

SENATE BILL REPORT

SB 6773

As of February 01, 2006

Title: An act relating to extended warranties for tangible personal property exempt from sales and use taxation.

Brief Description: Exempting certain extended warranties from sales and use taxation.

Sponsors: Senators Zarelli, Doumit, Rockefeller, Brandland, Parlette, Pridemore, Rasmussen and Schoesler.

Brief History:

Committee Activity: Ways & Means: 2/1/06.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

Background: The sales tax is paid on each retail sale of most articles of tangible personal property, certain services, and extended warranties. The use tax is imposed on the use of articles of tangible personal property, certain services, and extended warranties 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 imposes a general tax of 6.5 percent of the selling price in the case of the sales tax and of the value of the article used in the case of the use tax. An additional sales and use tax of 0.3 percent applies to the sale and use of motor vehicles other than farm tractors or farm vehicles, off-road and non-highway vehicles, and snowmobiles. Cities, counties, and other taxing districts may impose sales and use taxes at various rates. The total state and local sales and use tax rates imposed are between 7 percent and 8.9 percent, depending on the location. For sales of motor vehicles, the rate is between 7.3 percent and 9.2 percent, depending on location.

An extended warranty is an agreement that provides for replacement or repair of an item at no additional charge or a reduced charge, for a specified time period. The price for an extended warranty is not included in the selling price of an item. Because the sale of an extended warranty can be viewed as a sale of an intangible contractual right rather than the actual sales of repair parts and services, extended warranties were not subject to retail sales and use taxes until legislation applying these taxes to extended warranties was enacted in 2005.

Summary of Bill: If an extended warranty applies to tangible personal property that is exempt from retail sales and use taxes, the extended warranty is also exempt from retail sales and use taxes.

Appropriation: None.

Fiscal Note: Requested on January 20, 2006.

Committee/Commission/Task Force Created: No.

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

Testimony For: Imposition of the tax on extended warranties had unintended consequences. The business community was unaware that the tax would apply to extended warranties on manufacturing machinery and equipment. All aspects of manufacturing machinery and equipment should be exempt.

Testimony Against: None.

Who Testified: PRO: Amber Carter, AWB; Mike Bernard, Madison Cooke.