

HOUSE BILL REPORT

HB 1960

As Reported By House Committee On:

Finance

Title: An act relating to revising laws impacting retailer tax collection and remittance.

Brief Description: Revising laws impacting retailer tax collection and remittance.

Sponsors: Representatives Cairnes, Reardon, Huff, Linville, Carrell, Campbell, Mulliken, O'Brien and Koster.

Brief History:

Committee Activity:

Finance: 3/4/99, 3/8/99 [DPS].

Brief Summary of Substitute Bill

- Requires sales and use tax changes to always take effect on October 1. Additionally, local governments must enact any sales or use tax changes by no later than July 1 of each year.
- The Department of Revenue is to determine if taxpayers may make estimated tax payments.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Carrell, Republican Vice Chair; Reardon, Democratic Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven 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. Sales tax is paid by the purchaser and collected by the seller.

Use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the department of revenue.

Total retail sales and use tax rate ranges between 7.0 and 8.6 percent, depending on location. The total rate contains both state and local taxes. The state sales and use tax rate is 6.5 percent. In addition to the state rate, local governments impose up to a 1.0 percent sales and use tax for general fund purposes. Additionally, local governments may impose up to 1.8 percent in sales and use taxes for dedicated purposes such as transit, high capacity transit (the RTA), criminal justice, or juvenile detention, but no local government is using its full taxing authority for these dedicated purposes. The highest current local rate for dedicated purposes is 1.1 percent.

The Legislature determines sales and use tax exemptions. Sales and use tax exemption bills contain various effective dates. Usually, any sales and use tax exemption enacted by the Legislature automatically applies to both state and local sales and use taxes. Local governments cannot enact their own sales and use tax exemptions, because local sales and use tax exemptions must be consistent with state sales and use tax exemptions.

Each local government determines, however, whether to impose a particular sales and use tax. For example, some counties impose a dedicated 0.1 percent sales and use tax to generate revenues for juvenile detention facilities and jails. When a local government decides to impose a new sales and use tax or to modify an existing sales and use tax rate, the local government specifies the effective date of the new tax or modified rate.

Retail sales and use taxes are due monthly, unless the Department of Revenue has allowed a taxpayer or class of taxpayers to file quarterly or annually. Actual taxes due, rather than estimated tax payments, must be paid when a tax return is filed.

Last year the Legislature appropriated money for the Department of Revenue to conduct a study identifying and measuring the costs that retailers face in collecting and remitting sales taxes. The department has completed the study and copies of the report are available.

Summary of Substitute Bill:

The Legislature intends to lessen the administrative burden on retailers by coordinating all sales and use tax changes. The implementation of a new sales and

use tax or modifications to an existing sales and use tax may only take effect on October 1 of any year. This October 1 effective date applies to new taxes or tax changes enacted by either state or local governments.

Additionally, local governments must enact ordinances implementing or modifying sales and use taxes by no later than July 1 of each year. The local governments must also provide notice to the Department of Revenue (department) within 15 days of enacting their ordinances. In turn, the department must notify retailers of any state or local sales and use tax changes 60 days prior to the October 1 effective date.

The department must determine whether taxpayers should be allowed to make estimated tax payments. The department must consult other states to learn about their experiences with estimated tax payments. Additionally, the department is to seek input from taxpayers. By December 1, 1999, the department must inform House and Senate fiscal committees as to whether the department intends to proceed with a rule making to allow estimated tax payments to be made.

Substitute Bill Compared to Original Bill: Compensation provided to retailers in any year that they must reprogram their cash registers as a result of sales tax changes is eliminated.

The requirement that the Department of Revenue conduct a sales tax administration study is also eliminated.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which the bill is passed.

Testimony For: (Original bill) The Department of Revenue prepared a good study detailing retailers' sales tax collection costs. The cost to a small business for collecting sales taxes is about 6.5 percent of the amount of sales taxes collected. The filing of tax returns and reprogramming cash registers impose significant costs to retailers. Each time you enact a tax bill, we hope that you think about how those tax changes affect retailers. Giving retailers at least 60 days notice of pending tax changes is a very important issue for us. This bill would require that state and local sales tax changes be coordinated to occur only once a year. There will be amendments offered to eliminate the compensation paid to retailers so that there is no fiscal impact from the bill.

(Concerns) (Original bill) Compensation paid to retailers should not be deducted from local sales tax revenues if the reason for reprogramming the cash registers was a tax exemption enacted by the Legislature. An amendment to delete compensation paid to retailers would remove this concern. (Note: An amendment did delete the compensation.)

Testimony Against: None.

Testified: (In Support) Representative Cairnes, prime sponsor; Madelin Kolb, Retailer, Merle Norman; Carolyn Logue, National Federation of Independent Business; and Jan Gee, Washington Retailers Association and Washington Food Industry.

(Concerns) Ron Rosenbloom, Association of Washington Cities.