

HOUSE BILL REPORT

HB 2214

As Reported By House Committee On:

Finance

Title: An act relating to sales and use tax exemptions for research and development.

Brief Description: Exempting research and development machinery and equipment from sales and use taxes.

Sponsors: Representatives Van Luven, B. Thomas, Schoesler, Pennington, Mastin, Sheldon, Radcliff, Koster, Smith, Huff, Sheahan, Morris, Thompson, Cooke, Goldsmith, Backlund, Benton and Dyer.

Brief History:

Committee Activity:

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

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

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.

Sales tax applies when items are purchased at retail in the state. Sales tax is paid by the purchaser and collected by the seller. Use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out of state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used.

Items which become an ingredient or component of a new article of property for sale are exempt from sales and use taxes. However, sales of machinery and equipment used in manufacturing were subject to tax until 1995. Sales tax also applies to labor and services for construction, installation, and repair of property.

In 1995, new sales and use tax exemptions were enacted for machinery and equipment used directly in a manufacturing operation, including installation labor and services.

Summary of Substitute Bill: New sales and use tax exemptions are created for machinery and equipment used for research and development, including labor and services for installing the machinery and equipment. The federal Internal Revenue Code definition of research and development is used to determine eligibility for the exemption.

To obtain an exemption, the purchaser must provide the seller with an exemption certificate in a form and manner prescribed by the Department of Revenue.

Substitute Bill Compared to Original Bill: A typographical error is corrected.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The 1994 Manufacturing Tax Study indicated that sales tax on machinery and equipment was an impediment to the expansion of manufacturing activity in Washington. The 1995 Legislature exempted from sales tax new machinery and equipment purchases. Washington is already seeing the benefits of the exemption. Targeted tax exemptions work to encourage new investments in Washington. The Department of Revenue supports the sales tax exemption for research and development equipment. The department recommends the exemption be limited to manufacturers and the definition of research and development be changed.

Testimony Against: None.

Testified: Ron Rosenbloom, Department of Revenue.