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**Ways & Means Committee**

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**HB 1346**

**Brief Description:** Making tax law changes that do not create any new or broaden any existing tax preferences as defined in RCW 43.136.021 or increase any person's tax burden.

**Sponsors:** Representative Hunter; by request of Department of Revenue.

**Brief Summary of Bill**

- Clarifies that a person who has a substantial nexus in Washington in any tax year will be deemed to have a substantial nexus with the state for the following tax year.
- Clarifies a seller has no obligation to collect use tax if the U.S. Constitution or federal law prohibits Washington from requiring the person to collect use tax.
- Repeals two redundant tax incentive annual study and report statutes.
- Temporarily suspends the tax exemption study for two years, moving the next due date from 2012 to 2014.

**Hearing Date:** 1/25/11

**Staff:** Jeff Olsen (786-7175).

**Background:**

Business & Occupation Tax and Nexus

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. Nexus is the level of connection with a state necessary under the U.S. Commerce Clause to permit a state to impose a tax or collection duty on out-of-state businesses doing business in the state.

In 2010, the Legislature enacted Engrossed Substitute Senate Bill 6143, specifying that for service-type activities, a business will have substantial nexus in Washington if it has a certain

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threshold amount of property, employees, or income in the state. The 2010 changes also provide that a business with substantial nexus in the current year is deemed to have substantial nexus the following year. This is referred to as trailing nexus.

### Sales and Use Taxes

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, digital products, and some services. The use tax applies to the acquisition of tangible personal property, digital products, and some services that were not subject to sales tax. Generally, a person or business acquiring property in another state is responsible for the payment of Washington use tax when the property is brought into the state. However, under certain circumstances, an out-of-state seller may be required to collect and remit use tax to Washington even if the property is transferred to the buyer outside the state. This requirement would apply only where the seller has some connection to the state.

### Tax Incentive Reporting Requirements

The Citizen Commission for Performance Measurement of Tax Preferences (Commission) was established by the 2006 Legislature (Engrossed House Bill 1069). The Commission develops a schedule to review nearly all tax preferences at least once every ten years. The Commission also schedules preferences with expiration dates for reviews two years before the tax preference expires. Tax preference reviews are conducted by the Joint Legislative Audit and Review Committee (JLARC) according to the schedule established by the Commission. For each tax preference, the JLARC provides recommendations to continue, modify, schedule for future review, or terminate the preference. The Commission reviews and comments on the JLARC report.

In 2005 the Legislature created a Cost-recovery Incentive Payment Program to promote renewable energy systems that produce electricity from solar, wind, or anaerobic digesters. The Department of Revenue must measure the impacts of the program and provide a report to the Legislature by December of 2014. The JLARC is also scheduled to review the tax incentive in 2013.

Businesses claiming tax incentives are required to provide data on annual accountability reports or surveys filed with the Department of Revenue. In general, accountability reports and surveys require information about employment and economic activities related to the tax incentives. In prior years, it was common to create an entirely new accountability report or survey statute for each new tax incentive even though the requirements of each new annual report or survey largely duplicated existing report or survey statutes. In 2010, Substitute House Bill (SHB) 3066 repealed most of these duplicative tax incentive annual report and survey statutes and replaced them with a uniform annual survey and a uniform annual report. However, duplicative annual report and survey statutes were also amended in other bills that passed during 2010. These other bills did not take cognizance of the repealed sections in SHB 3066.

### Exemption Study

The Department of Revenue must produce and submit to the Legislature a tax exemption report every four years. The report includes a listing of the estimated revenue lost from the exemption and the beneficiary of the exemption. The next report is due in January 2012.

**Summary of Bill:**

The trailing nexus statute is clarified by specifying that a person who has a substantial nexus with this state in any tax year will be deemed to have a substantial nexus with the state for the following tax year.

Two redundant annual tax incentive accountability report and survey statutes are repealed.

For purposes of collecting use taxes, it is explicitly clarified that a seller has no obligation to collect use tax if Washington is prohibited under the U.S. Constitution or federal law from requiring the person to collect use tax.

The due date for the next tax exemption study is moved from January 2012 to January 2014.

**Appropriation:** None.

**Fiscal Note:** Requested on January 19, 2011.

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