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**Ways & Means Committee**

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**HB 1936**

**Brief Description:** Amending the existing nonresident retail sales tax exemption.

**Sponsors:** Representatives Lytton, Buys, Morris and Overstreet; by request of Department of Revenue.

**Brief Summary of Bill**

- Disallows the nonresident retail sales tax exemption for nonresidents from jurisdictions imposing a value added tax or similar gross receipts tax of 3 percent or more.

**Hearing Date:** 2/17/11

**Staff:** Jeffrey Mitchell (786-7139).

**Background:**

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 digital products and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the property, digital products, or services were acquired by the user, then use taxes apply to the value of most tangible personal property and digital products and some services when used in this state. The state sales and use tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 3.0 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

State law provides a retail sales tax exemption to certain nonresidents purchasing goods in Washington. The exemption is unavailable if the purchaser resides in a United States or Canadian jurisdiction that imposes a retail sales or use tax of 3 percent or more, unless the jurisdiction grants Washington residents an exemption from the tax by reason of their residence.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

A number of Canadian provinces have replaced their provincial sales taxes with the Harmonized Sales Tax (HST). Most recently, the provinces of British Columbia and Ontario converted to the HST, effective July 1, 2010. The Department of Revenue has taken the position that the HST is not a sales tax but instead a valued-added tax (VAT), which is a consumption tax that taxes the value added by businesses at each point in the production chain. It can apply to both manufactured goods and services. Therefore, since the Department does not construe a VAT to be a sales tax, the Department has determined that residents of British Columbia and the other provinces that have converted to the HST are eligible for the nonresident sales tax exemption.

The City of Bellingham and Whatcom County brought suit against the Department, arguing that residents of British Columbia and other provinces that have implemented an HST are not entitled to the nonresident exemption. The Skagit County Superior Court entered a preliminary injunction ordering the Department to advise retailers that residents of Canadian provinces with an HST did not qualify for the exemption. The litigation is not expected to be concluded until after the 2011 legislative session.

**Summary of Bill:**

The nonresident retail sales tax exemption is modified to explicitly disallow nonresidents from claiming the exemption if they reside in a jurisdiction with a value added tax or similar gross receipts tax of 3 percent or more.

**Appropriation:** None.

**Fiscal Note:** Requested on February 15, 2011.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2011.