

SENATE BILL REPORT

SB 6383

AS REPORTED BY COMMITTEE ON WAYS & MEANS, FEBRUARY 8, 1994

Brief Description: Providing a use tax for certain customized equipment.

SPONSORS: Senators M. Rasmussen, Bluechel, Skratek, Sheldon, Erwin, Anderson and Haugen

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6383 be substituted therefor, and the substitute bill do pass.

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

Staff: Terry Wilson (786-7715)

Hearing Dates: February 2, 1994; February 8, 1994

BACKGROUND:

The state retail sales tax is imposed on each retail sale of tangible personal property and some services. Taxable services include construction services, repair services, telephone services, participatory recreation and amusement services, and some personal services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service.

The use tax is imposed on the use of tangible personal property when the sale of the property has not been subject to the sales tax. The state tax rate is 6.5 percent and is applied to the value of the article used (generally the selling price). This tax generally applies to purchases made outside the state but also applies to items produced for use by the producer.

SUMMARY:

Specialized equipment used in manufacturing is exempt from use tax if:

- (1) The equipment is of original design and is not otherwise available;
- (2) Sales tax has been paid on all of the materials and components used in its construction;

- (3) The equipment is primarily designed and assembled by the same firm that uses the equipment for manufacturing other items; and
- (4) The value of the equipment does not exceed \$50,000.

EFFECT OF PROPOSED SUBSTITUTE:

The exemption is eliminated. Instead, the Department of Revenue is required to conduct a study to determine the fiscal and economic effects of exempting specialized equipment used in manufacturing from the use tax. In conducting the study, the department shall consider options which would minimize the fiscal impact on the state general fund while exempting many small manufacturing businesses.

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: July 1, 1994

TESTIMONY FOR:

Through audit, a use tax was imposed on a guitar-glazing machine built for internal use. These machines are built and rebuilt until they will do a particular job. This is like a double tax on research and development.

TESTIMONY AGAINST:

This sets a bad precedent on the taxation of machines built for internal use. You could put a cap on each firm or on the total program.

TESTIFIED: Senator Rasmussen, sponsor (pro); Paul Warmoth, Warmoth Guitar Products, Inc. (pro); Tony Meinhardt, Independent Business Assoc. (pro); Carolyn Logue, National Federation of Independent Business (pro); Donn Smallwood, Department of Revenue (con)