

# 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

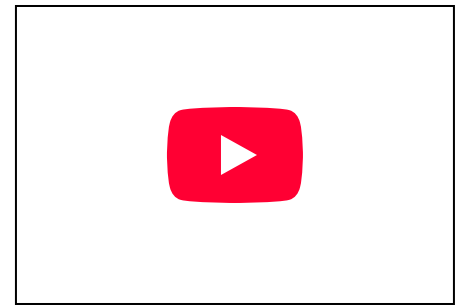
<b>Estimated savings:</b> \$13 million (2027-2029 biennium)	<b>Tax type:</b> Business and occupation (B&O) tax	<b>Expiration date:</b> No expiration date
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### Earlier JLARC reviews

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

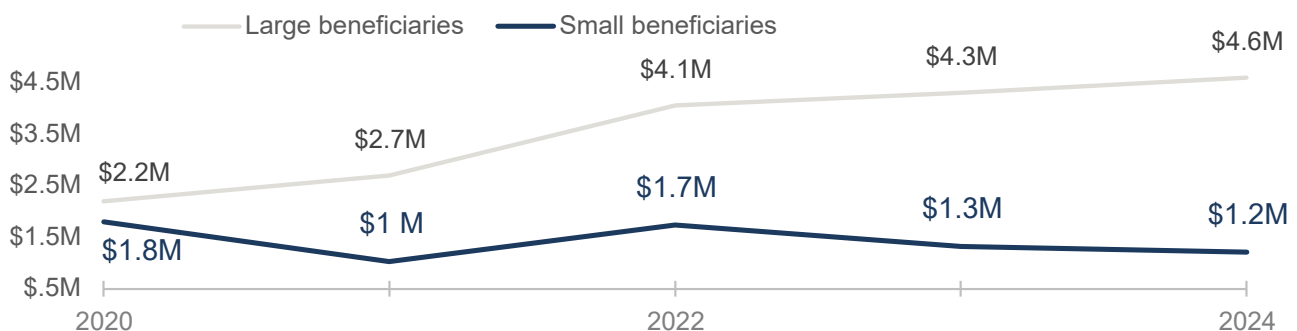
JLARC staff infer that the objective of the preferences is to provide tax relief to travel agents and tour operators, particularly those with annual incomes of \$250,000 or less.

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.

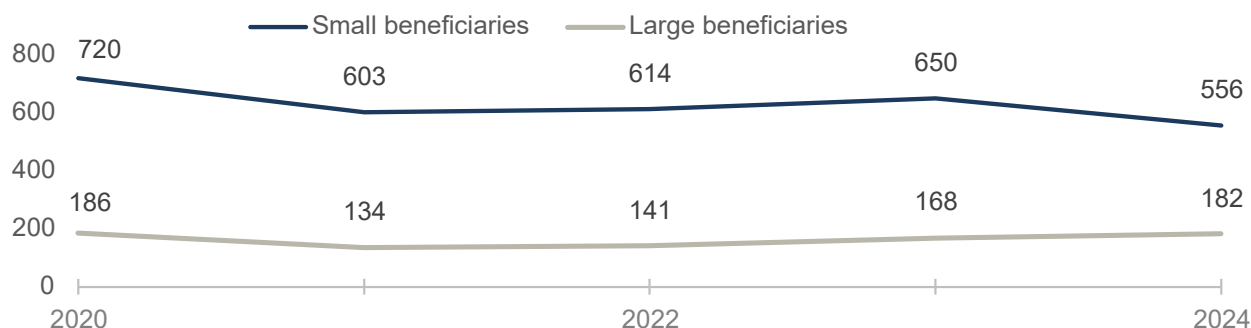
Use of the two preferences has followed diverging trends between fiscal year 2020 and fiscal year 2024:

- 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.