

HOUSE BILL REPORT

HB 2566

As Reported By House Committee On:

Finance

Title: An act relating to the retail sales tax exemption for sales of laundry service.

Brief Description: Extending the retail sales tax exemption for sales of laundry service.

Sponsors: Representatives Alexander, Linville, DeBolt, Morris and Thompson.

Brief History:

Committee Activity:

Finance: 1/29/98, 2/9/98 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Conway; Kastama; Mason; Morris; Pennington; Schoesler; Thompson and Van Luven.

Staff: Linda Brooks (786-7153).

Background: The sales tax is imposed on retail sales of most items of tangible personal property and some services. Services subject to sales tax include the installing, repairing, cleaning, altering, imprinting, or improving of tangible personal property. The combined state and local sales tax rate is between 7 and 8.6 percent, depending on location.

Although some types of services are defined as retail sales, others are not. Medical, legal, accounting, engineering, motion pictures, veterinary, cable television, and hair cutting services are examples of services that are not subject to sales tax.

Washington's major business tax is the business and occupation (B&O) tax. In 1997, the Legislature eliminated the distinction between financial services, selected business services, and other services and consolidated these activities into a single tax rate. These changes will take place July 1, 1998. After July, the principal B&O tax rates will be:

Manufacturing, wholesaling, & extracting	0.484 percent
Retailing	0.471 percent
Services	1.5 percent

The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business.

The retail sales tax and the B&O tax use the same definition of retail sale. A business pays the 0.471 percent retailing B&O tax on its gross receipts earned from making sales at retail. If a service is not defined as a retail sale, then a business pays the 1.5 percent service B&O rate on its gross receipts earned from providing the service.

Generally, laundry services involve the cleaning of tangible personal property and are subject to sales tax. Nonetheless, sales of laundry service by nonprofit hospital associations, composed exclusively of nonprofit hospitals, to its members are excluded from the definition of a retail sale.

An increase in the B&O tax rate that occurs as the result of a classification change might be considered an action that raises state revenue under Initiative 601. Voters approved Initiative 601 in November 1993. The initiative requires two-thirds vote of each house of the Legislature for an action that raises revenue, plus a vote of the people if the state expenditures, including the new revenue, will exceed the limit provided in the initiative.

Summary of Bill: Sales of laundry service by *any person* to nonprofit health care facilities is not a retail sale. As a result, these services are not subject to sales tax, and the B&O tax rate for providers of these services increases from the 0.471 percent retailing rate to the 1.5 percent service rate.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The real concern is to ensure a fair and competitive market. Presently only one cooperative providing these laundry services benefits from a tax exemption. A sales tax exemption thus gives one provider about an 8 percent price advantage over competitors. Providing sterile linens for medical use is a specialized industry, and there are only about four businesses that specialize in this service in western Washington. Giving the same sales tax exemption to all four will level the playing field.

Testimony Against: None.

Testified: Representative Alexander, sponsor; Rick Jensen and Rod Powell, Medical Linen Services (pro); Jim Hall, Northwest Healthcare Services (pro); and Roy Ferguson, Washington Textile and Environmental Council (pro).