

HOUSE BILL REPORT

HB 1749

As Reported by House Committee On:

Finance

Title: An act relating to authorizing the governor to enter into tax compacts with up to three federally recognized tribes on a pilot basis.

Brief Description: Authorizing tax compacts with tribes.

Sponsors: Representatives Morris and Cairnes.

Brief History:

Committee Activity:

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

Brief Summary of Substitute Bill

- Allows the Governor to sign tax compacts involving the business and occupation tax, sales and use taxes, and public utility taxes with three Indian tribes.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill 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: 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.

Public and privately owned utilities, and certain other businesses are subject to the public utility tax instead of the B&O tax. Like the B&O tax, the public utility tax is applied to the gross receipts of the business. The principal difference between the B&O tax and public utility tax is a higher rate schedule applied under the public utility tax.

The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. Taxable services include construction, repair, telephone, lodging of less than 30 days, restaurant meals, physical fitness, and some recreation and amusement services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms.

The state tax rate is 6.5 percent. Local sales and use taxes also apply. The local sales tax is imposed by the jurisdiction in which the sale occurs. The local use tax is imposed by the jurisdiction where the property is first used. The total state and local sales tax rate imposed is between 7 percent and 8.6 percent, depending on the location.

Summary of Substitute Bill:

The Governor may sign tax compacts with three Indian tribes. The Governor must initially negotiate with a small tribe, a medium sized tribe, and a large tribe. The tax compacts may cover the business and occupation tax, sales and use taxes, and public utility taxes.

Revenue from any tribal tax must be used exclusively for essential government services, such as education, health care, roads, sewers, water supply, law enforcement, and fire protection.

The compacts may provide for the reduction of the state's B&O, sales and use, or public utility taxes. The compacts may provide for revenue sharing, sharing of services, and interlocal cooperation agreements. The compacts are limited to five years.

The Governor is required to report to the Legislature by December 1, 2003, on the fiscal impacts, administrative issues, legal issues, and other matters related to any signed compacts.

Substitute Bill Compared to Original Bill:

The substitute bill limited the compacts to five years and required negotiating with small, medium, and large tribes.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: This a chance for the state to be proactive in this area. The tribes are a recognized government and would like to be treated as one. The tribes would like to use a tribal tax equal to the amount by which the state would reduce its tax. The tribes can impose taxes now but they must be put on top of the state and local taxes. This would create an adverse economic effect. Everyone in the community located on tribal lands benefits from the tribal government services not just tribal members. The bill is limited to three tribes and to the listed taxes as a pilot program. The Legislature retains oversight. No local government taxes are impacted. This does not infringe upon the sovereignty of the tribes or the state. The timing is right, the state/tribal relationship has been growing. The positive economic impact of the Indian tribes in the state is significant. The bill should be amended to make sure that the tribal tax and the state tax together is the same as the tax in areas off Indian land.

Testimony Against: None.

Testified: (In support) Representative Morris, prime sponsor; John McCoy, Tulalip Tribes; and Alan Parker, Northwest Indian Applied Research.

(With Concerns) Charlie Brown, Washington Oil Marketers Association.