

SENATE BILL REPORT

SB 5608

As Reported By Senate Committee On:
Ways & Means, February 24, 1999

Title: An act relating to revising the machinery and equipment tax exemption by more precisely describing terminology and eligibility.

Brief Description: Revising the machinery and equipment tax exemption for manufacturers and processors for hire.

Sponsors: Senators Snyder, McDonald, Loveland, West, Bauer, Hale, Rasmussen and Oke; by request of Department of Revenue.

Brief History:

Committee Activity: Ways & Means: 2/15/99, 2/24/99 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5608 be substituted therefor, and the substitute bill do pass.

Signed by Senators Loveland, Chair; Bauer, Vice Chair; Brown, Vice Chair; Honeyford, Kline, Kohl-Welles, Long, Rasmussen, Roach, B. Sheldon, Snyder, Thibaudeau, West and Winsley.

Staff: David Schumacher (786-7474)

Background: The retail sales tax is imposed on the sale of most items of tangible personal property and some services purchased at retail. The state's retail sales and use tax is based on 6.5 percent of the selling price. Local governments may also impose additional taxes; therefore, the combined state and local retail sales and use tax rate currently ranges from 7.0 percent to 8.6 percent.

In 1995, the Legislature passed 2ESSB 5201 which included a sales tax exemption for new machinery and equipment (M&E) used directly in the manufacturing process.

The policies of the Department of Revenue (DOR) as to exactly which activities should be considered "manufacturing" and therefore qualify for the exemption have changed since the passage of the original legislation. There has been disagreement between DOR and industry as to exactly where the "manufacturing" process begins.

Currently, the DOR policy is that "manufacturing" includes the cutting, delimiting, and measuring of harvested trees and includes rock crushing and blending. Their policy is that equipment used in the "testing" of tangible personal property is exempt from sales tax.

Finally, the question of taxability arises when equipment is used both for exempt and nonexempt activities. This is often known as "dual use."

Summary of Substitute Bill: An explicit definition of "manufacturing" is provided to include (1) the cutting, delimiting, and measuring of harvested trees and (2) rock crushing and blending. This statutory definition matches the current DOR policy.

"Testing" is explicitly defined to match the current DOR policy and a new sales tax exemption is provided for equipment used in the testing of tangible personal property for a manufacturer by a third party.

Used directly— is defined to mean at least 50 percent of the use of the machinery and equipment. This standard matches current DOR policy.

Substitute Bill Compared to Original Bill: The substitute bill explicitly defines used directly.—

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and the sections defining manufacturing take effect immediately. The definition of testing and the exemption for third party testing take effect July 1,1999.

Testimony For: This bill makes the intent of the original legislation clear. It clears up a complex issue. The original bill has been very successful.

Cities can be hard hit by the loss of sales tax revenue caused by these specific types of exemptions.

Testimony Against: None.

Testified: Fred Kiga, Department of Revenue (pro); Ron Rosenbloom, AWC City of Everett (concerns); Judith Frolich, WSAC (concerns); Carolyn Logue, NFIB (pro); Tom Dooley, AWB (pro); Bruce Chattin, Washington Aggregate and Concrete (pro); Bill Pickell, WCLA - Loggers (pro); Dick Ducharme, Yakima Growers and Shoppers (amend).