
Finance Committee

HB 1323

Brief Description: Providing excise tax relief for certain limited purpose public corporations, commissions, and authorities.

Sponsors: Representatives McIntire, Pettigrew, Pedersen and Dunn.

Brief Summary of Bill

- Exempts certain amounts received by public development authorities from the business and occupation and retail sales and use taxes.

Hearing Date: 2/2/07

Staff: Jeff Mitchell (786-7139).

Background:

Retail sales and use taxation. Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

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.

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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.

Public development authorities. Cities, towns, and counties may establish limited purpose public corporations, commissions, or authorities. These special purpose, quasi-municipal corporations have become known as public development authorities, or "PDAs." PDAs are typically created to administer and execute federal grants or programs, receive and administer private funds, goods, or services, for any lawful purpose, or perform any other lawful public purpose or public function.

Many local governments have established PDAs for a variety of public purposes. Some examples of PDAs are: the Pike Place Market, which is a city of Seattle PDA where the PDA essentially acts as the landlord to the market retail establishments; the Foss Waterway Development Authority, a PDA created by the city of Tacoma for the redevelopment of previously contaminated areas of Tacoma's Foss Waterway; and the Seattle Chinatown-International District Preservation and Development Authority, another PDA created by the city of Seattle to provide affordable housing, a Seattle Parks Department recreation center, a public library branch, and other services.

PDAs are exempt from property taxation, but in general are subject to B&O taxes for the provision of services and leasehold excise taxes on leases of property to private entities. Some of the services that PDAs provide may also be subject to sales and use tax.

Summary of Bill:

Section 1 provides an exemption from the B&O tax for amounts received by a PDA for providing services to a: (1) limited liability company, if the PDA is the managing member; (2) limited partnership, if the PDA is a general partner; or (3) single asset entity required under a governmental housing assistance program, if the entity is controlled, directly or indirectly, by the PDA.

Sections 2 and 3 provide an exemption from sales and use tax for amounts received by a PDA for the provision of services subject to sales and use tax if the amounts received are exempt from B&O tax under section 1.

Appropriation: None.

Fiscal Note: Available.

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