

# HB 1887

## Bill Analysis

March 4, 1999

**Brief Description:** Revising the machinery and equipment tax exemption for manufacturers and processors for hire.

**Bill Sponsors:** Representatives Kessler, Lisk, Grant, Wensman, Wolfe and Pennington; by request of Department of Revenue.

### Brief Summary of Bill

- Explicitly includes logging and rock crushing equipment in the sales and use tax exemption for manufacturing machinery and equipment.
- Directs the Department of Revenue to develop a rule for determining the sales and use tax exemption for machinery and equipment used for both manufacturing and other purposes.
- Exempts from sales and use tax machinery and equipment used to test manufactured products.

**Staff:** Rick Peterson, 786-7150.

### Background:

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. The combined state and local sales and use tax rate is between 7 and 8.6 percent, depending on location.

Major items exempt from sales and use tax include most food for human consumption,

prescription drugs, motor vehicle fuel, utility services, professional services (e.g. medical, legal), certain business services (e.g. accounting, engineering), and items that become a component of another product for sale.

Machinery and equipment sold to a manufacturer or a processor for hire that is directly used in a manufacturing operation or research and development operation is exempt from sales tax and use tax. This exemption was enacted July 1, 1995.

There has been some disagreement about which activities are eligible for the manufacturing sales and use tax exemption. On January 16, 1996, the Department of Revenue issued a special notice explaining that logging equipment was not eligible for the exemption. They stated that logging was an extracting activity not a manufacturing activity. The Department of Revenue has changed their position and now believes that logging equipment is eligible for exemption. In addition, the Department's current interpretation is that rock crushing equipment is also exempt.

Equipment used directly in manufacturing and also used for other purposes is called "dual use" property. The sales tax exemption for manufacturing equipment does not explicitly state the share of use in manufacturing required for exemption.

**Summary of Bill:**

The definition of manufacturing is modified to include the cutting, delimiting, and measuring of felled, cut, or taken trees, and the crushing and/or blending of rock, sand, stone, gravel, or ore. This change makes certain logging and rock crushing activity eligible for the manufacturing machinery and equipment sales tax exemption.

The Department of Revenue is directed to develop a method by rule for determining the sales tax exemption for dual use machinery and equipment.

The provisions related to logging, rock crushing, and dual use equipment are made retroactive to allow refunds to persons who previously paid the sales or use tax.

Businesses that test products for manufacturers are exempt from sales and use tax on the machinery and equipment used in a testing operation.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect July 1, 1999.