

***Finance Committee***

***HB 1500***

***Brief Description:*** *Exempting certain assembly activities from the business and occupation tax on manufacturing.*

***Sponsors:*** *Representatives Dickerson, Pennington, Morris, Van Luven, Conway, Santos and Dunn.*

***Brief Summary of Bill***

- *Exempts minor assembly of pumps, motors, and compressors from B&O manufacturing tax.*

***Hearing Date:*** *2/7/01*

***Staff:*** *Bob Longman (786-7139).*

***Background:***

*Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. There are several different B&O tax rates. The rate for most manufacturing and wholesaling activities is 0.484 percent. Manufacturing tax applies to the value of products manufactured in Washington and sold to out-of-state customers. Wholesaling tax applies to sales to in-state customers who purchase for resale. Sales to customers outside of Washington generally are not subject to B&O tax unless the seller manufactured the product.*

*Manufacturing is broadly defined for purposes of the tax code, and includes all activities that produce a "new, different, or useful substance or article." Assembly of products from component parts is manufacturing, even if the amount of labor involved is small compared to the value of the components. For example, bolting together pumps and motors to make a single piece of equipment is manufacturing.*

***Summary of Bill:***

*The manufacturing B&O tax does not apply to assembly of motors, pumps, compressors, and related equipment, if some of the equipment and accessories are purchased from another person and the amount paid for the components is at least 80 percent of the value of the assembled product.*

***Appropriation:*** None.

***Fiscal Note:*** Available.

***Effective Date:*** The bill takes effect on October 01, 2001.