HOUSE BILL REPORT
HB 2485

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: Representatives Van Luven, Dunshee, Kastama, Gardner and Linville; by request of Department of Revenue.

Brief History:
Committee Activity:
Finance: 2/4/98 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 13 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Kastama; Mason; Pennington; Schoesler; Thompson and Van Luven.

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 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 to 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: This is a tax on moving a business's own product around to its own stores. There is no financial transaction. It is relatively easy for a large business to reorganize and avoid the internal distribution tax. Smaller businesses are less able to afford the reorganization necessary to avoid the tax. This is an economic development bill. Warehousing provides good jobs and this bill will help Washington keep those jobs.

Testimony Against: None.

Testified: Dirk Giseburt, Davis Wright Tremaine (pro); Jim Hedrick, Department of Revenue (pro); and Jan Gee, Washington Retail Association and Washington Food Industry (pro).