

# HOUSE BILL REPORT

## HB 2493

---

---

**As Reported By House Committee On:**  
Finance

**Title:** An act relating to restricting the effective dates of sales and use tax changes for the purposes of simplification of tax collection.

**Brief Description:** Simplifying implementation of sales and use tax rate changes.

**Sponsors:** Representatives Ruderman, Cox, Dunshee, Thomas and Kenney; by request of Department of Revenue.

**Brief History:**

**Committee Activity:**

Finance: 1/27/00, 2/1/00 [DPS].

**Brief Summary of Substitute Bill**

- Sales and use tax changes may only take effect on the first day of January, April, July, or October; and
- A taxpayer who properly uses technology provided by the Department of Revenue to compute taxes due must be held harmless for sales and use tax rate computation errors.

---

### 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; Cairnes, Republican Vice Chair; Reardon, Democratic Vice Chair; Carrell; 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 (DOR).

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 (RTA), criminal justice, or juvenile detention. However, 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.

When the Legislature or a local government enacts a new sales and use tax or modifies an existing tax rate, the effective date is whatever date the Legislature or local government specifies. Similarly, if a local government annexes an area, the local government specifies whatever date it wishes as the effective date for the annexation.

Retailers are responsible for collecting and remitting sales taxes to the DOR. To assist retailers and other businesses in preparing their tax returns, the DOR has been developing a geographic information system (GIS). The DOR indicates that sales and use tax rate data included in the GIS system now covers all areas of the state. A taxpayer may access this GIS database on the DOR's website. For example, if a company wants to know what sales tax rates apply to a customer located at a particular address, the company may enter that address into the GIS database and find out what the applicable state and local sales tax rates are for that address.

---

### **Summary of Substitute Bill:**

The Legislature intends to lessen the administrative burden on retail businesses by coordinating sales and use tax changes. All sales and use tax changes, including those resulting from an annexation or referendum, may only take effect on the first day of January, April, July, or October. Additionally, a local government must provide the DOR with at least 75 days advance notice of a local sales and use tax change before the change may take effect.

Retailers and other businesses that properly use technology provided by the DOR to calculate taxes are not liable for tax rate calculation errors. The DOR must waive any unpaid tax amounts, interest, and penalties that result from a tax rate calculation error.

**Substitute Bill Compared to Original Bill:** Clarification is made that a local government may annex an area at any time, but sales and use tax changes resulting from the annexation may only take effect on the first day of January, April, July, or October.

---

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** This bill gives retailers some certainty as to when sales tax rates change. The current system which allows tax changes to occur at anytime is complicated and does not work very well. The provision that holds businesses harmless for rate calculation errors if they use the DOR's GIS system is also attractive. Several persons have been charged taxes that they did not owe. For example, many persons have been charged the RTA sales tax, even though they did not live in the boundaries of the RTA.

(Concerns) Local governments are supportive of efforts to simplify sales tax administration. Limiting tax rate changes to once a tax quarter is reasonable. Cities have a slight concern regarding the language about annexations. It should be clarified that annexations may take effect at any time, but changes in sales tax rates that result from annexations can only take effect at the start of a tax quarter. (The substitute bill incorporates an amendment stating that sales tax changes, including those resulting from referendum or annexation, may only take effect at the start of a tax quarter.)

**Testimony Against:** None.

**Testified:** (In support) Representative Laura Ruderman, prime sponsor; and Tim Sekerak, Department of Revenue.

(concerns) Ron Rosenbloom, Association of Washington Cities.