

# HOUSE BILL REPORT

## HB 1500

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### As Reported by House Committee On:

Finance

**Title:** An act relating to exempting certain assembly activities from the business and occupation tax on manufacturing.

**Brief Description:** Exempting certain assembly activities from the business and occupation tax on manufacturing.

**Sponsors:** Representatives Dickerson, Pennington, Morris, Van Luven, Conway, Santos and Dunn.

### Brief History:

#### Committee Activity:

Finance: 2/7/01, 2/15/01 [DP].

#### Brief Summary of Bill

- Exempts minor assembly of pumps, motors, and compressors from Business and Occupation manufacturing tax.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

**Staff:** Bob Longman (786-7139).

### Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. There are several different B&O tax rates. The rate for most manufacturing and wholesaling activities is 0.484 percent. Manufacturing tax applies to the value of products manufactured in Washington and sold to out-of-state customers. Wholesaling tax applies to sales for in-state customers who purchase for resale. Sales to customers outside Washington generally are not subject to

B&O tax unless the seller manufactured the product.

Manufacturing is broadly defined for purposes of the tax code, and includes all activities that produce a "new, different, or useful substance or article." Assembly of products from component parts is manufacturing, even if the amount of labor involved is small compared to the value of the components. For example, bolting together pumps and motors to make a single piece of equipment is manufacturing.

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**Summary of Bill:**

The manufacturing B&O tax does not apply to assembly of motors, pumps, compressors, and related equipment, if some of the equipment and accessories are purchased from another person, and the amount paid for the components is at least 80 percent of the value of the assembled product.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on October 1, 2001.

**Testimony For:** A Department of Revenue auditor decided that adding a few minor parts on expensive equipment constituted manufacturing. Previous audits did not take this position. Being subject to manufacturing tax for these minor assembly actions is very burdensome financially. In addition, it is difficult or impossible to know when we are in compliance with the law. This bill clarifies the issue and avoids confusion.

**Testimony Against:** None.

**Testified:** Representative Dickerson, prime sponsor; Mark Johnson, National Federation of Independent Business; and Louis Kuffel, Beckwith & Kuffel Inc.