
**Technology & Economic Development
Committee**

HB 1154

Brief Description: Ensuring the competitiveness of Washington state's fishing and seafood processing industries by supporting the recapitalization of fishing fleets through certain tax preferences.

Sponsors: Representatives Tarleton, Smith and Santos.

Brief Summary of Bill

- Provides a preferential business and occupation tax rate for manufacturers of qualified vessels or components of qualified vessels.
- Makes the Multiple Activities Tax Credit applicable to manufacturers of qualified vessels or components of qualified vessels when the qualified vessels or components are sold in the state at retail or wholesale.

Hearing Date: 1/18/17

Staff: Kirsten Lee (786-7133).

Background:

Magnuson-Stevens Fishery Conservation and Management Act.

The federal Magnuson-Stevens Fishery Conservation and Management Act (Act) established eight regional councils to federally manage United States waters in the 200-mile off-shore Exclusive Economic Zone (EEZ). Under the Act, the North Pacific Fishery Management Council and Pacific Fishery Management Council were established and have the authority to protect the fisheries, within the EEZ waters off the coasts of Alaska, Washington, Oregon, and California, by controlling the number of boats that are authorized to harvest fish from the waters. This control has been exercised by defining a quota for legal catch for each fishery and prohibiting any new fishing vessels to be built except under specific conditions.

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.

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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and activities not classified elsewhere. Several lower rates also apply to specific business activities.

Multiple Activities Tax Credit.

When a business performs more than one taxable activity for the same product, it reports each activity under the proper classification, but takes the Multiple Activities Tax Credit (MATC), so the B&O tax is not paid twice on the same amount. For instance, a business that both manufactures and sells a product at wholesale in Washington does not pay both manufacturing and wholesaling B&O tax. The MATC also applies to a business that has paid a gross receipt tax to another state.

Tax Preference Performance Statement and Expiration Date.

All new tax preference legislation must include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

Summary of Bill:

Business & Occupation Tax Preference.

A B&O tax preferential rate of 0.2904 is provided for manufacturers and processors-for-hire of qualified vessels, components of qualified vessels, or sales, at retail or wholesale, of qualified vessels or components of qualified vessels, manufactured by the seller. Qualified manufacturers and processors-for-hire are also allowed a MATC.

The manufacturer or processor-for-hire must obtain documentation from the buyer, to provide to the Department of Revenue, showing that the vessel meets the definition of a "qualified vessel" or that the component being installed will be installed in a "qualified vessel."

Definitions.

"Qualified vessel" means a vessel that is limited to participation in rationalized federal fisheries, under the jurisdiction of the Pacific or North Pacific Fishery Management Councils, or state-managed limited entry fisheries. Questions as to a fishery's status as a rationalized fishery must be determined by the Washington Department of Fish and Wildlife.

"Rationalized fishery" means a federally managed fishery in which all participants are allocated a proportion of the harvest either through an individual share or through participation in a

cooperative, and therefore are not competing for harvest. State-managed limited entry fisheries are fisheries managed by Alaska, Oregon, or Washington, occurring in either federal or state waters, in which a fixed number of participants are authorized to harvest.

Tax Preference Performance Statement and Expiration Date.

A tax preference performance statement provides that the goal of the tax incentives is to improve industry competitiveness, specifically by increasing long-term industry competitiveness, economic activity, and jobs related to the maritime industry by providing a tax preference for recapitalizing the commercial fishing fleet. To measure the effectiveness of the tax preference, the JLARC must evaluate whether the number of qualified vessels manufactured in the state has increased since enactment of the tax preference. The JLARC may refer to data available from the Department of Commerce to perform the review. If the number of qualified vessels has increased, the JLARC must recommend extending the expiration date of the tax preference.

The modification to the MATC required for the new preferential tax rate is exempt from the requirement to include a tax preference performance statement and expiration date.

The tax preference expires July 1, 2025.

Appropriation: None.

Fiscal Note: Requested on January 11, 2017.

Effective Date: The bill takes effect on July 1, 2017.