HOUSE BILL REPORT
HB 1123

As Reported By House Committee On:
Trade & Economic Development

Title: An act relating to increasing interstate trade through tax incentives for warehouse and grain elevator operations.

Brief Description: Increasing interstate trade through tax incentives for warehouse and grain operations.

Sponsors: Representatives Schoesler, Sheldon, Alexander, Hatfield, DeBolt, Chandler, Thompson, Kessler and Dunn.

Brief History:
Committee Activity:
Trade & Economic Development: 2/3/97, 2/10/97, 2/20/97 [DPS].

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Van Luven, Chairman; Dunn, Vice Chairman; Sheldon, Assistant Ranking Minority Member; Alexander; McDonald and Morris.

Minority Report: Without recommendation. Signed by 2 members: Representatives Veloria, Ranking Minority Member; and Mason.

Staff: Kenny Pittman (786-7392).

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 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 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 to increase trade and create new family wage jobs, while minimizing the impact on existing tax revenues.

Summary of Substitute Bill: 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 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 state and local taxes then apply to the DOR for reimbursement of the taxes. The reimbursements are made to all approved persons on a quarterly basis.

<u>Retail Sales and Use Taxes.</u> Eligible wholesalers or third-party warehousers and grain elevator operators, and retailers that operate distribution centers, may receive reimbursement of the state and local 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. The trucks must be acquired or leased within 18 months after construction is completed.

The amount of 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: (1) warehouses with a square footage between 100,000 to 149,000 and grain elevators with a bushel capacity between 750,000 to 999,000 are eligible for a reimbursement of 50 percent; (2) warehouses with a square footage between 150,000 to 199,000 and grain elevators with a bushel capacity between 1,000,000 to 1,499,999 are eligible for a reimbursement of 75 percent; and warehouses with a square footage greater than 200,000 and grain elevators with a bushel capacity greater than 1,500,000 are eligible for a reimbursement of 100 percent.

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 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: (1) warehouses with a square footage between 100,000 to 149,999 is equal to 50 percent; (2) warehouses with a square footage between 150,000 to 199,999 is equal to 75 percent; and warehouses with a square footage greater than 200,000 is equal to 100 percent.

There are provisions to calculate the amount of MVET reimbursement for trucks used at multiple warehouse operations where 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.

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.

Substitute Bill Compared to Original Bill: The substitute bill expands the tax reimbursement program to include both the state and local sales and use taxes. The original bill only reimbursed the state portion of the sales and use tax to the business.

The substitute bill removed the business and occupation (B&O) tax credit. The original bill gave businesses a B&O tax credit that was equal to the amount of local sales and use tax paid by the business on eligible machinery and equipment, including installation labor and services.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on July 1, 1997.

Testimony For: Washington must compete with surrounding states for distribution centers and warehouse facilities. The lack of incentives has hurt our efforts. The incentive package is based on the recommendations of the legislatively-appointed Warehouse Study Group. Reducing the tax burden on construction and machinery and equipment will make our state a more attractive location for these facilities. These incentives will help other areas of the state attract the needed jobs.

Testimony Against: None.

Testified: Representative Schoesler, prime sponsor (pro); Representative Alexander, sponsor (pro); Dick Gebhart, Department of Revenue (pro); Scott Taylor, Washington Public Ports Association (pro); David Dean, Port of Seattle (pro); John Pietromonaco, Warehouse Study Advisory Group (pro); and Jeff Kochman, Bellingham Cold Storage (pro).