

# HOUSE BILL REPORT

## HB 2850

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### As Reported By House Committee On:

Finance

**Title:** An act relating to excise tax treatment of linen and uniform supply services.

**Brief Description:** Modifying the tax treatment of linen and uniform supply services.

**Sponsors:** Representatives Reardon, Schoesler, Scott, D. Schmidt, Tokuda, Skinner, Thomas, Clements, Dunshee, McIntire and Pennington.

### Brief History:

#### Committee Activity:

Finance: 2/1/00, 2/7/00 [DPS].

#### Brief Summary of Substitute Bill

- The supplying of clean linen and uniforms is subject to the retail sales tax as a rental activity rather than as a cleaning or laundering activity.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Cairnes, Republican Vice Chair; Reardon, Democratic Vice Chair; Carrell; Conway; Cox; Dickerson; Pennington; Santos and Veloria.

**Staff:** Linda Brooks (786-7153).

### 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. Sales tax applies when items are purchased at retail in-state. Sales tax is paid by the purchaser and collected by the seller.

Sales tax applies to some services. Generally, the cleaning of tangible personal property is a service subject to sales tax. However, charges made for laundry services provided to nonprofit health care facilities are excluded from the definition of a retail sale.

According to the Department of Revenue's (DOR) rules, the situs of the cleaning or laundering activity determines whether linen and uniform supply services are subject to sales tax. Sales tax applies when the laundering of linen, uniforms, or towels takes place in Washington. The location of the customer does not matter. Sales tax applies to linen and uniform supply services sold to non-residents if the laundering activity takes place in Washington. In contrast, no sales tax is due when out-of-state businesses sell linen and uniform supply services to Washington residents, because the laundering activity takes place out-of-state.

Sales tax applies to the rental of tangible personal property. A rental to a Washington resident is subject to tax. A rental to a non-resident is not subject to sales tax, if the rented item is delivered to the customer at an out-of-state location.

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**Summary of Substitute Bill:**

Linen and uniform supply services are defined as the activity of providing customers with a supply of clean linen, towels, uniforms, gowns, protective apparel, clean room apparel, mats, rugs, and similar items. Linen and uniform supply services are made subject to the retail sales tax as rental activities rather than as cleaning activities.

Sales tax is not due when a Washington linen and uniform supply service delivers linen and uniforms to a customer at an out-of-state location. In contrast, an out-of-state linen and uniform supply service must collect and remit sales taxes if it delivers linen and uniforms to a customer at an in-state location.

Charges made for linen and uniform supply services provided to nonprofit health care facilities are excluded from the definition of a retail sale. No sales tax applies to linen and uniform supply services sold to nonprofit health care facilities.

**Substitute Bill Compared to Original Bill:** Clarification is made that linen and uniform supply services provided to nonprofit health care facilities are not subject to sales tax.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on July 1, 2000.

**Testimony For:** In-state companies pay tax but out-of-state companies do not. This bill is in response to the unfair advantage that out-of-state companies enjoy when providing linen and uniform services to Washington customers. About 10 months ago out-of-state companies began to aggressively market their services in Washington. On the basis of taxes alone, these out-of-state companies enjoy an 8 percent price advantage. Cities support this legislation as a means of preventing unfair competition.

**Testimony Against:** Linen and uniform supply businesses are engaged in cleaning or laundering activities. No customer is going to accept delivery of dirty uniforms. Somewhere these items must be cleaned. Services are taxed on the basis of where the service is performed. If linen and uniform supply activities are classified as rental, rather than cleaning, activities, then a floodgate is opened. If this legislation passes, then next year other businesses will seek to have their service activities reclassified as rental activities. There needs to be a level playing field between in-state and out-of-state businesses, but this legislation is not the way to do it.

**Testified:** (In Support) Representative Reardon, prime sponsor; Sandi Swarhout, Overall Laundry; Travis Keeler, President, Overall Laundry; Dan O'Brien, General Manager, Cintas Corporation; and Ron Rosenbloom, Association of Washington Cities.

(Opposed) Thomas M. Jeannet, Tax Consultant.

(Concerns) Dennis Zeck, Superior Linen Service.

(At request of committee members) Tim Sekerak, Department of Revenue.