

HOUSE BILL REPORT

HB 2930

As Reported By House Committee On:

Finance

Title: An act relating to carbonated beverage taxes.

Brief Description: Crediting carbonated beverage taxes against business and occupation taxes.

Sponsors: Representatives Lisk, Kessler, Van Luven, Morris, Robertson, Doumit, Grant, Carrell, Mulliken, Hatfield, Huff, Quall, Linville, Kastama, Butler, Dunshee, Gardner, Pennington, B. Thomas and O'Brien.

Brief History:

Committee Activity:

Finance: 2/5/98, 2/9/98 [DP].

HOUSE COMMITTEE ON FINANCE

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

Minority Report: Do not pass. Signed by 5 members: Representatives Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Conway; Kastama and Mason.

Staff: Rick Peterson (786-7150).

Background: The business and occupation tax (B&O) is imposed for the privilege of doing business in Washington. The tax is imposed on the gross receipts of all business activities (except utility activities) conducted within the state. B&O tax is deposited in the general fund.

Although there are several different rates, beginning July 1, 1998, the principal rates will be as follows:

Manufacturing/wholesaling	0.484	percent
Retailing	0.471	percent
Services	1.5	percent

In 1989, the Legislature imposed taxes on carbonated beverages and on syrup which is used to make carbonated beverages. These taxes were part of the Omnibus Alcohol and Controlled Substances Act, which also imposed additional taxes on sales of wine, beer, spirits, and cigarettes. Under the 1989 legislation, these taxes were scheduled to expire July 1, 1995.

In 1994, the Legislature enacted the Youth Violence Prevention Act. This act made extensive changes in laws relating to youth violence prevention, drug education, and drug enforcement programs. It also eliminated the expiration date for all of the taxes imposed in the 1989 Omnibus Alcohol and Controlled Substances Act, except the tax on carbonated beverages which was allowed to expire. However, the referendum increased the rate of the tax on beverage syrups from 75 cents to \$1 per gallon. The tax portions of the measure were passed as Referendum 43 on the general election ballot in November 1994.

The carbonated beverage tax is imposed on each wholesale of syrup in this state. The wholesaler collects the tax on each wholesale and pays the tax to the Department of Revenue, but the retailer is the taxpayer. If a retailer purchases syrup from out of state, the retailer pays the syrup tax directly to the Department of Revenue.

The carbonated beverage syrup tax is deposited in the violence reduction and drug enforcement account (VRDE), along with revenue from the other taxes imposed under the 1989 Omnibus Alcohol and Controlled Substances Act. This account is used to support programs directed toward alcohol and drug abuse by youth and adults, including increases in penalties for drug-related crimes, expanded law enforcement authority, expanded education programs, and expanded treatment.

Summary of Bill: A retailer may claim a credit against B&O tax for the amount of carbonated syrup taxes paid. Therefore, revenue to the general fund will be reduced as a result of this bill, but not revenue to the VRDE account.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1998.

Testimony For: The tax cannot be absorbed by the retailer. There is no connection between the item taxed or the taxpayers and the programs funded by the money. This bill keeps the VRDE account whole and is more acceptable than last year's bill.

Testimony Against: None.

Testified: Denny Eliason, McDonald's and ARCO (pro); Kit Hawkins, Restaurant Association of Washington (pro); and Bob Gee, Washington Retail Association and Washington Food Industry (pro).