

# HOUSE BILL REPORT

## HB 1762

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### As Reported by House Committee On:

Finance

**Title:** An act relating to syrup taxes.

**Brief Description:** Providing a tax credit for syrup sales.

**Sponsors:** Representatives Kessler (co-prime sponsor), Lisk (co-prime sponsor), Cairnes, Morris, Eickmeyer, Marine, Roach, Talcott, Armstrong, Linville, Schoesler, Campbell, Esser, Casada, Bush and Mulliken.

### Brief History:

#### Committee Activity:

Finance: 2/14/01, 3/8/01 [DP].

#### Brief Summary of Bill

- Allows retailers to credit their carbonated syrup tax against the business and occupation tax.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 7 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Pennington and Van Luven.

**Minority Report:** Without recommendation. Signed by 3 members: Representatives Conway, Santos and Veloria.

**Staff:** Rick Peterson (786-7150).

### Background:

The business and occupation tax (B&O) is imposed for the privilege of doing business in Washington. The tax is imposed on the gross receipts of all business activities (except utility activities) conducted within the state. B&O tax is deposited in the general fund.

Although there are several different rates the principal rates are:

manufacturing/wholesaling - 0.484 percent; retailing - 0.471 percent; and services - 1.5 percent.

In 1989 the Legislature imposed taxes on carbonated beverages and on syrup which is used to make carbonated beverages. These taxes were part of the Omnibus Alcohol and Controlled Substances Act, which also imposed additional taxes on sales of wine, beer, spirits, and cigarettes. Under the 1989 legislation, these taxes were scheduled to expire July 1, 1995.

In 1994 the Legislature enacted the Youth Violence Prevention Act. This act made extensive changes in laws relating to youth violence prevention, drug education, and drug enforcement programs. It also eliminated the expiration date for all of the taxes imposed in the 1989 Omnibus Alcohol and Controlled Substances Act, except the tax on carbonated beverages which was allowed to expire. However, the rate of the tax on beverage syrups was increased from 75 cents to \$1 per gallon. The tax portions of the measure were passed as Referendum 43 on the general election ballot in November 1994.

The carbonated beverage tax is imposed on each wholesale of syrup in this state. The wholesaler collects the tax on each wholesale and pays the tax to the Department of Revenue, but the retailer is the taxpayer. If a retailer purchases syrup from out of state, the retailer pays the syrup tax directly to the Department of Revenue.

The carbonated beverage syrup tax is deposited in the violence reduction and drug enforcement account (VRDE), along with revenue from the other taxes imposed under the 1989 Omnibus Alcohol and Controlled Substances Act. This account is used to support programs directed toward alcohol and drug abuse by youth and adults, including increases in penalties for drug-related crimes, expanded law enforcement authority, expanded education programs, and expanded treatment.

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**Summary of Bill:**

A retailer may claim a credit against B&O tax for the amount of carbonated syrup taxes paid. Therefore, revenue to the general fund will be reduced, but not revenue to the VRDE account.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on July 01, 2001.

**Testimony For:** The restaurant industry is in distress. Even though the economy has boomed, growth in the restaurant industry is flat. In rural areas restaurants are in decline. We are losing local family run restaurants. The minimum wage is a problem. With the Consumer Price Index adjustment, Washington has the highest minimum wage in the county. The syrup tax is another problem. For small restaurants the syrup tax is about equal to the B&O tax. Small restaurants cannot raise prices to offset these costs. What does the sale of soft drinks have to do with youth violence? The tax is not fair.

(Concerns) Appreciate that the bill doesn't reduce the VERDE account revenue. This account supports programs to reduce youth violence and drug problems. However, there is concern over the collective effect of this and the other tax credit bills on the general fund budget. The bill would complicate the funding problem in the general fund.

**Testimony Against:** None.

**Testified:** (In support) Denny Eliason, Washington Restaurant Association; Peter Braun, Orchard Foods; and Dave Hooke, Senior Froggy Restaurants.

(With concerns) Seth Dawson, Common Ground for Children & Families.