

HOUSE BILL REPORT

HB 2933

As Reported By House Committee On:

Finance

Title: An act relating to the business and occupation taxation of warehousing and reselling of pharmaceutical drugs subject to regulation by the federal drug enforcement administration and the state board of pharmacy.

Brief Description: Prescribing the taxation of businesses warehousing and selling pharmaceutical drugs.

Sponsors: Representatives Radcliff, Cooper, Cooke, Morris, Doumit, Dyer, L. Thomas, Zellinsky, Grant and Thompson.

Brief History:

Committee Activity:

Finance: 2/4/98, 2/9/98 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Boldt; Conway; Mason; Morris; 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 100 percent of 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

Wholesalers that sell goods to retailers pay wholesaling B&O (0.484 percent) on the sales price of the goods sold.

Washington does not assess B&O tax on sales of goods which originate in Washington if the receipt of the goods occurs outside Washington. Washington does not apply B&O tax on sales of goods which originate outside the state unless the goods are received by the purchaser in this state and the out-of-state seller is legally considered to be doing business in Washington.

Out-of-state wholesalers may use direct seller's representatives or take orders by telephone or mail and avoid B&O tax.

Summary of Substitute Bill: Wholesalers of prescription drugs are provided a tax reduction. The tax rate is reduced from 0.484 percent of gross income to 0.138 percent of gross income.

Substitute Bill Compared to Original Bill: The substitute bill applies a tax rate of 0.138 percent of gross income while the original bill tax applied a tax of 0.484 percent of 4 percent of gross income (equivalent to a tax rate of 0.0194 percent of gross income).

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on July 1, 1998.

Testimony For: Competition from out-of-state firms and mail order companies is hurting Washington distributors of pharmaceutical products. These competitors use their out-of-state location to avoid the B&O tax. The B&O tax averages roughly 25 percent of the profit of Washington firms. The proposed tax treatment applies only to pharmaceutical drugs that are regulated by the Federal Drug Enforcement Administration and Washington State Board of Pharmacy. It would make Washington companies competitive with out-of-state sellers.

Testimony Against: None.

Testified: Representative Radcliff, sponsor; and Hubie McMorrow, Washington Wholesale Druggists' Association (pro).