

# FINAL BILL REPORT

## ESHB 1887

---

---

### PARTIAL VETO

C 211 L 99

Synopsis as Enacted

**Brief Description:** Revising the machinery and equipment tax exemption for manufacturers and processors for hire.

**Sponsors:** By House Committee on Finance (Originally sponsored by Representatives Kessler, Lisk, Grant, Wensman, Wolfe and Pennington; by request of Department of Revenue).

**House Committee on Finance**  
**Senate Committee on Ways & Means**

#### **Background:**

The sales tax is imposed on retail sales of most items of tangible personal property and some services. Use tax is imposed on the use of an item in Washington, when the acquisition of the item or service has not been subject to sales tax. The combined state and local sales and use tax rate is between 7 and 8.6 percent, depending on location.

Major items exempt from sales and use tax include most food for human consumption, prescription drugs, motor vehicle fuel, utility services, professional services (e.g., medical, legal), certain business services (e.g., accounting, engineering), and items that become a component of another product for sale.

Machinery and equipment sold to a manufacturer or a processor for hire that are directly used in a manufacturing operation or research and development operation are exempt from sales tax and use tax. This exemption was enacted July 1, 1995.

There has been some disagreement about which activities are eligible for the manufacturing sales and use tax exemption. On January 16, 1996, the Department of Revenue issued a special notice explaining that logging equipment was not eligible for the exemption. The department stated that logging was an extracting activity not a manufacturing activity. Since then the department has changed its position and allows logging equipment to be eligible for the exemption. In addition, the department's interpretation is that rock crushing equipment is also exempt.

#### **Summary:**

The definition of manufacturing is modified to include the cutting, delimiting, and measuring of felled, cut, or taken trees, and the crushing and/or blending of rock, sand, stone, gravel, or ore. This change makes certain logging and rock crushing activity eligible for the manufacturing machinery and equipment sales and use tax exemption.

The provisions related to logging and rock crushing equipment are made retroactive to allow refunds to persons who previously paid the sales or use tax.

Businesses that test products for manufacturers are exempt from sales and use tax on the machinery and equipment used in a testing operation.

**Votes on Final Passage:**

House 93 0

Senate 47 0

**Effective:** July 25, 1999

**Partial Veto Summary:** The Governor vetoed the emergency clause on the sales and use tax exemption for equipment used in a testing operation.