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**Finance Committee**

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**HB 3154**

**Brief Description:** Eliminating the expiration dates on tax exemptions for water services supplied by certain water-sewer districts and irrigation districts.

**Sponsors:** Representatives Morrell, Bush, Sehlin, Hatfield, Edwards and Talcott.

**Brief Summary of Bill**

- Extends indefinitely the exemptions under the public utility tax and business and occupation tax for water-sewer districts and irrigation districts that provide water services to small customer bases.

**Hearing Date:** 2/9/04

**Staff:** Mark Matteson (786-7145).

**Background:**

Public and privately-owned utilities, including water distribution businesses, are subject to the state public utility tax (PUT). The PUT is applied to the gross receipts of the business. For water distribution businesses, the applicable tax rate is 5.029 percent. Revenues are deposited to the state general fund.

The business and occupation (B&O) tax is Washington State's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Firms that provide services are generally taxed at a rate of 1.5 percent.

Neither the PUT nor the B&O tax permits deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, a number of exemptions, credits, deductions, and other preferences have been enacted for specific types of business activities under the PUT and B&O tax statutes. One example is the small utility exemption under the PUT. Utility businesses that earn \$2,000 or less on a monthly basis are exempt from paying the PUT.

In 1997, the Legislature enacted legislation that exempted certain businesses from paying public utility and B&O taxes on amounts received for water services. The legislation, which was further amended in 1998, applies to:

1. Water-sewer districts and irrigation districts that:
  - a. Serve fewer than 1,500 connections; and
  - b. Charge a residential water rate exceeding 125 percent of the average statewide water rate.
2. Water systems owned or operated by a satellite system management agency that:
  - a. Serve fewer than 200 connections; and
  - b. Charge a residential water rate exceeding 125 percent of the average statewide water rate.

A water system or irrigation district claiming these tax exemptions must supply proof to the Department of Revenue (DOR) that at least 90 percent of the value of the tax exemptions will be used to repair, equip, upgrade, or maintain the system. The tax exemptions expire on July 1, 2004.

Data from the DOR indicates that approximately 58 districts or businesses that provide water services have taken the exemption on an annually basis, resulting in a total taxpayer savings of about \$230,000 annually.

**Summary of Bill:**

The exemptions under the PUT and the B&O tax for water-sewer districts and irrigation districts that provide water services to small customer bases are extended indefinitely.

**Appropriation:** None.

**Fiscal Note:** Requested on February 3, 2004.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.