

# HOUSE BILL REPORT

## HB 1348

---

**As Reported by House Committee On:**  
Rural Development, Agriculture, & Natural Resources

**Title:** An act relating to helping Washington businesses succeed by modifying certain business and occupation tax provisions.

**Brief Description:** Helping Washington businesses succeed by modifying certain business and occupation tax provisions.

**Sponsors:** Representatives Chapman, Maycumber, Springer, Tharinger, Steele and Morris.

**Brief History:**

**Committee Activity:**

Rural Development, Agriculture, & Natural Resources: 1/30/19, 2/1/19 [DPS].

**Brief Summary of Substitute Bill**

- Reduces the business and occupation (B&O) tax rate for manufacturers, printers of materials other than newspapers, and publishers of periodicals.
- Modifies and extends the timber and wood products preferential B&O tax rate to June 30, 2056.
- Extends the surcharge levied on timber-related activities to June 30, 2056.
- Eliminates the circumstances in which the timber-related activities surcharge may be suspended or adjusted.

---

### HOUSE COMMITTEE ON RURAL DEVELOPMENT, AGRICULTURE, & NATURAL RESOURCES

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives Blake, Chair; Shewmake, Vice Chair; Chandler, Ranking Minority Member; Dent, Assistant Ranking Minority Member; Chapman, Dye, Fitzgibbon, Kretz, Lekanoff, Orcutt, Pettigrew, Ramos, Schmick, Springer and Walsh.

**Staff:** Robert Hatfield (786-7117).

**Background:**

---

*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.*

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of all taxable business activities conducted within the state, unless otherwise exempt. There is no deduction for the costs of doing business. Revenues are deposited into the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Business and occupation taxes are collected by the Department of Revenue.

Major B&O tax rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere.

Several preferential rates also apply to specific business activities. Extraction, production, and wholesaling of timber and wood products are subject to a preferential B&O tax rate of 0.2904 percent. The timber and wood products preferential tax rate is currently set to expire January 1, 2024.

The current B&O tax rate for printing of materials other than newspapers, and for publishing periodicals or magazines, is 0.484 percent.

---

### **Summary of Substitute Bill:**

The general manufacturing, wholesaling, and retailing B&O tax rates for manufacturers, processors for hire, printers of materials other than newspapers, and publishers of periodicals are reduced incrementally over the course of 11 years. The rates will be phased in as follows:

- 0.2904 percent on the first \$50 million of the total amount subject to the B&O tax, through December 31, 2029;
- 0.484 percent on the total amount subject to the B&O tax that exceeds \$50 million, through January 1, 2030; and
- 0.2904 percent, beginning January 21, 2030.

The expiration date of the reduced B&O tax rate associated with certain timber products is extended from July 1, 2024, to July 1, 2056. The timber products tax rate for the period July 1, 2024, through June 30, 2056, is 0.2384 percent.

The expiration date of the timber products surcharge is extended from June 30, 2024, to June 30, 2056. The circumstances in which the timber products surcharge may be adjusted or eliminated are removed.

### **Substitute Bill Compared to Original Bill:**

The rate of the timber-related activities B&O tax between July 1, 2024, and June 30, 2056, is modified from 0.2904 percent to 0.2384 percent. The extension of the timber products surcharge is added. The circumstances in which the timber products surcharge may be adjusted or eliminated are removed.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) The manufacturing sector in Washington has not recovered; it is the one sector of the economy that is still in the negative. Many believe that because the state made a commitment to aerospace manufacturing, the state also needs to make a commitment to manufacturers in rural areas. The application of the B&O tax reduction is now based on an income threshold, as opposed to a geographic application, since there are manufacturers in many areas who could use help. The expiration date for the timber, pulp, and paper B&O tax rate now goes out to 2056. This is the time to commit to an industry which has been a longtime contributor to the Washington economy. If Washington dropped the whole manufacturing B&O tax rate down now, it would be a significant loss of revenue to the state; the numbers would just have been too large and it would not be a serious piece of legislation.

This is an important issue not just from the perspective of manufacturing and jobs, but also from the perspective of environmental responsibilities. Washington manufacturing is some of the cleanest in the world. If something does not get manufactured in Washington, those jobs go to other parts of the world, which then increases pollution and carbon emissions, and the state loses out on innovation. This is an important issue for the rural economy and for the environment.

One seafood processing company is considering going into the business of processing rockfish, which would add 50 to 75 jobs during the season, at a time in the year when those jobs otherwise would not be there. The proposed tax rate would have saved the business about \$47,000 last year, which is money they would invest in operations and the economy. This would allow the company to put people to work on a year-round basis, which then keeps the employees in the area.

Washington needs to invest in human capital, and manufacturing is a huge investment in human capital. Manufacturers do not just make a product; they make it, and then they figure out how to make it better. Manufacturing is part of the innovation economy.

Manufacturing businesses provide jobs with which a person can support a family. The average manufacturing wage is \$72,000 per year. Reducing the B&O tax supports jobs, which supports families. Manufacturing businesses are connected, from lumber and wheat, to apples and airplanes.

In 2008 the manufacturing sector tightened considerably, and now international companies have started to bid on everything, even smaller jobs. The profit margins have tightened to almost nothing. Manufacturing is struggling, and needs legislation to provide some relief.

The rural parts of the state have not quite caught up to King County's explosive economy. It would be helpful to continue the preferential B&O tax rate for timber products. When the Joint Legislative Audit and Review Committee reviewed this tax preference in 2016, it found that the average wage in rural areas was \$38,000 per year, but that the average timber job was \$58,000 per year. It is fine to continue the surcharge on timber products. The B&O tax rate was lowered from 0.484 percent to 0.2904 percent, but when the surcharge of 0.052 percent is placed on top of that, the actual rate becomes 0.3424 percent. The surcharge raises approximately \$8 million per year, which funds the adaptive management program under the Forests and Fish Law. If the preferential timber B&O tax rate is not extended, the surcharge will also expire.

Commercial printers are the largest small business manufacturing sector in Washington, with a total of approximately 550 business across the state. There are approximately 8,000 people employed in the printing industry in Washington, which offers high wage jobs, the kind of jobs one wants to have. Any time there is a cost savings, that savings is put back in the business. Businesses need to invest in two things: equipment and people. There needs to be a slight technical change between sections 2 and 3 of the bill.

Washington has some of the cleanest manufacturing in America thanks to the state's hydropower resources. The maritime industry in Washington is on the cusp of some significant changes and innovation, and that innovation can take place here in Washington, if the state is ready for it.

This bill would keep the preferential timber B&O tax rate in place for the lifetime of the Forests and Fish Habitat Conservation Plan. The preferential tax rate needs to be coupled with the extension of the timber products surcharge. There is a lot of collaboration that takes place under the Forests and Fish Law as a result of that surcharge. If it is not funded, there would be a need to find another fund source, and that could place the habitat conservation plan at risk.

(Opposed) None.

(Other) In 2005 the federal government stopped funding the adaptive management program under the Forests and Fish Law, which in turn stopped tribal participation. Stakeholders met with the Governor to get the funding back, and tribal leaders and forest products industry leaders came up with the agreement in 2006 whereby there would be a B&O tax reduction in conjunction with a surcharge that would fund the Forests and Fish account. The surcharge funds participation grants, along with funds for the adaptive management program. Tribal participation is critical to the Forests and Fish Law. If the B&O tax reduction is extended, the surcharge should also be extended.

**Persons Testifying:** (In support) Representative Chapman, prime sponsor; Meredith Neal, Tacoma-Pierce County Chamber and Manufacturing Industrial Council; Al Carter, Ocean Gold Seafood Inc.; Clay Hill, Association of Washington Business; Rosemary Brester, Hobart Machine Products; Don Conant, Valley Nut and Bolt; Chad Sutter, Sutter Metals; John Ehrenreich, Washington Forest Protection Association; Bill Stauffacher, Pacific Printing and Imaging Association; Dave Gering, Seattle Manufacturing Industrial Council; and Stephen Bernath, Department of Natural Resources.

(Other) Jim Peters, Northwest Indian Fisheries Commission.

**Persons Signed In To Testify But Not Testifying:** None.