HOUSE BILL REPORT
SB 6270

As Reported By House Committee On:
Finance

Title: An act relating to eliminating the business and occupation tax on internal distributions.

Brief Description: Eliminating the business and occupation tax on internal distributions.

Sponsors: Senators Anderson, Spanel, Swecker, West and Oke; by request of Department of Revenue.

Brief History:
Committee Activity:
Finance: 2/24/98, 3/2/98 [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; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler and Thompson.

Staff: Rick Peterson (786-7150).

Background: The business and occupation tax (B&O) is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities (except utility activities) conducted within the state.

Although there are several different rates, beginning July 1, 1998, the principal rates will be as follows:

Manufacturing/wholesaling	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. For this reason, the tax pyramids at each level of activity. For example, retailers are not allowed to deduct amounts paid to wholesalers, and contractors are not allowed to deduct amounts paid to a subcontractor.

Firms distributing merchandise from their own warehouses to two or more of their own retail stores must pay a B&O tax on the value of the articles distributed. This "internal distributions" tax applies (at the 0.484 wholesaling rate) to integrated firms that perform wholesale functions but that are not technically wholesalers.

The intent of the internal distributions tax is to tax both independent wholesalers and integrated firms in the same way. The tax is now being avoided by large integrated retailers who have restructured and have a subsidiary or other entity operate the warehouse.

Summary of Bill: The "internal distributions" tax is eliminated.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1998.

Testimony For: An inequitable business climate is created by this tax. It applies when a business moves their own goods from their warehouse to their retail stores. Large companies are reorganizing to avoid this tax.

Testimony Against: None.

Testified: Jim Hedrick, Department of Revenue (pro).