

FINAL BILL REPORT

HB 2261

C 212 L 99

Synopsis as Enacted

Brief Description: Clarifying the phrase "services rendered in respect to constructing" for business and occupation tax purposes.

Sponsors: Representatives Reardon, Cairnes and Santos; by request of Department of Revenue.

House Committee on Finance
Senate Committee on Ways & Means

Background: Washington's major business tax is the business and occupation (B&O) tax. Although there are several different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for wholesaling, and 1.5 percent for service activity.

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 or service has not been subject to sales tax. Taxable services include construction, repair, telephone, and some recreation and amusement services. The combined state and local sales and use tax rate is between 7 and 8.6 percent, depending on location.

Generally, sales tax applies to construction activity. Prime contractors are hired to construct buildings for consumers. The prime contractor collects sales tax from the consumer on the full contract price for the construction. The full contract price includes all the costs of construction including the prime contractor's profit and charges paid by the contractor for engineering, architectural, surveying, and other services.

Materials and subcontractor services purchased by the contractor are purchases for resale, and sales tax is not collected. Suppliers and subcontractors pay wholesaling B&O tax on these transactions.

Summary:

Services sold to contractors are treated as wholesales only if they are directly related to construction, building, repairing, improving, and decorating of buildings or structures.

The services B&O rate (1.5 percent) applies to engineering, architectural, surveying, flagging, accounting, legal, consulting, and administrative services when these services are sold to the construction industry.

Votes on Final Passage:

House 96 0

Senate 46 1

Effective: July 25, 1999