

HOUSE BILL REPORT

SB 6573

As Passed House
March 4, 1994

Title: An act relating to the impact of taxes on manufacturing.

Brief Description: Directing a study to examine the effect of the tax system on manufacturers.

Sponsors: Senators Bauer and Bluechel.

Brief History:

Reported by House Committee on:
Revenue, February 28, 1994, DP.
Passed House, March 4, 1994, 95-0.

HOUSE COMMITTEE ON REVENUE

Majority Report: Do pass. Signed by 15 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Foreman, Ranking Minority Member; Fuhrman, Assistant Ranking Minority Member; Anderson; Brown; Caver; Cothorn; Leonard; Romero; Rust; Silver; Talcott; Van Luven and Wang.

Staff: Rick Peterson (786-7150).

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is levied on the gross receipts of all business activities conducted within the state without any deduction for the costs of doing business. Because of this, the tax is more beneficial to high-profit businesses which tend to be more established.

In addition, retail sales and use taxes apply to labor and materials used to construct or renovate manufacturing facilities and to the purchase of new and replacement manufacturing equipment and machinery. The retail sales tax does not apply to the purchase of property which becomes an ingredient or component of a new article of property for sale.

Summary of Bill: The Department of Revenue is required to study the current state tax structure as it applies to manufacturers. The study shall address the taxes that apply, the incentives that are available, the effects over the various stages of its business cycle, the treatment of

new and established manufacturers, the added cost of capital resulting from the sales tax on construction and equipment, the taxes and tax incentives in other states, the relative competitive position of in-state and out-of-state manufacturers, and the economic and other effects of tax incentives.

The department is required to form an advisory study committee with representation from government and the manufacturing industries. The advisory committee shall include two members from the House of Representatives, two members from the Senate, and representatives of both small and large manufacturing businesses. The advisory committee may also include representatives of local government, and tax policy experts from the academic, legal, and business communities.

The Department of Revenue is required to present a final report to the legislative fiscal committees by December 31, 1994.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Industries are starting to look at Washington State differently than they did only five years ago. Capital intensive businesses want to locate in metropolitan areas, closer to airports and not necessarily in rural areas. Businesses must consider the taxation practices of the state as well as their capitalization costs.

Testimony Against: None.

Witnesses: Robert Schaefer, CREDC; and Sandi Swarthout, Department of Revenue.