

PROPOSED SUBSTITUTE HOUSE BILL 1035 Bill Analysis

January 28, 1997

Brief Description: Providing sales and use tax relief for flood victims.

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Background: The sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total tax rate is between 7 percent and 8.6 percent, depending on the location.

Sales tax applies when items are purchased at retail in the state. Sales tax is paid by the purchaser and collected by the seller. Use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the department of revenue.

No sales or use tax exemptions exist for flood victims. Flooding affected some Washington residents as a result of severe storms that began in November 1995, February 1996, or December 1996.

As a result of the severe storm beginning in November 1995, President Clinton declared the following counties as disaster areas: Chelan, Clallam, Clark, Cowlitz, Grays Harbor, Island, Jefferson, King, Kittitas, Lewis, Mason, Pacific, Pierce, Skagit, Snohomish, Thurston, Wahkiakum, Whatcom, and Yakima.

As a result of the severe storm beginning in January 1996, President Clinton declared the following counties as disaster areas: Adams, Asotin, Benton, Clark, Columbia, Cowlitz, Garfield, Grays Harbor, King, Kitsap, Kittitas, Klickitat, Lewis, Lincoln, Pierce, Skagit, Skamania, Snohomish, Spokane, Thurston, Wahkiakum, Walla Walla, Whitman, and

Yakima. Additionally, the President declared the Yakima Indian Reservation a disaster area.

As a result of the severe storm beginning in December 1996, President Clinton declared the following counties as disaster areas: King and Snohomish counties. The disaster declaration may be amended to include additional counties or Indian Nations, when ongoing damage assessment efforts are completed.

Summary of Proposed Substitute: New sales and use tax exemptions are created for victims of the floods triggered by the storms that began in November 1995, January 1996, or December 1996. Flood victims may claim tax exemptions for construction materials, labor, or services purchased for the repair or replacement of residential buildings that were either damaged or destroyed by the November 1995, January 1996, or December 1996 floods. The exemptions for construction materials, labor, or services expire on March 31, 1998.

Flood victims may also claim a sales or use tax exemption through September 31, 1997, on the purchase of the following articles, if the purchase is to replace a like article that was damaged or destroyed:

Sofas, couches, love seats, recliners, bed mattresses and foundations, clothes washers and dryers, stoves, ranges, conventional ovens, refrigerators, freezers, dishwashers, garbage disposals, trash compactors, and water heaters.

Flood victims, who owned private automobiles licensed in Washington and damaged by the flooding, may also claim sales or use tax exemptions for private automobiles purchased to replace damaged automobiles through September 31, 1997.

Only persons who reside or own a residential building in a county or Indian Nation that was declared a disaster area are eligible for the exemptions. Additional counties or Indian Nations may be added to the disaster declaration issued for the storm that began in December of 1996. Persons residing or owning residential property in a county or Indian Nation that is subsequently added also qualify for the exemptions.

To claim a sales tax exemption, a buyer must present to the seller:

- 1) an exemption certificate;
- 2) picture identification; and
- 3) proof of actual loss.

The Department of Revenue determines what constitutes proof of loss.

Substitute Compared to Original: Flood victims, who reside in a county or Indian Nation declared a federal disaster area as a result of the severe storm beginning in December 1996, are also entitled to the sales and use tax exemptions.

Exemptions are not limited to persons who are recipients of federal disaster assistance. Persons eligible for the exemptions must suffer flood damages, and the Department of Revenue determines what constitutes proof of actual loss.

Fiscal Note: Requested

Effective Date: The bill contains an emergency clause and takes effect immediately.