

FINAL BILL REPORT

SSB 5868

C 453 L 97

Synopsis as Enacted

Brief Description: Classifying producers of aluminum master alloys as processors for hire for business and occupation tax purposes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senator Sellar).

Senate Committee on Ways & Means

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on gross income from business activities conducted within the state. There are several different B&O tax rates.

A processor for hire pays B&O tax at 0.506 percent of the gross income of the business. A manufacturer pays B&O tax at the same rate on the value of the products manufactured. In the case of aluminum master alloy production, the value of products manufactured is greater than the gross income of the business. An aluminum master alloy producer receives bars of aluminum from its customers, adds special ingredients to the aluminum, and ships the modified aluminum back to its customers. The master alloy producer charges for converting ordinary aluminum into a master alloy, but the charge does not include the value of the ordinary aluminum that the customer provided. Nonetheless, the master alloy producer must pay B&O tax on the entire value of the master alloy, including the value of the customer's aluminum, because the producer is classified as a manufacturer under rules of the Department of Revenue.

The B&O tax statutes do not differentiate between manufacturers and processors for hire. Therefore, the Department of Revenue adopted a rule, WAC 458-20-136(13). Under this rule, a person is a manufacturer if they provide 20 percent or more of the value of the materials from which the finished product is made. Apparently, the special ingredients added by an aluminum master alloy producer are more than 20 percent of the value of master alloy. (The customer's aluminum is less than 80 percent of the value of the master alloy.) Thus, an aluminum master alloy producer is classified as a manufacturer and is taxed on the entire value of the master alloy, including the value of the aluminum provided by the customer.

Summary: Aluminum master alloy producers are classified as processors for hire without regard to the portion of value of the alloy provided by the producer or its customer. Thus, producers of aluminum master alloys will only pay B&O tax on the price they charge for changing ordinary aluminum into a master alloy, rather than on the entire value of the alloy.

Votes on Final Passage:

Senate	43	0
House	83	14

Effective: July 1, 1997