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**Finance Committee**

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**SSB 6781**

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

**Sponsors:** Senators Prentice, Pflug, Fraser, Parlette, Shin and Schoesler.

**Brief Summary of Bill**

- Provides a sales and use tax exemption and a preferential business and occupation tax rate of 0.471 percent for environmental remedial action until July 1, 2010.

**Hearing Date:**

**Staff:** Mark Matteson (786-7145).

**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 expired July 1, 2003. Under the exemption, retail sales tax did not apply to the sale of labor or services for environmental remedial action. The B&O tax rate for businesses performing environmental remedial actions was set at the retailing rate of 0.471 percent.

For the purposes of the 1998 legislation "Environmental remedial action" included services related to identification, investigation, or cleanup of hazardous substances, but did not include other actions taken at a hazardous waste site for the purposes of site development. Environmental remedial actions were required to be consistent with the state Model Toxics Control Act, or other applicable laws.

Following the expiration of the 1998 law, activities related to these environmental cleanups have been taxed according to traditional B&O tax classifications. Consulting activity, such as site

evaluation or monitoring, not related to construction activity is taxed under the service and other classification at a rate of 1.5 percent. The cleanup activity is taxed like other construction activity - retail sales tax is collected from the consumer and the contractor remits B&O tax at the retailing rate of 0.471 percent.

**Summary of Bill:**

The retail sales tax does not apply to the sale of labor or services for environmental remedial action. The B&O tax rate for businesses performing environmental remedial action is set at the retailing rate of 0.471 percent.

"Environmental remedial action" includes services related to identification, investigation, or cleanup of hazardous substances. Environmental remedial actions must be consistent with the state Model Toxics Control Act, or other applicable laws.

The provisions of the bill expire July 1, 2010.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.