SENATE BILL REPORT

SB 6270

As Passed Senate, February 12, 1998

Title: An act relating to eliminating the business and occupation tax on internal distributions.

Brief Description: Eliminating the business and occupation tax on internal distributions.

Sponsors: Senators Anderson, Spanel, Swecker, West and Oke; by request of Department of Revenue.

Brief History:
Committee Activity: Ways & Means: 1/20/98, 2/5/98 [DP].
Passed Senate, 2/12/98, 48-0.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Brown, Fraser, Hochstatter, Kohl, Long, Loveland, McDonald, Rossi, Schow, B. Sheldon, Snyder, Spanel, Swecker, Winsley and Zarelli.

Staff: David Schumacher (786-7474)

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

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

Manufacturing/wholesaling	0.484%
Retailing	0.471%
Services	1.5%

The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. For this reason, the tax pyramids at each level of activity. For example, retailers are not allowed to deduct amounts paid to wholesalers, and contractors are not allowed to deduct amounts paid to a subcontractor.

Firms distributing merchandise from their own warehouses to two or more of their own retail stores must pay a B&O tax on the value of the articles distributed. This "internal distributions" tax applies (at the 0.484 wholesaling rate) to integrated firms that perform wholesale functions but that are not technically wholesalers.

The intent of the internal distributions tax is to tax both independent wholesalers and integrated firms in the same way. The tax is now being avoided by large integrated retailers who have restructured to provide a subsidiary or other entity to operate the warehouse.

Summary of Bill: The "internal distributions" tax is eliminated.

Appropriation: None.

Fiscal Note: Requested on January 19, 1998.

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

Testimony For: Large businesses now have the ability to restructure and avoid the tax. This has led to an inequitable situation between the large and small businesses of the state that should be addressed.

Testimony Against: None.

Testified: Jim Hedrick, Department of Revenue (pro).