

# SENATE BILL REPORT

## SB 5888

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As of April 18, 2017

**Title:** An act relating to lowering the ceiling of the business and occupation manufacturing tax rate to 0.2904 percent.

**Brief Description:** Lowering the ceiling of the business and occupation manufacturing tax rate to 0.2904 percent.

**Sponsors:** Senators Baumgartner, Hobbs, Takko, Sheldon and Padden.

**Brief History:**

**Committee Activity:** Ways & Means: 4/19/17.

<p style="text-align: center;"><b>Brief Summary of Bill</b></p> <ul style="list-style-type: none"><li>• Reduces the general manufacturing business and occupation tax rate and the processing for hire rate from 0.484 percent to 0.2904 percent.</li></ul>
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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dean Carlson (786-7305)

**Background:** 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.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O 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 preferential rates also apply to specific business activities.

Manufacturing Classification of the Business and Occupation Tax. For B&O tax purposes, the term "manufacturer" means every person who, either directly or by contracting with others for the necessary labor or mechanical services, manufactures for sale or for commercial or industrial use from the person's own materials or ingredients any articles, substances, or commodities, and the term "to manufacture" means all activities of a

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commercial or industrial nature wherein labor or skill is applied, by hand or machinery, to materials so that as a result thereof a new, different or useful substance or article of tangible personal property is produced for sale or commercial or industrial use.

The general manufacturing B&O rate is 0.484 percent; however, there are several preferential rates in the manufacturing sector for more specific manufacturing activities as follows:

- commercial aircraft manufacturing - 0.2904 percent;
- wood biomass fuel manufacturing - 0.138 percent;
- manufacturing wheat into flour, barley into pearl barley, soybeans into soybean oil, or sunflower seeds into sunflower oil - 0.138 percent;
- splitting or processing dried peas - 0.138 percent;
- manufacturing seafood products, dairy products, and fresh fruits and vegetables—exempt until 2025—2025 and thereafter - 0.138 percent;
- slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale - 0.138 percent;
- manufacturing Timber or Wood Products - 0.2904 percent;
- manufacturing Semiconductor Materials - 0.275 percent; and
- manufacturing Solar Energy Systems and Components of Solar Energy Systems - 0.275 percent.

**Summary of Bill:** The general manufacturing business and occupation tax rate, and the processing for hire B&O tax rate are each reduced from 0.484 percent to 0.2904 percent.

The new B&O rates for manufacturing and processing for hire are permanent.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** The bill takes effect on January 1, 2018.