

SENATE BILL REPORT

HB 2480

AS REPORTED BY COMMITTEE ON WAYS & MEANS, FEBRUARY 23, 1994

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

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

**HOUSE COMMITTEE ON REVENUE**

**SENATE COMMITTEE ON WAYS & MEANS**

**Majority Report:** Do pass.

Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Anderson, Bauer, Bluechel, Cantu, Gaspard, Hargrove, Hochstatter, Ludwig, McDonald, Moyer, Owen, Pelz, Roach, L. Smith, Snyder, Spanel, Talmadge, West, Williams and Wojahn.

**Staff:** Terry Wilson (786-7715)

**Hearing Dates:** February 22, 1994; February 23, 1994

**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 (B&O) 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:**

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

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** available

**TESTIMONY FOR:**

This will keep the B&O tax constitutional.

**TESTIMONY AGAINST:** None

**TESTIFIED:** Ryan Spiller, Dept. of Revenue (pro)