

# HB 1384

## Bill Analysis

February 6, 1997

**Brief Description:** Reducing the penalty for failure to file manufacturing machinery and equipment exemption certificates or annual summaries.

**Bill Sponsors:** Representatives Boldt, Van Luven, Morris, Dunn and Wensman.

**Staff:** Linda Brooks (786-7153)

**Background:** The sales tax is imposed on retail sales of most items of tangible personal property and some services. 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. The combined state and local sales and use tax rate is between 7 percent and 8.6 percent, depending on location.

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 service charges for construction, installation, and repair of property.

In 1995 and 1996 the Legislature enacted new sales and use tax exemptions for machinery and equipment used directly in manufacturing or research and development operations. The sales and use tax exemptions also apply to labor and service charges for installing, repairing, cleaning, altering, or improving the machinery or equipment.

### *Sales Tax Exemption*

To claim a machinery and equipment sales tax exemption, the purchaser must provide:

- (1) A sales tax exemption certificate to the seller which the seller must complete and retain; and
- (2) A copy of the exemption certificate or summary of exempt sales to the Department of Revenue.

### *Use Tax Exemption*

To claim a use tax exemption, the user must provide the Department of Revenue with:

- (1) An exemption certificate; or
- (2) An annual summary listing the machinery and equipment acquired without payment of use tax.

If a purchaser does not comply with the documentation requirements, he or she is liable for repaying the tax exemption to the Department of Revenue.

### **Summary of Bill:**

#### *Sales Tax Exemption*

If a purchaser does not provide a machinery and equipment sales tax exemption certificate to the seller and retain a copy of the certificate or a summary of the exempt sales, then he or she is subject to penalty. The penalty equals ten percent of the value of the tax exemption claimed. The ten percent penalty is in lieu of holding a purchaser liable for fully repaying the sales tax exemption.

#### *Use Tax Exemption*

Similarly, if a purchaser does not provide the Department of Revenue with a machinery and equipment use tax exemption certificate or an annual summary listing machinery and equipment acquired without payment of use tax, then he or she is subject to a ten percent penalty. Again, the penalty is in lieu of holding a purchaser liable for fully repaying the use tax exemption.

**Fiscal Note:** Requested

**Effective Date:** If enacted, bill applies retroactively to July 1, 1995.