

SENATE BILL REPORT

ESHB 1327

As Reported By Senate Committee On:
Ways & Means, April 4, 1997

Title: An act relating to reimbursing sellers for sales tax collection costs.

Brief Description: Reimbursing sellers for sales tax collection costs.

Sponsors: House Committee on Finance (originally sponsored by Representatives Huff, Carrell, Quall, Mulliken, Morris, Linville, Ogden, Dunshee, B. Thomas, Johnson, Conway, Sheldon, Grant, Mastin, D. Schmidt, Robertson, Kessler, Skinner, Boldt, Lisk, Mielke, Dickerson, L. Thomas, O'Brien, Hatfield, Kenney, Gardner, Cooke, Costa, Ballasiotes, Thompson, Koster, Lantz, Mason, Schoesler, Dunn, Alexander and Anderson).

Brief History:

Committee Activity: Ways & Means: 4/2/97, 4/4/97 [DPA, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Hochstatter, Long, McDonald, Roach, Rossi, Schow, Swecker and Zarelli.

Minority Report: Do not pass.

Signed by Senators Loveland and Thibaudeau.

Staff: Terry Wilson (786-7433)

Background: The sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total tax rate is between 7 percent and 8.6 percent, depending on location. The sales tax applies to items purchased at retail in state. The seller collects the sales tax from the purchaser.

Summary of Amended Bill: Retailers may retain a portion of the state sales taxes they collect from consumers to reimburse them for the administrative costs of collecting the taxes. Businesses are allowed to retain 1.0 percent of state retail sales taxes collected on the first \$40,000 of retail sales per month and 0.50 percent of the state retail sales tax collected on retail sales between \$40,000 and \$120,000 sales per month.

Amended Bill Compared to Substitute Bill: The substitute bill allowed retention of 1.05 percent of the first \$40,000 in sales and 0.5 percent between \$40,000 and \$700,000. Also, contractors and others selling services to construct or modify real property could not retain any sales tax collected on their sales. The substitute bill took effect October, 1, 1997.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1997.

Testimony For: This bill reimburses private entities for performing a mandated function. Business provides a valuable service to the government. It costs business more to provide the service than the amount of money they earn on the use of the funds before the tax due date. Of the 46 states that impose a sales tax, Washington is one out of 15 that do not provide reimbursement. The department retains 2 percent of the tax for collecting it for local governments. This provides compensation for 184,000 businesses. The average cost of collection is 3.8 percent of the tax but can be much higher. Even though retailers pay a lower B&O tax rate, their effective tax rate is much higher because of high volume and low profit margins.

Testimony Against: None.

Testified: PRO: Denis Timmerman, Harkness Furniture; Madelin Kolb, Merle Normon Cosmetics; Arthur D. Jackson, Jr., WA Retail Assn., Bon Marche; Jan Gee, WA Retail Assn.; Carolyn Logue, NFIB.