

HOUSE BILL REPORT

HB 2774

As Reported By House Committee On:

Finance

Title: An act relating to excise taxation of imprinting advertising on sporting goods.

Brief Description: Providing that imprinting advertising on sporting goods is not manufacturing for purposes of the B&O tax.

Sponsors: Representatives Casada, Pelesky, Hickel, Mitchell, Talcott, Huff, Carrell, B. Thomas, Silver and Thompson.

Brief History:

Committee Activity:

Finance: 1/29/96, 2/5/96 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Hymes; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Minority Report: Do not pass. Signed by 3 members: Representatives Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; and Mason.

Staff: Bob Longman (786-7139).

Background: 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.

Manufacturing is an activity subject to B&O tax. Manufacturing is defined as activities of a commercial or industrial nature wherein labor or skill is applied, by hand or machinery, to materials so that as a result thereof a new, different, or useful substance or article of tangible personal property is produced for sale or commercial or industrial use. Imprinting advertising on sporting goods is manufacturing.

A business that manufactures goods in Washington is subject to B&O tax at 0.506 percent of the value of the products manufactured. If the business also sells the goods

in Washington, it is subject to B&O tax at 0.506 percent for wholesaling and 0.471 percent for retailing. However, a manufacturer can credit the manufacturing tax against the wholesaling or retailing tax, so only one tax is due.

A manufacturer that sells outside Washington is not subject to wholesaling or retailing B&O tax because the sale does not take place in this state. Therefore, a manufacturer that sells outside Washington pays the manufacturing tax. A manufacturer that sells in Washington pays the wholesaling or retailing B&O tax.

Summary of Bill: Imprinting advertising on sporting goods is not manufacturing for purposes of the B&O tax. Therefore, a business that imprints and sells the imprinted sporting goods outside Washington will not owe B&O tax on this activity.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1996.

Testimony For: Washington should not apply manufacturing tax to the entire value of a product when all that is done in this state is to print a name on the product. The same product can be purchased overseas at the same price without paying Washington B&O tax. Imprinting is done in this state only as a convenience to the customer. We have to compete in a world-wide market. Washington's tax puts us at an unfair competitive disadvantage.

Testimony Against: None.

Testified: Representative Sarah Casada, prime sponsor; Representative Grant Pelesky, sponsor; and Ed Schindler, Baden Corporation.