February 3, 1997

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: HB 1123 « Increasing interstate trade through tax incentives for warehouse and grain operations.

BACKGROUND:

The construction and operation of warehouses, grain elevators, and distribution centers are subject to various state and local taxes. These taxes include: (1) a sales or use tax on the construction of the facility or the purchase of equipment and applicable service and labor costs rendered in respect to the construction or the equipment; (2) a sales or use tax on the purchase of trucks used by the facility; (3) a motor vehicle excise tax on the registration of trucks used by the facility; and (4) a business and occupation (B&O) tax on the gross receipts of the business.

In 1996, the Legislature passed legislation that directed the Department of Revenue (DOR) to undertake a comprehensive warehouse and distribution study. The study compared the major state and local taxes on warehouse firms in Washington with the states of Oregon, Idaho, California, Nevada, Louisiana, Texas, and Utah. In addition, the legislation established an advisory committee that consisted of legislators, representatives of local governments, port districts, and members of the private sector.

The DOR and the advisory committee published its report in December 1996 that listed findings and recommendations for tax incentives to encourage investment in large warehousing operations in order to increase trade and create new family wage jobs, while minimizing the impact on existing tax revenues.

SUMMARY:

An incentive program is created to assist in the development of warehouse and grain elevator operations. The tax incentives are made available to (1) wholesalers or third-party warehousers that own or operate warehouses or grain elevators and (2) retailers that own or operate a distribution center. The Department of Revenue (DOR) is responsible for the administration of the tax incentive program.

The tax incentives are available on (1) material handling and racking equipment; (2) service and labor costs rendered in installing, repairing, cleaning, altering, or improving the equipment; (3) new construction or expansion of an existing facility including materials, service and labor costs; and (4) trucks that are used for distribution or transport of finished goods, provided they are purchased or leased within 18 months after construction is completed.

The tax incentives are provided in the form of a tax remittance or reimbursement. The eligible warehouse operator, grain elevator operator, or retailer is initially required to pay all applicable taxes then apply to the DOR for reimbursement of the taxes. The reimbursements are made to all approved persons on a quarterly basis.

Retail Sales and Use Taxes. Eligible wholesalers or third-party warehousers and grain elevator operators, and retailers that operate distribution centers may receive reimbursement of the state portion of the sales and use tax paid on material handling and racking equipment; machinery and equipment, including service and labor costs; construction materials, including service and labor costs; and trucks used at the warehouse or grain elevator, but they must be acquired or leased within 18 months after construction is completed.

The amount of state sales and use tax that is reimbursed to an eligible warehouse or grain elevator operation is on a sliding scale and is calculated according to following formula:

Square footage of warehouse	**Bushel capacity of grain elevator**	**Percentage of reimbursement**
100,000 - 149,000	750,000 - 999,999	50%
150,000 - 199,000	1,000,000 - 1,499,999	75%
200,000 and greater	1,500,000 and greater	100%

The sales and use tax reimbursement is not available to warehouses and grain elevators where construction was initiated before the effective date of the act. This tax incentive is not available on warehouses, grain elevators, and material-handling equipment that have received an exemption, credit, or deferral under the state's other tax incentive programs.

Motor Vehicle Excise Tax. Eligible wholesalers, third-party warehousers and retailers that operate distribution centers may receive reimbursement of the state portion of the motor vehicle excise tax (MVET) on trucks used to distribute or transport finished goods to and from the warehouse. Trucks used at a grain elevator operation are not eligible for the MVET reimbursement.

The amount of MVET reimbursement is equal to 57 percent of the MVET paid times the applicable proration factor:

Square footage of warehouse	**Proration factor**
100,000 - 149,999	50%
150,000 - 199,999	75%
200,000 and greater	100%

There are provisions to calculate the amount of MVET reimbursement for trucks used at multiple warehouse operations were there are individual facilities that are not eligible for the reimbursement.

The MVET reimbursement is not available on trucks acquired or used before the effective date of the act. This tax incentive is not available on trucks that have received an exemption, credit, or deferral under the state's other tax incentive programs.

Business and Occupation Tax. A Business and Occupation (B&O) tax credit is provided to eligible wholesalers or third-party warehousers or grain elevators operators and retailers that own or operate distribution centers. The B&O tax credit is equal to the amount of local retail sales and use tax and sales and use tax for high capacity transportation service paid on: (1) the purchase of material handling and racking equipment; (2) service and labor costs rendered in installing, repairing, cleaning, altering, or improving the equipment; (3) new construction or expansion of an existing facility, including service and labor costs; and (4) trucks that are used for distribution or transport of finished goods, provided they are purchased or leased within 18 months after construction is completed. The B&O tax credit must be taken against the taxes due for the calender year. Any portion of the excess tax credit may be applied against successive tax years.

The legislative fiscal committees are directed to report to the Legislature by December 1, 1999, on the economic impact of the warehouse and grain elevator tax incentive program. The report is required to provide an analysis of the effect of the program in creating or retaining family wage jobs and in diversifying the state's economy. The report may include a comparative analysis of Washington with other states. In preparing the report, the fiscal committees must consult with other state agencies, business, and labor.

Appropriation: None.

Fiscal Note: Requested January 20, 1997.

Effective Date: The bill takes effect July 1, 1997.