

# HOUSE BILL REPORT

## HB 1154

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**As Reported by House Committee On:**  
Technology & Economic Development  
Finance

**Title:** An act relating to ensuring the competitiveness of Washington state's fishing and seafood processing industries by supporting the recapitalization of fishing fleets through certain tax preferences.

**Brief Description:** Ensuring the competitiveness of Washington state's fishing and seafood processing industries by supporting the recapitalization of fishing fleets through certain tax preferences.

**Sponsors:** Representatives Tarleton, Smith and Santos.

**Brief History:**

**Committee Activity:**

Technology & Economic Development: 1/18/17, 2/1/17 [DP];  
Finance: 2/14/17, 1/30/18 [DPS].

**Brief Summary of Substitute Bill**

- Provides a preferential business and occupation tax rate for manufacturers of qualified vessels or components of qualified vessels.
- Makes the Multiple Activities Tax Credit applicable to manufacturers of qualified vessels or components of qualified vessels when the qualified vessels or components are sold in the state at retail or wholesale.

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### HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

**Majority Report:** Do pass. Signed by 15 members: Representatives Morris, Chair; Kloba, Vice Chair; Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Doglio, Fey, Harmsworth, Hudgins, McDonald, Nealey, Santos, Slatter, Steele, Wylie and Young.

**Staff:** Kirsten Lee (786-7133).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## **Background:**

### The Magnuson-Stevens Fishery Conservation and Management Act.

The federal Magnuson-Stevens Fishery Conservation and Management Act (Act) established eight regional councils to federally manage United States waters in the 200-mile off-shore Exclusive Economic Zone (EEZ). Under the Act, the North Pacific Fishery Management Council and Pacific Fishery Management Council were established and have the authority to protect the fisheries, within the EEZ waters off the coasts of Alaska, Washington, Oregon, and California, by controlling the number of boats that are authorized to harvest fish from the waters. This control has been exercised by defining a quota for legal catch for each fishery and prohibiting any new fishing vessels from being built except under specific conditions.

### Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. 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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and activities not classified elsewhere. Several lower rates also apply to specific business activities.

### Multiple Activities Tax Credit.

When a business performs more than one taxable activity for the same product, it reports each activity under the proper classification, but takes the Multiple Activities Tax Credit (MATC), so the B&O tax is not paid twice on the same amount. For instance, a business that both manufactures and sells a product at wholesale in Washington does not pay both manufacturing and wholesaling B&O tax. The MATC also applies to a business that has paid a gross receipt tax to another state.

### Tax Preference Performance Statement and Expiration Date.

All new tax preference legislation must include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

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## **Summary of Bill:**

### Business & Occupation Tax Preference.

A B&O tax preferential rate of 0.2904 percent is provided for manufacturers and processors-for-hire of qualified vessels, components of qualified vessels, or sales, at retail or wholesale, of qualified vessels or components of qualified vessels that are manufactured by the seller. Qualified manufacturers and processors-for-hire are also allowed a MATC.

The manufacturer or processor-for-hire must obtain documentation from the buyer to provide to the Department of Revenue, showing that the vessel meets the definition of a "qualified vessel" or that the component being installed will be installed in a "qualified vessel."

Definitions.

"Qualified vessel" means a vessel that is limited to participation in rationalized federal fisheries under the jurisdiction of the Pacific or North Pacific Fishery Management Councils or state-managed limited entry fisheries. Questions as to a fishery's status as a rationalized fishery must be determined by the Washington Department of Fish and Wildlife.

"Rationalized fishery" means a federally managed fishery in which all participants are allocated a proportion of the harvest either through an individual share or through participation in a cooperative and, therefore, are not competing for harvest. State-managed limited entry fisheries are fisheries managed by Alaska, Oregon, or Washington, occurring in either federal or state waters, in which a fixed number of participants are authorized to harvest.

Tax Preference Performance Statement and Expiration Date.

A tax preference performance statement provides that the goal of the tax incentives is to improve industry competitiveness, specifically through increasing long-term industry competitiveness, economic activity, and jobs related to the maritime industry, by providing a tax preference for recapitalizing the commercial fishing fleet. To measure the effectiveness of the tax preference, the JLARC must evaluate whether the number of qualified vessels manufactured in the state has increased since enactment of the tax preference. The JLARC may refer to data available from the Department of Commerce to perform the review. If the number of qualified vessels has increased, the JLARC must recommend extending the expiration date of the tax preference.

The modification to the MATC required for the new preferential tax rate is exempt from the requirement to include a tax preference performance statement and expiration date.

The tax preference expires on July 1, 2025.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2017.

**Staff Summary of Public Testimony:**

(In support) Aging fishing fleets need to be rebuilt, and it is important that Washington is positioned to be competitive for these projects. There are great job opportunities here. There are approximately 250 vessels that need to be rebuilt, which means there is the potential to bring over \$1 billion into the state through the projects required to rebuild these vessels. The vessel projects stand to create 500 to 700 well-paying jobs. The median pay in the maritime industry is \$70,000 and is \$80,000 for the seafood processing industry. These vessels have to be built in the United States, but do not have to be built in Washington. We have the people, yards, support, and resources to complete these projects. The issue is ensuring that Washington is positioned competitively for these projects, including having the ability to control costs. This bill ensures that Washington is competitive.

(Opposed) None.

**Persons Testifying:** Representative Tarleton, prime sponsor; John Creighton, Port of Seattle; Keith Whittmore, Vigor Industrial; and Steve Sewell, Washington Maritime Federation.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Lytton, Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Frame, Vice Chair.

**Staff:** Tracey O'Brien (786-7152).

### **Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology & Economic Development:**

The effective date of the substitute bill is changed to July 1, 2019. The preferential business and occupation tax rate expires July 1, 2027.

**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on January 31, 2018.

**Effective Date of Substitute Bill:** The substitute bill takes effect on July 1, 2019.

### **Staff Summary of Public Testimony:**

See House Bill Report in the 2017 Legislative Session.

### **Persons Testifying:**

See House Bill Report in the 2017 Legislative Session.

**Persons Signed In To Testify But Not Testifying:**

See House Bill Report in the 2017 Legislative Session.