

HOUSE BILL REPORT

HB 2212

As Passed House:

January 26, 1996

Title: An act relating to taxation of services included in the definition of retail sales.

Brief Description: Repealing the 1993 sales taxation of certain services.

Sponsors: Representatives B. Thomas, Carrell, Talcott, Honeyford, Benton, Schoesler, Mastin, Sheldon, Radcliff, Koster, Campbell, Smith, Huff, Horn, Morris, Thompson, Cooke, Goldsmith, Backlund, Hargrove and McMahan.

Brief History:

Committee Activity:

Finance: 1/10/96, 1/11/96 [DP].

Floor Activity:

Passed House: 1/26/96, 78-18.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 10 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Hymes; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Minority Report: Do not pass. Signed by 2 members: Representatives Dickerson, Assistant Ranking Minority Member; and Mason.

Staff: Bob Longman (786-7139).

Background: The sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total rate is between 7 percent and 8.2 percent, depending on the location.

In 1993, the Legislature extended state and local retail sales taxes to sales of certain services including massage services; landscape maintenance and horticultural services other than horticultural services provided to farmers; coin-operated laundry facilities in apartment houses, hotels, trailer camps, and tourist camps; service charges associated with tickets to professional sporting events; guided tours and guided charters; physical fitness services; tanning salon services; tattoo parlor services; steam

bath services; turkish bath services; escort services; and dating services. These services were added to the list of services that were already subject to sales tax, which were construction, repair, automobile parking and storage, telephone services, some recreation and amusement services, and services provided by abstract, title insurance, escrow, and credit bureau businesses.

Many types of services remain exempt from sales tax. Major exemption categories include medical, legal, accounting, engineering, motion pictures, veterinary, cable television, and beauty and barber services.

In 1995, legislation was enacted that repealed the sales taxation of massage services.

The retail sales tax and the business and occupation (B&O) tax use the same definition of retail sale. The B&O tax is Washington's major business tax. This tax is imposed on the gross receipts of business activities conducted within the state. There are several different rates under the B&O tax. The retailing rate is lower than the service rates. When the 1993 Legislature added services to the definition of retail sale, the service provider's B&O tax rate was reduced from services rate to retailing rate.

The major B&O tax rates are as follows:

Manufacturing, wholesaling, & extracting - 0.506 percent

Retailing - 0.471 percent

Services:

- Business Services - 2.5 percent
- Financial Services - 1.7 percent
- Other activities - 2.09 percent

Initiative 601, approved by the voters in November 1993, requires a two-thirds vote of each house of the Legislature for an action that raises state revenue, plus a vote of the people if state expenditures, including the new revenue, will exceed the limit provided in the initiative. If a service is removed from the definition of retail sale, the resulting increase in the B&O tax rate might be considered an action that raises state revenue under the initiative.

Summary of Bill: The 1993 extension of sales taxes to services is repealed. Therefore, the following services will no longer be subject to sales tax: landscape maintenance and horticultural services; coin-operated laundry facilities in apartment houses, hotels, trailer camps, and tourist camps; service charges associated with tickets to professional sporting events; guided tours and guided charters; physical fitness services ;tanning salon services; tattoo parlor services; steam bath services; turkish bath services; escort services; and dating services.

The B&O tax rate for providers of these services is increased from 0.471 percent (retailing) to 2.09 percent (service-other).

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 1996.

Testimony For: Taxing laundries in apartment buildings places a tax burden on those less able to afford the tax. The tax on laundries in apartment buildings requires building owners to register with the Department of Revenue in order to pay over the sales tax. The administrative costs for the apartment owner and the state exceed the amount of sales tax. Some have eliminated laundry service altogether.

The landscaping business is an industry of small operators. The sales tax on landscaping services has had a negative impact on these businesses. Employees have been laid off. Customers are taking landscaping services "in house" to avoid the tax. The tax reduces the affordability of housing.

Testimony Against: None.

Testified: Pat Vandenbroke, Washington Apartment Association; Marty Bower, WALP; Rod Baily, Evergreen Service; Terri Bosler, Manufactured Housing Association; Mike Shapiro, ATCOM Service; Mark Blackburn, Blackburn Service; and J. Ryan Spiller, Department of Revenue.