

**SENATE BILL REPORT**

**SB 6573**

**AS PASSED SENATE, FEBRUARY 11, 1994**

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

**SPONSORS:** Senators Bauer and Bluechel

**SENATE COMMITTEE ON WAYS & MEANS**

**Majority Report:** Do pass.

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

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

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

**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:**

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, incentives that are available, 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, 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.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** available

**TESTIMONY FOR:**

Capital intensive facilities are now evaluating where to locate or expand. These firms provide high-paying jobs. Washington has become less competitive with other state. This study will indicate that the sales tax on manufacturing equipment should be phased out.

**TESTIMONY AGAINST:** None

**TESTIFIED:** Robert Schaefer, Columbia River EDC (pro); Jon Shroyer, Sharp Microelectronics (pro)