

# HOUSE BILL REPORT

## HB 2519

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### As Passed Legislature

**Title:** An act relating to simplifying the excise tax code through revising terminology, correcting mistakes, streamlining procedures, and deleting obsolete provisions.

**Brief Description:** Simplifying the excise tax code.

**Sponsors:** Representatives Lovick, Fortunato, Dunshee, Thomas, Haigh and Kenney; by request of Department of Revenue.

### Brief History:

#### Committee Activity:

Finance: 1/27/00, 2/1/00 [DP].

#### Floor Activity:

Passed House: 2/8/00, 97-0.

Passed Senate: 2/29/00, 45-0.

Passed Legislature.

### Brief Summary of Bill

- Allows the Department of Revenue to disclose tax owed on properties involved in real estate transactions;
- Makes deadlines for remitting state 911 taxes the same as the deadlines for remitting other excise taxes;
- Permits the Department of Revenue to assess and collect unpaid watercraft excise taxes;
- Specifies that a change in ownership does not affect the deferral of sales and use taxes on facilities constructed under various tax incentive programs; and
- States that "help desk" or software/programming businesses in rural counties that fail to file annual reports do not lose their eligibility for business and occupation tax credits.

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HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 12 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Cairnes, Republican Vice Chair; Reardon, Democratic Vice Chair; Carrell; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

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

**Background:**

*Information Disclosure*

When real estate transactions occur, a title company searches records to determine whether there are any liens, judgments, or warrants for unpaid taxes filed against a property. A title company obtains this information from court documents and other legal records, because the Department of Revenue (DOR) is generally prohibited from disclosing information about taxpayers. Although the DOR may disclose the name of a taxpayer against whom a tax warrant for more than \$5,000 has been filed, the DOR cannot disclose the actual amount of tax owed.

*State 911 Taxes*

The state imposes a 20 cent per month tax on each telephone switched access line to help fund enhanced 911 emergency services. Telephone companies collect these taxes for the state. The telephone companies must remit the tax revenues to the DOR by the last day of the following month.

*Watercraft Excise Taxes*

Owners of recreational boats pay a watercraft excise tax in lieu of property taxes. This tax is collected by the Department of Licensing. In 1999, the Legislature increased penalties on persons who avoid paying Washington taxes by registering their vehicles, aircraft, or watercraft in another state or nation. Although the Department of Licensing collects current taxes, the Department of Licensing does not collect back taxes. Prior to the 1999 legislation, the DOR was authorized to collect unpaid back taxes, penalties, and interests.

*Distressed Areas Tax Incentives*

Washington has developed various tax incentives designed to assist in job creation or retention in rural counties. A business that constructs a manufacturing or research and development facility in a rural county may defer sales and uses taxes on materials and labor used in the construction. A business may also qualify for similar tax deferrals for facilities constructed in a community empowerment zone (CEZ) or a county containing a CEZ if the business hires residents of a CEZ to work at the new

facility. A pro-rata share of the deferred taxes must be repaid if eligibility criteria are not met during an 8-year period following completion of a facility. After eight years, the deferred taxes are waived.

A manufacturing or research and development business that constructs a facility in a rural county, a CEZ, or a county containing a CEZ, may also qualify for Business and Occupation (B&O) tax credits. The amount of the credit depends on the amount of money invested in constructing a new facility, the number of jobs created, and the wages paid to new employees. For the purpose of administering these B&O tax credits, the Department of Labor and Industries must certify wage and employment data to the DOR.

#### *High Technology Tax Incentives*

The high technology tax incentives were enacted in 1994 to encourage the location, expansion, and development of "high-tech" research and development and pilot scale manufacturing businesses statewide. High-tech businesses that invest a certain amount of their gross receipts in research and development qualify for B&O tax credits. The high-tech businesses also may defer sales and use taxes associated with the acquisition of new machinery and equipment or the construction of new or expanded structures. A pro-rata share of the deferred taxes must be repaid if a portion of a facility is used for other than qualified research and development or pilot-scale manufacturing during the 8-year period following completion of a facility. After eight years, the deferred taxes are waived.

#### *Tax Credits for Rural Help Desk/Software Businesses*

In 1999, the Legislature created B&O tax credits for businesses located in rural counties that provide information technology "help desk" services. The Legislature also established B&O tax credits for each software manufacturing or computer programming job created in a rural county.

Businesses claiming either "help desk" or software/programming B&O tax credits are required to file an annual report with the DOR.

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### **Summary of Bill:**

#### *Information Disclosure*

The DOR may disclose current amounts due the department for filed tax warrants, judgments, or liens against a property to financial institutions, escrow companies, or title companies, if the property is the subject of a real estate transaction.

### *State 911 Taxes*

The deadlines for remitting state 911 taxes to the DOR are made the same as the deadlines for remitting sales taxes, B&O taxes, and other excise taxes. For example, if a taxpayer files a quarterly tax return, then the taxpayer would remit state 911 taxes quarterly.

### *Watercraft Excise Taxes*

The DOR is allowed to assess and collect unpaid watercraft excise taxes, penalties, and interest.

### *Distressed Areas Tax Incentives*

A change in ownership of a manufacturing or research and development facility does not affect the deferral of sales and use taxes, if a new owner continues to meet eligibility requirements for the tax deferrals or credits. In regards to the B&O tax credits, the Department of Labor and Industries only certifies wage and employment data for a facility if a request is made by the DOR.

### *High Technology Tax Incentives*

A business's insolvency or other failure does not extinguish the business's debt for any deferred taxes. Also, a change in ownership does not affect the deferral of sales and use taxes, if a new owner continues to meet eligibility requirements for the tax deferrals or credits.

### *Tax Credits for Rural Help Desk/Software Businesses*

A "help desk" or software/programming business that fails to file an annual report with the DOR does not lose its eligibility for the B&O tax credits. However, the DOR will contact each business that fails to file a report to assist the business in filing a report so that data and information necessary to measure the tax credit program's effectiveness is maintained.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2000.

**Testimony For:** The proposed changes can be described as housekeeping legislation. We have reviewed the excise tax code and looked for ways to make it work in a more common sense fashion.

**Testimony Against:** None.

**Testified:** Representative John Lovick, prime sponsor; and Tim Sekerak, Department of Revenue.