

# HOUSE BILL REPORT

## HB 2708

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### As Reported By House Committee On:

Finance

**Title:** An act relating to the impact of taxes on warehouse and distribution activity.

**Brief Description:** Requiring a warehouse tax study.

**Sponsors:** Representatives Sheldon, Schoesler, Hatfield, Van Luven, B. Thomas, Silver, D. Schmidt, Cairnes, Cooke and Johnson.

### Brief History:

#### Committee Activity:

Finance: 1/31/96, 2/1/96 [DPS].

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## 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:** Rick Peterson (786-7150).

**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.

Generally, businesses pay sales and use tax on machinery, equipment, and construction of industrial facilities. However, sales and use tax exemptions are available for certain investments.

Buildings, machinery and equipment, and installation labor are exempt on manufacturing, research and development, and computer-related businesses in distressed areas. An exemption is available for new or expanded facilities and machinery and equipment for research and development and pilot-scale manufacturing businesses involved in biotechnology, advanced computing, electronic device technology, advanced materials, and environmental technology. The manufacturing sales and use tax exemption is available state-wide for new and replacement machinery and equipment used directly in a manufacturing operation, including installation labor and services.

These exemptions do not include buildings and machinery and equipment used in a warehouse facility.

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on gross income from business activities conducted within the state. There are several different B&O tax rates, the principal rates are

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

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. The B&O tax is a multi-stage tax. The B&O tax generally applies at the wholesale and retail levels.

**Summary of Substitute Bill:** The Department of Revenue is required to study the impact of warehouse and distribution activity on the Washington economy. As it relates to warehouse and distribution activity, the study shall identify Washington's competitors and evaluate the state's competitive status, analyze the current tax structure, evaluate alternative methods of taxation, identify the effects of tax incentives, and recommend tax changes that might result in more equitable taxation while preserving a stable source of revenue.

The department is required to form an advisory study committee with representation from warehouse and distribution interests, commercial and industrial real estate, agricultural processing, and public ports. The advisory committee shall include two members from the House of Representatives and two members from the Senate. The advisory committee may also include representatives from other groups with an interest in freight movement, and tax policy experts from the academic, legal, and business communities.

The Department of Revenue is required to present a final report to the legislative committees that deal with revenue matters by December 31, 1996. The study is contingent upon a contribution of \$50,000 towards the study's cost from public and private sources other than the state.

**Substitute Bill Compared to Original Bill:** The substitute bill adds the requirement for the \$50,000 contribution from public and private sources other than the state.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** A careful look at the importance of the warehousing and distribution industry to the state's economy is needed. Recently, a large retail chain located its distribution facility in Oregon rather than Washington. All factors favored the Washington site except the sales tax on investment. With this study we have an opportunity to create jobs in Washington.

**Testimony Against:** None.

**Testified:** (in favor) Representative Tim Sheldon, prime sponsor; Scott Taylor, WPPA; Gary Alexander, Port of Olympia; Donald P. Lorentz, Port of Seattle; Russ Segner, Kidder Mathews and Segner; Dennis Matson, Washington Association of Economic Development Council; Enid Layes, Washington State Horticultural Association; Jeff Cox, Washington Retail Association; Mike Lawrence, Harbor Wholesale Grocery; and (with concerns) Maureen Morris, Association of Cities.