

HOUSE BILL REPORT

HB 2484

As Passed Legislature

Title: An act relating to sales and use tax exemptions for manufacturing machinery and equipment.

Brief Description: Allowing sales and use tax exemptions for manufacturing machinery and equipment used for maintenance, improvement, and research and development.

Sponsors: Representatives Van Luven, Sheldon, Radcliff, Hatfield, Sherstad, D. Schmidt, Cooke, Conway, Goldsmith, Silver, Kessler and Johnson.

Brief History:

Committee Activity:

Trade & Economic Development: 1/22/96 [DP].

Floor Activity:

Passed House: 1/31/96, 92-4.

Senate Amended.

House Concurred.

Passed Legislature.

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass. Signed by 12 members: Representatives Van Luven, Chairman; Radcliff, Vice Chairman; D. Schmidt, Vice Chairman; Sheldon, Ranking Minority Member; Veloria, Assistant Ranking Minority Member; Backlund; Hatfield; Hickel; Mason; Sherstad; Skinner and Valle.

Staff: Kenny Pittman (786-7392).

Background: The sales tax is imposed on retail sales of most items of tangible personal property and on some services. The state sales 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 or property for sale are exempt from sales and use taxes. However, sales of machinery and equipment used in manufacturing were subject to taxation 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, but not structures, used directly in a manufacturing operation, including installation labor and services.

Summary of Bill: The manufacturing sales and use tax exemption is extended to (1) machinery and equipment used for research and development by manufacturers, including installation labor and services; (2) machinery and equipment that is permanently affixed to or becomes a physical part of a building; and (3) materials used in the design and development of aircraft parts, auxiliary aircraft equipment or aircraft modifications for businesses with annual gross sales of less than \$20 million. The sales and use tax exemption for aircraft parts manufacturers is capped at \$100,000 per taxpayer per year.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Sections 1 through 3 take effect on July 1, 1997; Section 4 and 5 take effect on July 1, 1996.

Testimony For: Manufacturing jobs are important to the state's economy. The sales and use tax exemption on replacement parts and repairs, as well as research and development equipment, represents the second portion of an overall tax package to encourage the development and retention of manufacturing jobs. This exemption allows the state to remain in a competitive position when competing for jobs with surrounding states. All types and sizes of manufacturers will benefit from this exemption.

Testimony Against: None.

Testified: (Pro) Representative Van Luven, prime sponsor; Len McComb, Department of Revenue; Larry Young, PACCAR; Tom Dooley, Association of Washington Business; Sam Eazor, Weyerhaeuser Company; David McCraney, Department of Community, Trade, and Economic Development; Robert Taylor, ALCOA; Tom Rankin, Washington Biotech & Biomedical Association; and Bob Dick, Northwest Forest Association.