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**Finance Committee**

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**HB 2229**

**Brief Description:** Modifying the definition of "manufacturer" for tax purposes to exclude persons who contract with other persons to reproduce content on a tangible medium for retail or wholesale distribution.

**Sponsors:** Representatives Parker, Driscoll and Kelley.

**Brief Summary of Bill**

- Modifies the definition of "manufacturer" for business and occupation tax purposes to exempt persons or businesses who contract with other persons to reproduce content on a tangible medium for retail or wholesale distribution.

**Hearing Date:** 2/24/09

**Staff:** Joseph Archuleta (786-7192)

**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 B&O tax even though they may not have any profits or may be operating at a loss. Major tax rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.5 percent for services, several lower rates also apply to specific business activities.

A "manufacturer" means every person who, either directly or by contracting with others for the necessary labor or mechanical services, manufactures for sale or for commercial or industrial use from his or her own materials or ingredients any articles, substances, or commodities. Persons who manufacture products in this state are subject to the manufacturing B&O (0.484 percent) tax upon the value of the products, including by-products unless the activity qualifies for an exemption or a special tax rate.

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A "processor for hire" means a person who performs labor and mechanical services upon property belonging to others so that as a result a new, different, or useful article of tangible personal property is produced for sale or commercial or industrial use. Thus, a processor for hire is any person who would be a manufacturer if that person were performing the labor and mechanical services upon his or her own materials. Processors for hire are subject to the processing for hire B&O (0.484 percent) tax upon the total charge made for those services, including any charge for materials furnished by the processor. The B&O tax applies whether the resulting product is delivered to the customer within or outside this state.

In addition, a nonresident or business located outside of Washington who owns materials processed in this state by a processor for hire is not deemed to be engaged in business in this state as a manufacturer and therefore is not subject to the manufacturing B&O tax.

**Summary of Bill:**

By modifying the definition of "manufacturer" for B&O tax purposes the bill creates a B&O manufacturing tax exemption for residents or businesses in Washington who contract with another person or businesses specifically to reproduce text, information, data, still images, moving images, sound recordings, and computer software on to paper, tape, film, disk, and any other tangible vehicle used in the inscribing, storing, or recording of content for retail or wholesale distribution (regardless of whether the contracted work is performed in this state). Additionally, the person performing the reproduction work is deemed to be a processor for hire and is not deemed to be engaged in business in this state as a manufacturer with respect to such activity.

Therefore, specific to these types of activities both resident and non-resident businesses are exempt from the manufacturing B&O tax upon the value of the products and by-products created by the processor for hire. The processor for hire would still be subject to the processing for hire B&O tax upon the total charge made for those services.

**Appropriation:** None.

**Fiscal Note:** Requested.

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