

SENATE BILL REPORT

HB 2580

As Reported By Senate Committee On:
Ways & Means, February 22, 2006

Title: An act relating to the excise taxation of persons that inspect, test, and label canned salmon.

Brief Description: Providing excise tax relief for persons that process canned salmon.

Sponsors: Representatives Upthegrove, Schual-Berke, P. Sullivan, Simpson and McCune.

Brief History: Passed House: 2/11/06, 95-1.

Committee Activity: Ways & Means: 2/22/06 [DPA, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Prentice, Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Parlette, Pflug, Regala and Schoesler.

Minority Report: Do not pass.

Signed by Senators Fraser, Vice Chair, Capital Budget Chair; Pridemore and Rockefeller.

Staff: Dean Carlson (786-7305)

Background: Several firms are located in Washington that store, inspect, test, and label canned salmon that was canned outside of Washington. These firms store in warehouses the canned salmon, owned by the out-of-state salmon-canning companies. When receiving appropriate instructions from the owner, the labeler will select a particular batch and inspect, weigh, and vacuum test the cans. The labeler will then label all cans that have passed inspection and package the cans in boxes to be shipped to customers of the salmon-canning companies.

In September 2005, the Department of Revenue issued an Excise Tax Advisory (ETA) concerning firms that store, inspect, test, and label canned salmon owned by others. The ETA provides that the activity of inspecting, testing, and labeling of canned salmon falls under the general service classification of the B&O tax and so is subject to a 1.5 percent rate; the storage of the cans is subject to the warehousing rate of 0.484 percent. Before the issuance of the ETA, some taxpayers had been reporting the activities other than warehousing under the processing for hire classification at a 0.484 percent rate. The ETA also clarified that the firms conducting the testing activities were eligible for the machinery and equipment (M&E) exemption from sales and use taxes on M&E used directly to inspect and test the cans. Finally, the ETA provided that retail sales and use taxes were due on sales of labels and packaging materials to the labelers.

Summary of Amended Bill: Persons who inspect, test, and label canned salmon owned by others are subject to B&O tax at a 0.484 percent rate.

Amended Bill Compared to Original Bill: The exemption from paying retail sales and use taxes on materials used to label canned salmon and on materials used to package canned salmon were removed.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2006.

Testimony For: None.

Testimony Against: None.

Testimony Other: We do not have concern with the business and occupation tax change; however, our concern is with the sales and use tax exemption. All other businesses in the state except for one type of business pays the retail sales and use tax on packaging materials. We are concerned that this would open the door for many other businesses to request this same exemption.

Who Testified: OTHER: Gil Brewer, Department of Revenue.