

# HB 2566

## Bill Analysis

January 29, 1998

**Brief Description:** Extending the retail sales tax exemption for sales of laundry service.

**Bill Sponsors:** Representatives Alexander, Linville, DeBolt, Morris and Thompson.

**Staff:** Linda Brooks, 786-7153.

**Background:** The sales tax is imposed on retail sales of most items of tangible personal property and some services. Services subject to sales tax include the installing, repairing, cleaning, altering, imprinting, or improving of tangible personal property. The combined state and local sales tax rate is between 7 and 8.6 percent, depending on location.

Although some types of services are defined as retail sales, others are not. Medical, legal, accounting, engineering, motion pictures, veterinary, cable television, and hair cutting services are examples of services that are not subject to sales tax.

Washington's major business tax is the business and occupation (B&O) tax. In 1997 the Legislature eliminated the distinction between financial services, selected business services, and other services and consolidated these activities into a single tax rate. These changes will take place July 1, 1998. After July the principal B&O tax rates will be:

Manufacturing, wholesaling, & extracting	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.

The retail sales tax and the B&O tax use the same definition of retail sale. A business pays the 0.471 percent retailing B&O tax on its gross receipts earned from making sales at retail. If a service is not defined as a retail sale, then a business pays the 1.5 percent service B&O rate on its gross receipts earned from providing the service.

Generally, laundry services involve the cleaning of tangible personal property and are subject to sales tax. Nonetheless, sales of laundry service by nonprofit hospital associations,

composed exclusively of nonprofit hospitals, to its members are excluded from the definition of a retail sale.

**Summary of Bill:** Sales of laundry service by *any person* to nonprofit health care facilities is not a retail sale. As a result, these services are not subject to sales tax, and the B&O tax rate for providers of these services increases from the 0.471 percent retailing rate to the 1.5 percent service rate.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.