

SENATE BILL REPORT

SB 5440

As of February 11, 2021

Title: An act relating to manufacturing tax reform to preserve aerospace and other manufacturing jobs in Washington.

Brief Description: Concerning manufacturing tax reform to preserve aerospace and other manufacturing jobs in Washington.

Sponsors: Senators Wilson, J., Fortunato and Frockt.

Brief History:

Committee Activity: Business, Financial Services & Trade: 2/11/21.

Brief Summary of Bill

- Reduces the manufacturing business and occupation tax multiplier for various industries to 0.00 percent.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: Clinton McCarthy (786-7319)

Background: 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 taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. 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. Financial institutions are subject to the 1.5 percent service and other B&O tax rate.

While the standard B&O tax rate for manufacturing is 0.484 percent, there are a number of

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manufacturing sectors that have lower preferential rates. Examples include:

- semiconductor materials—0.275 percent;
- various agricultural goods manufactured into refined products—0.138 percent;
- seafood products—0.138 percent;
- dairy products—0.138 percent;
- fruit or vegetable products—0.138 percent;
- aluminum—0.2904 percent; and
- solar energy systems using photovoltaic modules or stirling converters—0.275 percent.

In 2020, the preferential B&O tax rate for the manufacturing, wholesaling, and retailing of commercial airplanes and airplane components of 0.357 percent was eliminated, and the rate of 0.484 percent was instituted.

Summary of Bill: The following manufacturing tax rate multipliers are reduced to zero:

- manufacturers, and this tax multiplier is expanded to include processors for hire;
- semiconductor materials;
- various agricultural goods into refined products;
- seafood products;
- dairy products;
- fruit or vegetable products;
- commercial airplanes or components of such planes beginning July 1, 2021;
- aluminum; and
- solar energy systems using photovoltaic modules or stirling converters.

These preferential rates are only applicable to out of state activity.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill takes effect on October 1, 2021.

Staff Summary of Public Testimony: PRO: This is an extremely bold bill. You could not need a bolder bill than you need one right now with the pandemic. We need to have a number of manufactured products to get through this pandemic. The average wage for a manufacturing job is \$75,000. This bill provides relief for a very important sector. This reduction would certainly help the wine industry. Washington is the second largest wine producer in the U.S. and we were the fastest growing state in the country. The pandemic has cost the industry \$800 million statewide. Manufacturing activities continue to suffer due to the pandemic. The airline industry in particular has been hit hard. This bill will help the state compete for more manufacturing jobs.

Persons Testifying: PRO: Senator Jeff Wilson, Prime Sponsor; Steve Gano, Chateau Ste. Michelle; Tommy Gantz, Association of Washington Business.

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