beneficiaries was on average 12% of what it would have been without the preference and credit.

Large beneficiaries can also claim the SBC if the preferential rate reduces B&O tax due to qualify for the SBC. On average, large beneficiaries who claimed the SBC reduced tax owed by less than 0.1% in 2023.

State and national travel industries show similar trends in employment but differences in wages

The level of employment in the travel arrangement and reservation services industry (travel industry) in Washington has followed the national trend of a decline in 2020 coinciding with the pandemic, and then a recovery beginning in 2021. However, wages paid to Washington employees exceed the national average. The state's travel industry comprises more highly paid occupations.

Legislative Auditor's recommendations

1. The Legislature should continue the 0.275% preferential tax rate for small beneficiaries.
   - The preference is meeting the inferred objective of providing tax relief to travel agents and tour operators, particularly those with annual incomes of $250,000 or less.
   - Still, the number of small beneficiaries has declined.
2. The Legislature should add an objective and performance metrics for the 0.275% preferential tax rate for small beneficiaries.

3. The Legislature should review the 0.9% preferential tax rate for higher earners. If it continues the preference, it should add an objective and performance metrics.

You can find additional information in the **Recommendations section**.

Commission recommendation

To be included in proposed final report.

Part 1.
Preferential rates

Preferences provide reduced B&O tax rates for travel agents and tour operators

The tax preferences provide two preferential business and occupation (B&O) tax rates to travel agents and tour operators:

- **Small beneficiaries:** Travel agents and tour operators whose taxable amount in the prior year was $250,000 or less and who are subject to the 0.275% tax rate.
- **Large beneficiaries:** Travel agents and tour operators whose taxable amount in the prior year was higher than $250,000 and who are subject to the 0.9% tax rate.

Without the preferential rate, travel agents and tour operators would pay the service and other activities rate of 1.5% or 1.75%. The lower rate of 1.5% is for those with annual income below $1 million.

State rules define travel agent and tour operator activities

A **travel agent** arranges:

- Travel.
- Transportation.
- Lodging.
- Meals.
- Other services.

Travel agents receive a commission from the service provider for arranging the customer's service. Currently 1,400 travel agents are registered with the Department of Revenue (DOR). Of these, about 900 are in-state businesses.

A **tour operator** provides tours directly or through third-party providers for:

- Transportation.
- Lodging.
- Meals.
- Other associated services purchased by the customer.

Travel agents can serve as tour operators.

Legislature has amended the preference over time

The Legislature first enacted the preference in 1975. In 1993 it changed the rate from 0.25% to 0.275%, and in 1996 added tour operators. The 2019 Legislature set the higher 0.9% preferential rate for large beneficiaries. Until then, these beneficiaries paid the same 0.275% rate as small beneficiaries.

Preferences meet the inferred objective of providing tax relief to travel agents and tour operators

In 2012, JLARC inferred from testimony that the objective of the preference was to do the following:

- Reduce the tax liability for travel agents in light of a 1975 DOR rule change following a court case. The change in DOR rule would have increased the tax liability of travel agents.
- Apply a uniform rate for air carriers and travel agents.
- Simplify the administration of the tax by creating a uniform rate for travel agents and tour operators.

That review concluded it was unclear whether these inferred objectives still applied in light of changes to the industry since the preference was enacted.

The Legislature did not state a public policy objective when amending the preference in 2019. Based on committee and floor remarks from 2019, JLARC staff infer a new objective for the preferences to provide tax relief to travel agents and tour operators, particularly for those with annual incomes of $250,000 or less.

- Committee members discussed "how to help a really small travel agency."
- During floor discussion, the sponsor who introduced the 0.275% rate for small beneficiaries described it as a way to "preserve" small agencies.

Analysis of beneficiary savings indicates the preferences do provide tax relief, particularly to small beneficiaries.

Part 2.
Beneficiary savings

The tax preferences saved 702 businesses an estimated $5.8 million in fiscal year 2024.

Use of the preferences by small and large beneficiaries has shown different trends

Fewer large beneficiaries claim the preference than small beneficiaries. However, due to their higher earnings, large beneficiaries claim most taxpayer savings.

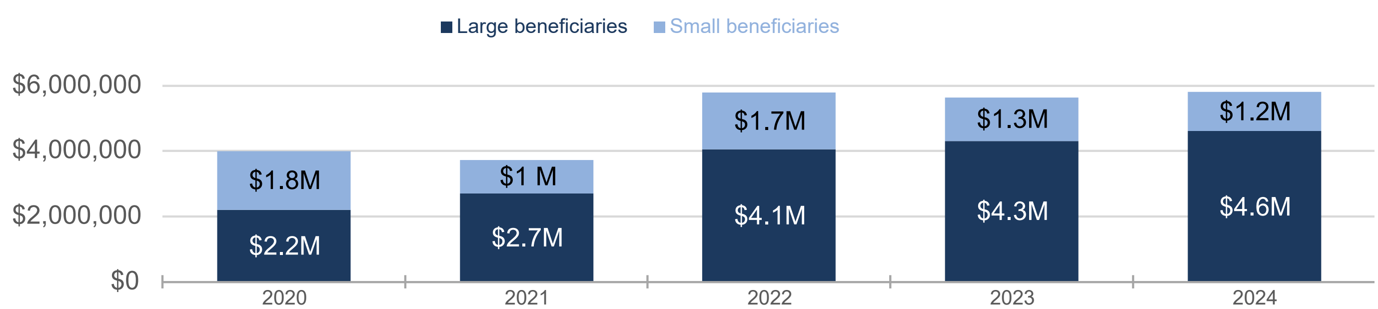
- In fiscal year 2024, large beneficiaries saved $4.6 million. This is a 107% increase from fiscal year 2020.
- In fiscal year 2024, small beneficiaries saved $1.2 million. This is a 33% reduction from fiscal year 2020.

The effect on tax due was greater for small beneficiaries:

- The average taxpayer savings per large beneficiary was $25,000, reducing B&O tax due by an average of 48%.
- The average taxpayer savings per small beneficiary was $2,200, reducing B&O tax due by an average of 83%.

JLARC staff estimate savings in the 2027-29 biennium will grow to $13 million, with most savings among large beneficiaries. JLARC staff estimate small beneficiary savings will continue to decline.

Figure 3: Large and small beneficiaries show different trends in savings



Source: JLARC staff analysis.

The Small Business Credit further reduces tax owed for small beneficiaries

Small beneficiaries can further reduce tax owed by claiming a second tax preference. The Small Business Credit (SBC) is available to businesses in all industries that have a B&O tax liability below a certain amount.

The amount of the credit depends on the following:

- The type of activity for which the business reports earnings.
- The total amount of B&O tax due after other available B&O tax credits are taken.

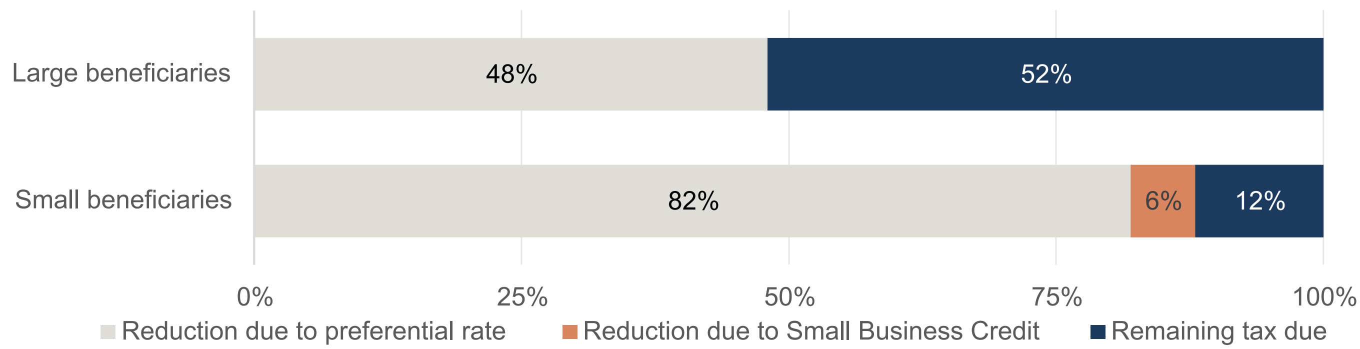
The 2022 Legislature increased the credit beginning in 2023:

- Businesses primarily reporting earnings under service and other activities can qualify for the SBC with a B&O tax liability up to $3,840. Businesses that owe less than that cap can claim the credit for total amount of tax due. The maximum annual credit is $1,920.
- Businesses primarily reporting earnings on other lines, such as travel agents and tour operators, can qualify with B&O tax liability up to $1,320. The maximum annual credit is $660.

Between calendar years 2019-2023, an average of 89% of small beneficiaries used the SBC in combination with the preferential rate. In 2023 they reduced their tax liability to an average of 12% of what they would have owed without the tax preference and credit.

Large beneficiaries can also claim the SBC if they have sufficiently low B&O tax liability, but usage is generally lower. Across all beneficiaries of the travel agents and tour operators tax preference, the SBC reduced tax liability for large beneficiaries by less than 0.1% in 2023.

Figure 4: Preferential rate and Small Business Credit reduce tax owed for beneficiaries in 2023



Source: JLARC staff analysis of DOR tax return data.

The number of small beneficiaries declined 23%

Between fiscal years 2020–24 the number of small beneficiaries decreased from 720 to 556. This is a decline of 23%.

A 2023 legislative change may contribute to the reduction in small beneficiaries. The Legislature increased the earnings threshold above which a business is required to file B&O taxes with DOR. The minimum filing threshold increased to annual gross receipts of $125,000 for businesses not required to report other taxes to DOR. This means that some small beneficiaries may not file with DOR and would no longer appear in the count of small beneficiaries. The effect of this change on the number of small beneficiaries reporting use of the tax preference is unknown.

Small beneficiaries employ fewer workers than large beneficiaries

In 2023, of the 776 beneficiaries of the tax preferences, 560 do not report any Washington employees covered by the state's unemployment insurance program. These may be:

- In-state businesses with no employees, such as sole proprietorships, or
- Out-of-state businesses with no Washington employees.

In fiscal year 2023, the average large beneficiary employed 75 workers. A total of 103 small beneficiaries reported employees to the Employment Security Department, employing an average of 17 workers per beneficiary.

Figure 5: In 2023, small beneficiaries employed an average of 17 workers per beneficiary

Group	Beneficiaries	Employees	Average Per Beneficiary
Small	103	1,791	17

Group	Beneficiaries	Employees	Average Per Beneficiary
Large	71	5,331	75

Note: JLARC staff matched beneficiary tax data to Employment Security Department (ESD) records.

Source: JLARC staff analysis of ESD and DOR data.

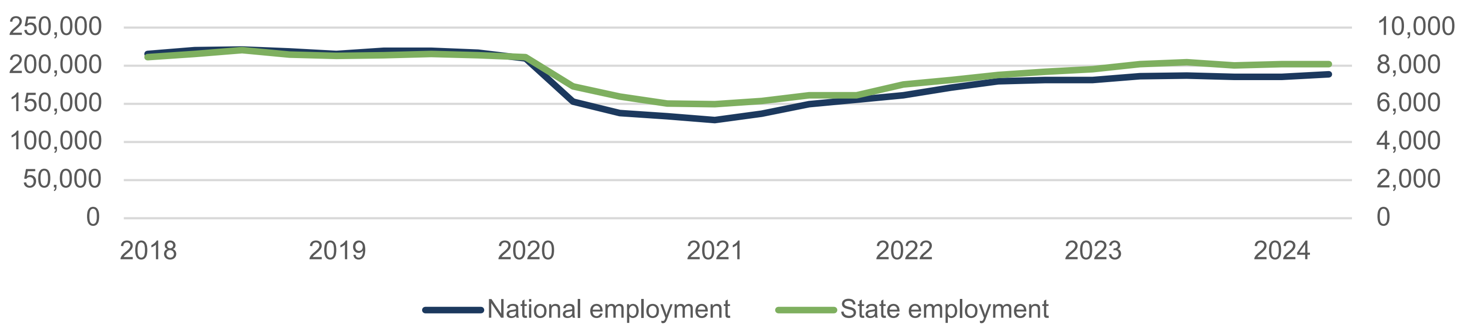
Part 3.
Industry comparison

The level of employment in the travel arrangements and reservation services industry (travel industry) in Washington has followed the national trend. However, wages paid to Washington employees exceed the national average. The state's travel industry comprises more highly paid occupations.

National and state employment data shows a similar trend

Bureau of Labor Statistics (BLS) data shows a similar trend in state and national employment in the travel industry. State and national levels of employment show a decline in 2020 coinciding with the pandemic and a recovery in 2021.

Figure 6: National and state employment data for the travel industry from 2018 to 2024 shows a similar trend

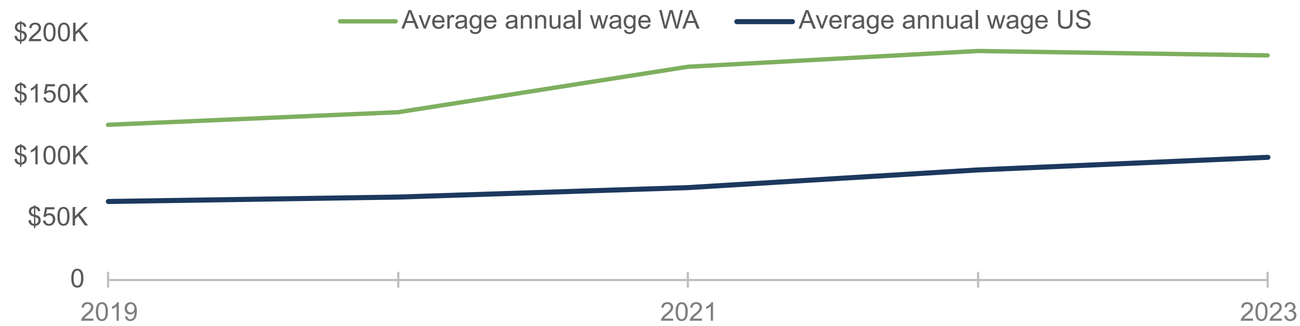


Source: JLARC staff analysis of BLS Quarterly Census of Employment and Wages data.

Industry wages for Washington far exceed national average

Washington's travel industry wage is significantly higher than the national average. According to BLS data, the average annual wage of travel agent and tour operators in Washington is $182,581. Nationally, the average wage is $99,757.

Figure 7: Washington's average travel industry wage is higher than the national average



Source: JLARC staff analysis of BLS Quarterly Census of Employment and Wages data.

A portion of the difference may be explained by Washington's higher wage level when compared to the nation. In 2023, national median annual wages were $48,060 for all occupations. In Washington they were $59,920.

More technology-related industry occupations in Washington

Differences in the occupations that comprise the industry also contribute to the wage difference. Software developers and computer programmers are two of the three most common occupations in Washington's travel industry. Together, they represent 23% of jobs. The median annual wages for both software developers and computer programmers in Washington are nearly $170,000 per year.

Travel agents are the second-most-common occupation and represent 12% of jobs. In Washington this occupation has a median annual wage of $65,000 per year.

Figure 8: The top three travel industry occupations in Washington include software developers and computer programmers

Occupation	% of Industry	Washington Median Annual Wage
Software developers	16.5%	$169,608
Travel agents	11.7%	$65,062
Computer programmers	6.5%	$169,650

Source: JLARC staff analysis of BLS data.

Nationally, travel agents are the leading occupation in the travel industry and represent 25% of jobs. This is followed by ticket agents and customer service representatives. Higher-paid technology jobs represent 2% of the industry workforce.

Figure 9: The top three travel industry occupations nationally include travel agents and ticket agents

Occupation	% of Industry	National Median Annual Wage
Travel agents	25.4%	$65,062
Reservation and transportation ticket agents and travel clerks	9%	$48,233
Customer service representatives	7.7%	$49,861

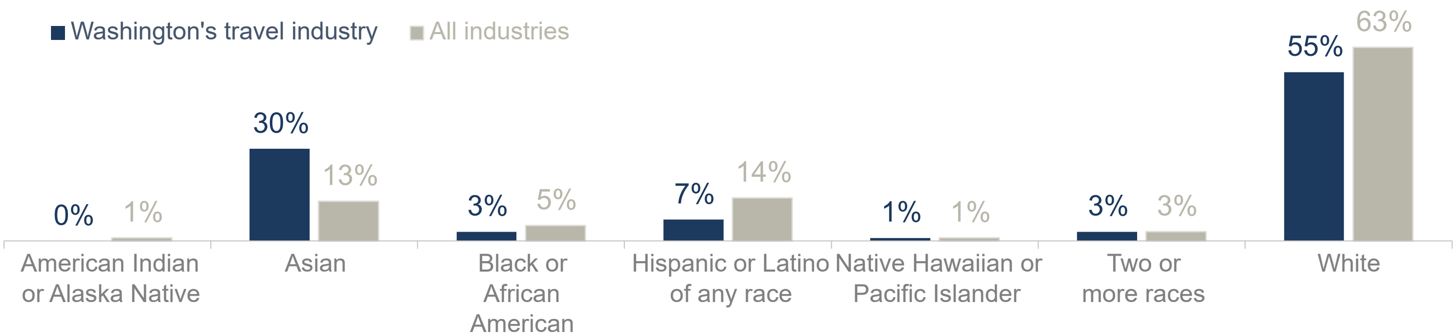
Source: JLARC staff analysis of BLS data.

Washington's travel industry has a different racial and ethnic makeup than the state's overall workforce

Census data shows that Washington's travel industry has:

- A higher percentage of Asian employees. Asian employees make up 30% of the travel industry, compared to 13% across all industries.
- A lower percentage of Hispanic/Latino, white, and Black/African American employees. White employees represent 55% of the travel industry workforce, versus 63% overall. Hispanic employees make up 7% of the industry, and 14% statewide.

Figure 10: Washington's travel industry has a higher percentage of Asian representation and less Hispanic, white, and Black/African American representation than average



Source: JLARC staff analysis of BLS, Office of Financial Management Forecasting: 2020 decennial census data.

Recommendations

The Legislative Auditor makes three recommendations.

Recommendation #1:
The Legislature should continue the 0.275% preferential tax rate for small beneficiaries.

- The preference is meeting the inferred objective of providing tax relief to travel agents and tour operators, particularly those with annual incomes of $250,000 or less.
- Still, the number of small beneficiaries is in decline.

Legislation required: No.

Fiscal impact: If the Legislature continues the preference, small beneficiaries will continue to save $2.1 million in the 2027-29 biennium.

Implementation date: Not applicable.

Recommendation #2:
The Legislature should add an objective and performance metrics for the 0.275% preferential tax rate for small beneficiaries.

Legislation required: Yes.

Fiscal impact: None.

Implementation date: At the discretion of the Legislature.

Recommendation #3:
The Legislature should review the 0.9% preferential tax rate for higher earners. If it continues the preference, it should add an objective and performance metrics.

Legislation required: Yes.

Fiscal impact: Depends on the Legislature's policy choice.

Implementation date: At the discretion of the Legislature.

Letter from commission chair

To be included in proposed final report.

Commission recommendation

To be included in proposed final report.

Current recommendation status

JLARC staff review whether the agency acted on the recommendation for four years. The first review typically happens about a year after we issue the report. The most recent responses from agencies and status of the recommendations in this report can be viewed on our **legislative auditor recommendations page**.

Appendices

Appendix A: Applicable statutes | **Appendix B: Study questions & methods** | **Appendix C: Audit authority** | **Appendix D: Study Process**

Appendix A: Applicable statutes

RCW **82.04.260(5)**: Tax on manufacturers and processors of various foods and by-products — Research and development organizations — Travel agents — Certain international activities — Stevedoring and associated activities — Low-level waste disposers — Insurance producers, surplus line brokers, and title insurance agents — Hospitals — Commercial airplane activities — Timber product activities — Canned salmon processors.

RCW **82.04.290**: Tax on service and other activities.

Appendix B: Study questions

By law, tax preference reviews must address these study questions

Study questions define the scope of the audit. These reviews will consider the study questions as they relate to each preference, which were presented to JLARC in September 2024 (**view here**).

- **Public policy objectives:** What did the Legislature intend to accomplish? Has the preference achieved those goals?
  - The Legislature defined specific performance metrics for some tax preferences.
  - For others, JLARC staff infer objectives and metrics.
- **Beneficiaries:** Who does the preference benefit, either directly or indirectly? How much have they saved?
- **Revenue and economic impacts:** What are the impacts to the taxpayers and the state?

- **Other states:** Do other states have a similar tax preference?
- **Racial equity:** Are there racial equity considerations associated with the tax preferences?

Methods

The methodology JLARC staff use when conducting analyses is tailored to the scope of each study, but generally includes the following:

- **Interviews** with stakeholders, agency representatives, and other relevant organizations or individuals.
- **Site visits** to entities that are under review.
- **Document reviews**, including applicable laws and regulations, agency policies and procedures pertaining to study objectives, and published reports, audits or studies on relevant topics.
- **Data analysis**, which may include data collected by agencies and/or data compiled by JLARC staff. Data collection sometimes involves surveys or focus groups.
- **Consultation with experts** when warranted. JLARC staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

The methods used in this study were conducted in accordance with Generally Accepted Government Auditing Standards.

More details about specific methods related to individual study objectives are described in the body of the report under the report details tab or in technical appendices.

Appendix C: Audit authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's nonpartisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in **Chapter 44.28 RCW**, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

Appendix D: Study process

View guide to JLARC Tax Preference Reviews **here**.

JLARC members on publication date

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