SENATE BILL REPORT
SHB 1154

As of February 20, 2018

Title: An act relating to ensuring the competitiveness of Washington state's fishing and seafood processing industries by supporting the recapitalization of fishing fleets through certain tax preferences.

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: House Committee on Finance (originally sponsored by Representatives Tarleton, Smith and Santos).

Brief History: Passed House: 2/08/18, 97-1.
Committee Activity: Agriculture, Water, Natural Resources & Parks: 2/19/18.

Brief Summary of Bill

- Establishes a business and occupation (B&O) tax rate of 0.2904 percent for manufacturers of qualified vessels or components of qualified vessels.
- Makes the Multiple Activities Tax Credit (MATC) 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.

SENATE COMMITTEE ON AGRICULTURE, WATER, NATURAL RESOURCES & PARKS

Staff: Karen Epps (786-7424)

Background: B&O Tax. Washington's major business tax is the 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 a 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

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percent for services and activities not classified elsewhere. Several lower rates apply to specific business activities.

MATC. When a business performs more than one taxable activity for the same product, it reports each activity under the proper classification, but takes the 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. A credit is allowed so that B&O tax is paid only once. The MATC also applies to a business that has paid a gross receipt tax to another state.

Tax Preferences. A tax preference confers reduced tax liability upon a designated class of taxpayer. A tax preference includes exemptions, deductions, credits, and preferential rates. Currently, Washington has over 650 tax preferences authorized in law. All new tax preference legislation must include a tax preference performance statement. 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 ten years after the effective date of the tax preference, unless otherwise provided.

The Magnuson-Stevens Fishery Conservation and Management Act (Magnuson-Stevens Act). The Magnuson-Stevens Act established eight regional councils to federally manage United States waters in the 200-mile off-shore Exclusive Economic Zone (EEZ). Regional Fishery Management Councils are charged with developing and recommending fishery management plans, both to restore depleted stocks and manage healthy stocks. Regional Fishery Management Councils also set quotas for legal catch for each fishery, establish limits on the number of boats that are authorized to harvest fish from the waters, and may prohibit new fishing vessels from being built except under specific conditions. The Pacific Fishery Management Council has jurisdiction over the 317,690 square mile EEZ off Washington, Oregon and California. The North Pacific Fishery Management Council primarily manages groundfish in the Gulf of Alaska, Bering Sea, and Aleutian Islands.

Summary of Bill: B&O Tax. The B&O tax rate 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 that are manufactured by the seller is set at 0.2904 percent. 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, establishing that the vessel meets the definition of a qualified vessel or that the component being installed will be installed in a qualified vessel. This documentation must be retained for five years. 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 through increasing long-term industry competitiveness, economic activity, and maintaining 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, JLARC must evaluate whether the number of qualified vessels manufactured in the state has increased since enactment of the tax preference. JLARC may refer to data available from the Department of Commerce to perform the review. If the number of qualified vessels has increased, along with gross revenues of vessel manufacturers, 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 on July 1, 2027.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on July 1, 2019.

Staff Summary of Public Testimony: PRO: This bill will help recapitalize the fishing fleet of the future. This bill shows Washington's commitment to vessel owners and the maritime community that Washington wants them to be leaders in building the next generation of vessels. These vessels will include clean technologies, new engine design, and new hull design to keep the fishing fleet sustainable in the future. Vessel modernization is a critical need for keeping these fisheries both sustainable and profitable. This bill increases the incentive to modernize these fleets in Washington's shipyards. This bill represents work that will provide up to 750 family-wage jobs a year over the next ten years. This bill will help to keep yards and suppliers working and help train the next generation of shipyard workers.

Persons Testifying: PRO: Representative Gael Tarleton, Prime Sponsor; Gordon Baxter, Puget Sound Metal Trades Council, Puget Sound Maritime Trades Council; Bill Tweit, Washington Department of Fish and Wildlife.

Persons Signed In To Testify But Not Testifying: No one.