HOUSE BILL REPORT

HB 2480

As Reported By House Committee On:
Revenue

Title: An act relating to the taxation of manufacturers of fish products.

Brief Description: Relating to the taxation of manufacturers of fish products.

Sponsors: Representatives G. Fisher and Foreman; by request of Department of Revenue.

Brief History:
Reported by House Committee on:
Revenue, January 28, 1994, DP.

HOUSE COMMITTEE ON REVENUE

Majority Report: Do pass. Signed by 16 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Foreman, Ranking Minority Member; Fuhrman, Assistant Ranking Minority Member; Anderson; Brown; Caver; Cothern; Leonard; Romero; Rust; Silver; Talcott; Thibaudeau; Van Luven; and Wang.

Staff: Rick Peterson (786-7150).

Background: In order to provide fair treatment to businesses that operate in other states and in Washington, Washington provides a credit against the Washington Business and Occupation tax for similar taxes paid in other states. For example, if a business manufactured a product in another state and sold the product in Washington, the taxpayer may owe a B&O type tax to the state where the manufacturing took place and B&O tax to Washington where the selling activity took place. Washington allows a credit against the selling tax for the manufacturing tax paid to the other state. In this way, only one tax applies to the manufacturing and selling activity. This same treatment applies when the manufacturing and the selling both take place in Washington.

Recently a taxpayer requested a tax credit against Washington’s B&O tax based on an Alaska B&O type tax paid on certain fish processing activity in Alaska. The activity was the gutting of salmon, removing the head, tail and fins, and freezing the "whole" salmon. The Department of Revenue decided the taxpayer could credit payments of this Alaska tax against Washington's B&O tax on selling the salmon in Washington.

The Department of Revenue in the past has not considered the activity of gutting a salmon, removing the head, tail and fins, and freezing the "whole" salmon to be a manufacturing activity. Hence, the treatment of this activity is not consistent; activity done out-of-state is considered manufacturing and eligible for a tax credit; activity done in state is not considered manufacturing.

Now that a taxpayer has asked for a Washington tax credit based on an Alaska tax, a question has arisen of whether gutting a salmon, removing the head, tail and fins, and freezing the remainder is a manufacturing activity subject to B&O tax in Washington.

Summary of Bill: An exemption from the manufacturing tax is provided when fish are gutted, and heads, tails and fins are removed. The wholesaling or retailing tax would continue to apply when the fish is sold in Washington.

Fiscal Note: Requested January 21, 1994.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: Asserting tax on these fish processing activities will have a negative impact on Washington's troubled fishing industry. An exemption will serve two purposes. A credit will be allowed when the manufacturing activity takes place in other states but no tax will be charged when the manufacturing activity takes place in Washington. In addition, litigation on this issue is less likely.

Testimony Against: None.

Witnesses: Ryan Spiller, Department of Revenue; and Randy Ray, Aequus Corporation.