
Finance Committee

HB 1022

Brief Description: Providing tax incentives for the construction of tsunami resistant structures.

Sponsors: Representatives Orcutt, Buck, Kessler, Takko and Blake.

Brief Summary of Bill

- Exempts the construction of tsunami-resistant structures from the retail sales and use tax.
- Exempts income received from the engineering, planning, design, or construction of tsunami-resistant structures.

Hearing Date: 1/28/05

Staff: Mark Matteson (786-7145).

Background:

Tsunamis and tsunami preparedness. A tsunami is a series of waves with a long wavelength and time between crests. Tsunamis are generated by any large, impulsive displacement of the sea level; this displacement may be caused by an earthquake, volcanic activity, landslides into the ocean, or meteorite impacts. The National Weather Service (NWS) of the National Oceanic and Atmospheric Administration (NOAA) estimates that on average there are two tsunamis per year somewhere in the world which cause damage near the source. The Indian Ocean tsunami that struck south and southeast Asia and east Africa on December 26, 2004, was caused by a magnitude 9.0 earthquake and has resulted in an estimated 160,000 deaths.

NOAA oversees the National Tsunami Hazard Mitigation Program, which is designed to reduce the impacts of tsunamis through warning guidance, hazard assessments, and mitigation. As part of the program, the agency helped develop a document with guidelines for the purpose of helping local communities in the states bordering the Pacific Ocean to understand tsunami hazards, exposure and vulnerability, and to mitigate potential risks through land use planning, site planning, and building design.

The cities of Long Beach, Ocean Shores, and the Quinault Indian Nation are Washington communities that participate in the NWS TsunamiReady program. Under this program, communities are designated as TsunamiReady communities if they meet a number of requirements relating to communication coordination, NWS warning reception and dissemination, hydrometeorological monitoring; and community preparedness. An aspect of the

community preparedness requirement is the designation or establishment of a tsunami shelter or area in a safe zone.

Business and Occupation Tax. 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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

Retail sales and use tax. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent. Currently, local rates levied range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

All items or services sold or acquired at retail are subject to the retail sales and use taxes unless specifically exempted otherwise. Such exemptions include the charges for labor and services provided in the construction of structures for the federal government or a local housing authority.

Summary of Bill:

Incentives are provided for the construction of tsunami-resistant structures in coastal counties. A tsunami-resistant structure is a building provided for the purpose of providing emergency shelter in the event of a tsunami and must meet local construction standards adopted pursuant to NOAA guidelines issued as part of the National Tsunami Hazard Mitigation Program. The structure may be used as a training site for emergency responders.

Income received by persons who provide engineering, planning, design, or construction services relating to the construction of tsunami-resistant structures is exempt from the business and occupation tax.

The construction of tsunami-resistant structures, including materials, and labor and services, is exempt from the retail sales and use taxes.

Appropriation: None.

Fiscal Note: Requested on January 12, 2005.

Effective Date: The bill contains an emergency clause and takes effect immediately.