

HOUSE BILL REPORT

SSB 6602

As Reported By House Committee On:

Finance

Title: An act relating to carbonated beverage taxes.

Brief Description: Crediting carbonated beverage taxes against business and occupation taxes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Anderson, Loveland, Bauer, Long, Goings, B. Sheldon, Strannigan, Benton, Rossi, Swecker, West, Schow and Oke).

Brief History:

Committee Activity:

Finance: 2/25/98, 3/2/98 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Boldt; Butler; Kastama; Morris; Pennington; Schoesler and Thompson.

Minority Report: Do not pass. Signed by 3 members: Representatives Dickerson, Assistant Ranking Minority Member; Conway and Mason.

Staff: Rick Peterson (786-7150).

Background: The business and occupation tax (B&O) is imposed for the privilege of doing business in Washington. The tax is imposed on the gross receipts of all business activities (except utility activities) conducted within the state. B&O tax is deposited in the general fund.

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

In 1989, the Legislature imposed taxes on carbonated beverages and on syrup which is used to make carbonated beverages. These taxes were part of the Omnibus Alcohol and Controlled Substances Act, which also imposed additional taxes on sales of wine, beer, spirits, and cigarettes. Under the 1989 legislation, these taxes were scheduled to expire July 1, 1995.

In 1994, the Legislature enacted the Youth Violence Prevention Act. This act made extensive changes in laws relating to youth violence prevention, drug education, and drug enforcement programs. It also eliminated the expiration date for all of the taxes imposed in the 1989 Omnibus Alcohol and Controlled Substances Act, except the tax on carbonated beverages which was allowed to expire. However, the referendum increased the rate of the tax on beverage syrups from 75 cents to \$1 per gallon. The tax portions of the measure were passed as Referendum 43 on the general election ballot in November 1994.

The carbonated beverage tax is imposed on each wholesale of syrup in this state. The wholesaler collects the tax on each wholesale and pays the tax to the Department of Revenue, but the retailer is the taxpayer. If a retailer purchases syrup from out of state, the retailer pays the syrup tax directly to the Department of Revenue.

The carbonated beverage syrup tax is deposited in the Violence Reduction and Drug Enforcement Account (VRDE), along with revenue from the other taxes imposed under the 1989 Omnibus Alcohol and Controlled Substances Act. This account is used to support programs directed toward alcohol and drug abuse by youth and adults, including increases in penalties for drug-related crimes, expanded law enforcement authority, expanded education programs, and expanded treatment.

Summary of Bill: A retailer may claim a credit against B&O tax for one-half the amount of carbonated syrup taxes paid.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill has no impact on the VRDE account. When the tax was enacted in 1989 the Legislature's intent was to sunset the tax. This tax has a negative impact on small business. The tax is the same size as the B&O, it is equivalent to doubling the B&O tax. Retailers cannot pass the tax onto consumers because the market is so competitive. Prices for soda pop have steadily declined over the past 5 years. The industry employs young men and women across the state.

Testimony Against: Proponents of tax credits/cuts should demonstrate the need for the reduction and show the benefit to the community of the tax cut. Legislators should consider to what extent the tax cut will lower future revenues. When a tax measure has been authorized by the voters then the public should be given the option to repeal the tax.

Testified: Kit Hawkins, Restaurant Association of Washington (pro); Denny Eliason, McDonald's (pro); Margaret Casey, Washington State Catholic Conference (con); George LeClair, Children's Alliance (con); and Lonnie Johns-Brown, Washington Coalition of Sexual Assault Programs (con).