

1887-S

Sponsor(s): House Committee on Finance (originally sponsored by Representatives Kessler, Lisk, Grant, Wensman, Wolfe and Pennington; by request of Department of Revenue)

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

**HB 1887-S.E - DIGEST**

(DIGEST AS ENACTED)

Finds that the application of the manufacturer's machinery and equipment sales and use tax exemption has, in some instances, been difficult and confusing for taxpayers, and included difficult reporting and recordkeeping requirements.

Declares an intent of the legislature to make clear its intent for the application of the exemption, and to extend the exemption to the purchase and use of machinery and equipment for businesses that perform testing of manufactured goods for manufacturers or processors for hire.

VETO MESSAGE ON HB 1887-S

May 7, 1999

To the Honorable Speaker and Members,

The House of Representatives of the State of Washington  
Ladies and Gentlemen:

I am returning herewith, without my approval as to section 8, Engrossed Substitute House Bill No. 1887 entitled:

"AN ACT Relating to revising the machinery and equipment tax exemption by more precisely describing terminology and eligibility;"

Engrossed Substitute House Bill No. 1887 clarifies the intent of the legislature regarding the application of the retail sales and use tax exemption for manufacturing equipment and machinery, and extends the exemption to machinery and equipment for businesses that perform testing of manufactured goods for manufacturers or processors for hire.

ESHB 1887 clarifies the scope of a tax exemption and is very important. Taxpayers who are eligible for the exemption, as well as our state and local governments, need the certainty that this bill will provide. I have assumed, as did the legislature (as indicated by our respective balance sheets), that there is no fiscal impact associated with sections 1 through 4 of the bill. That is based on the continuing application of the "majority use" standard for machinery and equipment that has both qualifying and nonqualifying uses. The majority use standard affords meaningful use of the exemption to taxpayers, is fair, and is a reasonable way to administer the exemption consistent with the law, legislative intent, and promotion of economic development in our state. I strongly support the Department of Revenue's continued use of this standard.

Section 8 of ESHB 1887 is an emergency clause providing a July

1, 1999 effective date for sections 5 and 6 of the bill. Sections 5 and 6 extend the benefits of the tax exemption to testing operations. Unlike the remainder of this legislation, sections 5 and 6 represent a clear change in policy rather than a clarification of the 1995 law. The need for the policy change, although important, does not constitute an emergency.

For these reasons, I have vetoed section 8 of Engrossed Substitute House Bill No. 1887. With the exception of section 8, Engrossed Substitute House Bill No. 1887 is approved.

Respectfully submitted,  
Gary Locke  
Governor