

FINAL BILL REPORT

HB 2484

PARTIAL VETO

C 247 L 96

Synopsis as Enacted

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.

House Committee on Trade & Economic Development

Senate Committee on Ways & Means

Background: 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 of the sale.

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 item's acquisition was not 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.

An item which becomes an ingredient or component of a new article or property for sale is 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: 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.

Partial Veto Summary: The Governor vetoed the July 1, 1997 effective date of the sales and use tax exemption for manufacturing machinery and equipment used in research and development.

Votes on Final Passage:

House	92	4	
Senate	48	1	(Senate amended)
House	94	4	(House concurred)

Effective: June 6, 1996