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**Finance Committee**

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**HB 1525**

**Brief Description:** Modifying the taxation of environmental remediation services.

**Sponsors:** Representatives Linville, Holmquist, Cooper, Mastin, Hunt, Armstrong, Orcutt, Hinkle, Delvin, Sullivan, Schoesler, O'Brien, Chandler, Pearson and Buck.

**Brief Summary of Bill**

- Extends the sales tax exemption and the special business and occupation tax rate of 0.471 percent for environmental remedial action until July 1, 2008.

**Hearing Date:** 2/11/03

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

**Background:**

Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed by the state, counties and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location.

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. Although there are several different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for wholesaling, and 1.5 percent for service activity.

In 1998, the Legislature enacted special provisions for the taxation of hazardous waste cleanup projects. The procedures established in this act expire July 1, 2003. The retail sales tax does not apply to the sale of labor or services for environmental remedial action. The business and occupation tax rate for businesses performing environmental remedial actions is set at the retailing rate of 0.471 percent.

"Environmental remedial action" includes services related to identification, investigation, or cleanup of hazardous substances, but does not include other actions taken at a hazardous waste site for the purposes of site development. Environmental remedial actions must be

consistent with the state Model Toxics Control Act, or other applicable laws.

Absent this special tax treatment activities related to these environmental cleanups would be taxed according to traditional B&O tax classifications. Consulting activity, such as site evaluation or monitoring, not related to construction activity would be taxed under the service and other classification at a rate of 1.5 percent. The cleanup activity would be taxed like other construction activity - retail sales tax would be collected from the consumer and the contractor would pay B&O tax at the retailing rate of 0.471 percent.

**Summary of Bill:**

The sales tax exemption and the special business and occupation tax rate of 0.471 percent for environmental remedial action is extended until July 1, 2008.

**Appropriation:** None.

**Fiscal Note:** Requested on February 5, 2003.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2003.