

SENATE BILL REPORT

SB 6100

As Reported By Senate Committee On:
Ways & Means, April 18, 2005

Title: An act relating to revenue and taxation.

Brief Description: Regarding revenue and taxation.

Sponsors: Senator Prentice.

Brief History:

Committee Activity: Ways & Means: 3/28/05, 4/18/05 [DPS, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6100 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Fairley, Kohl-Welles, Pridemore, Rasmussen, Regala, Rockefeller and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Brandland, Hewitt, Parlette, Pflug, Roach and Schoesler.

Staff: Terry Wilson (786-7433)

Background: Extended Warranties. The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. Taxable services include construction, repair, telephone, lodging of less than 30 days, restaurant meals, physical fitness, and some amusement and recreation services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms.

The state imposes a general tax of 6.5 percent of the selling price in the case of the sales tax and of the value of the article used in the case of the use tax. Cities, counties, and other taxing districts may impose sales and use taxes at various rates. The total state and local sales and use tax rates imposed are between 7 percent and 8.9 percent, depending on the location.

The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are no deductions for the costs of doing business. Persons engaged in retailing collect the sales tax from consumers and pay the retailing B&O tax at the rate of 0.471 percent. Persons performing services do not collect the sales tax and pay the service B&O tax at the rate of 1.5 percent.

The sales tax applies to manufacturer's warranties that are included in the retail selling price of an article. The sales tax does not apply to non-manufacturer's warranties and manufacturer's warranties not included on the retailing selling price of an article.

Liquor Liter Tax. The liquor liter tax is imposed at the rate of \$2.4408 per liter. Revenues generated by the first \$1.9608 per liter are deposited in the general fund. Revenues generated by \$0.07 per liter are dedicated to youth violence prevention and drug enforcement. The remaining \$0.41 per liter is deposited in the health services account.

Meat Processing. In 1967, the legislature authorized a preferential B&O tax rate for slaughtering, breaking, and/or processing perishable meat products and/or selling the same at wholesale. The tax rate currently is 0.138 percent rather than the general manufacturing rate of 0.484 percent. Since its enactment, the Department of Revenue has allowed this preferential tax rate to be taken only if the finished product was a perishable meat product. On January 13, 2005, in Agrilink Foods, Inc. v. Department of Revenue, Docket No. 74478-5, the state supreme court held that the preferential B&O tax rate on the slaughtering, breaking, and/or processing of perishable meat products applied to the processing of perishable meat products into nonperishable meat products, such as canned food.

Nursing Home Maintenance Fee. Historically, state Medicaid programs have used a variety of mechanisms such as provider taxes, provider donations, and intergovernmental transfers to increase federal Medicaid revenues. The federal government has placed restrictions on these mechanisms, in order to limit the extent to which states may use federal funds to cover the state share of Medicaid costs. These restrictions include requirements that provider taxes be broad-based, which means the tax must apply to all providers of the same class, regardless of whether the provider participates in Medicaid or not. Provider taxes must also be imposed at a uniform rate, and they may not include any direct or indirect "hold harmless" provision which guarantees repayment of the tax to all providers.

In 2003, the state levied a new tax of \$6.50 per patient day of care on nursing homes. The tax applies to all patient days of care, except those paid by the federal Medicare program. The tax does not apply to nursing homes owned and operated by public agencies. It also does not apply to thirty-six private facilities the federal government agreed could be exempted from the tax without violating Medicaid federal rules.

The tax generates approximately \$34 million per year of revenue for the state general fund. Medicaid payment rates were increased in 2003 to cover the cost of the tax on patient days of care paid by the state Medicaid program. After accounting for the state share of that increased Medicaid payment, net state revenues from the tax total about \$22 million per year.

Summary of Substitute Bill: Extended Warranties. Warranties that are not included in the selling price of articles of tangible personal property are included in the definition of retail sale. As a result, the sales and use tax applies to the retail sale and use of these warranties. This includes warranties sold on property the repair of which is exempt from sales and use taxes. In addition, the seller's B&O tax rate will change from the 1.5 percent service rate to the 0.471 percent retailing rate.

Liquor Liter Tax. An additional tax is imposed on liquor at the rate of \$1.33 per liter on all sales except sales to restaurant licensees. The additional tax is distributed 98.0 percent to the

general fund, 1.85 percent to the health services account and 0.15 percent to the violence reduction and drug enforcement account.

Meat Processing. The preferential tax rate for manufacturing and wholesaling of meat products is limited to activities where: (1) the finished products are a perishable meat product; (2) dehydration, curing or smoking is used to produce a finished meat product that is not canned; or (3) hides, tallow, meat meal and other meat by-products are produced at a licensed rendering plant.

Nursing Home Quality Maintenance Fee. The quality maintenance fee is reduced to \$4.50 for the 2005-07 biennium, \$3.00 for the 2007-09 biennium and \$1.50 for the 2009-11 biennium. After July 1, 2011, the fee is no longer imposed.

Substitute Bill Compared to Original Bill: In the substitute bill, distributions are provided to the health service's account and violence reduction and drug enforcement account to keep them whole from the elasticity effects of the price increase in liquor and the additional liquor liter tax is increased by \$0.33 to \$1.33 to exempt sales to restaurant licensees.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Testimony For: None.

Testimony Against: There should be no new taxes. Liquor taxes target only one sector of the community.

Other: Washington ranks second in the nation on distilled spirit taxes. This will make Washington the highest.

Who Testified: CON: Tom McBride, Association of Washington Business. OTHER: Dave Ducharme, Distilled Spirits Council of U.S.