

SENATE BILL REPORT

ESB 6698

As Passed Senate, February 12, 2004

Title: An act relating to accounting methods for excise tax purposes.

Brief Description: Allowing an accrual basis taxpayer to use the cash basis method for excise tax purposes upon a showing of substantial hardship.

Sponsors: Senators Benton and Zarelli.

Brief History:

Committee Activity: Ways & Means: 2/9/04 [DP, DNP].

Passed Senate: 2/12/04, 31-16.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Hale, Honeyford, Johnson, Pflug, Roach, Sheahan and Winsley.

Minority Report: Do not pass.

Signed by Senator Fraser.

Staff: Terry Wilson (786-7433)

Background: For excise tax purposes, taxpayers are required to report their income on a cash receipts or accrual basis according to the method of accounting the taxpayer regularly employs in keeping their books. However, persons operating grain warehouses may elect to report on either a cash receipts or accrual basis.

Under the cash receipts method of accounting, income is based on cash receipts in the reporting period. Under the accrual method of accounting, income is based on sales made in the reporting period, regardless of when payment is received.

Summary of Bill: Upon a showing of substantial hardship by the taxpayer, the department must allow a taxpayer whose regular books of account are kept on an accrual basis to file returns based upon his cash receipts. "Substantial hardship" means that on the due date of a return the taxpayer's retail sales tax billed but not collected for the tax-reporting period is more than 75 percent of the total tax due on the return for the reporting period. Once an election is made to report on a cash basis because of a substantial hardship, the taxpayer must continue to report on a cash basis for at least 12 months.

Appropriation: None.

Fiscal Note: Requested on February 2, 2004.

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

Testimony For: The current system imposes an undue hardship on small business. This is for a constituent who primarily builds schools. He gets paid late and cannot pay the sales tax by the 20th. The IRS requires him to keep his books on an accrual basis.

Testimony Against: The law currently allows reporting on a cash basis if the taxpayer has cash basis records even if they use the accrual basis for federal purposes. This bill does not require them to keep books on a cash basis. It would be difficult to audit and reconcile books under this new system. The purpose of the bill is to allow a lag between the time the taxpayer is entitled to the money and the time he gets it. That lag in reporting means a lag in receipts to the state.

Testified: PRO: Senator Benton, prime sponsor; Representative Bolt; CON: Julie Sexton, Department of Revenue.