

HOUSE BILL REPORT

HB 1714

As Reported By House Committee On:

Trade & Economic Development

Title: An act relating to sales and use tax deferral for construction of new or expanded business.

Brief Description: Providing sales and use tax deferral for new or expanded business operations.

Sponsors: Representatives Thompson, Cairnes, Horn, Elliot, Goldsmith, Reams, Koster, Kessler, Kremen, Basich, Padden and McMahan.

Brief History:

Committee Activity:

Trade & Economic Development: 2/15/95, 3/1/95 [DPS].

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Van Luven, Chairman; Radcliff, Vice Chairman; D. Schmidt, Vice Chairman; Backlund; Ballasiotes; Hickel; Sherstad and Skinner.

Minority Report: Do not pass. Signed by 5 members: Representatives Sheldon, Ranking Minority Member; Voloria, Assistant Ranking Minority Member; Hatfield; Mason and Valle.

Staff: Kenny Pittman (786-7392).

Background: Washington's tax structure includes a retail sales and use tax on the purchase of machinery and equipment, materials, and labor that is necessary to install machinery and equipment and to construct or renovate a structure. The retail sales tax is imposed on items purchased at retail in the state. The use tax is imposed on items used in this state, the acquisition of which was not subject to the retail sales tax, including purchases in other states, purchases from sellers who do not collect sales tax and items produced for use by the producer. The taxes are based on 6.5 percent of the selling price or value of the item or service. Local governments may impose an additional tax up to 1.7 percent.

Summary of Substitute Bill: A statewide retail sales and use tax deferral program for a new or expanded manufacturing operation is created. The deferral applies to state and local sales and use tax on materials and labor, including services necessary for the planning and construction of the project. The tax deferral program is made available after July 1, 1996.

The sales and use taxes are deferred, interest free, for one year after the project is completed. At the end of the one-year period, the manufacturing firm must repay the deferred taxes over a five-year period. Provisions are made to access penalties and interest on deferred taxes that are delinquent.

A "manufacturing operation" is the manufacturing of articles, substances, or commodities for sale as tangible personal property. The term does not include research and development, cogeneration or production of electricity, or the preparation of food products on the premises of a person selling food products at retail.

The Department of Revenue must conduct an assessment and report on the effectiveness of the tax deferral program in 1998, 2001, and 2004.

Substitute Bill Compared to Original Bill: The substitute bill limits the tax deferral to only buildings and reduces the deferral period from a 3-year to 1-year period. Qualified buildings for purposes of the tax deferral are defined. The program start up date is delayed to July 1, 1996.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: We are losing manufacturing jobs due to the sales and use taxes on buildings. This bill is a positive step in revising our taxing of manufacturing in this state.

Testimony Against: None.

Testified: Representative Bill Thompson, Sponsor (Pro).