HOUSE BILL REPORT
HB 2671

As Passed Legislature

Title: An act relating to providing excise tax relief by modifying due dates and eliminating an assessment penalty.

Brief Description: Providing excise tax relief by modifying due dates and eliminating an assessment penalty.

Sponsors: By Representatives Ericks, Kessler, Simpson, Clibborn, Morrell, Springer, Dunn and Wallace; by request of Governor Gregoire.

Brief History:

Committee Activity:

Finance: 1/18/06, 1/27/06 [DP].

Floor Activity:

Passed House: 2/10/06, 98-0.
Senate Amended.
Passed Senate: 3/7/06, 47-0.
House Concurred.
Passed House: 3/8/06, 98-0.
Passed Legislature.

Brief Summary of Bill

- Requires payment of state excise taxes by the 25th day of the month instead of the 20th.
- Eliminates a 5 percent penalty for billings of unpaid state excise taxes, unless the amount paid is less than 80 percent of the tax due and the amount of underpayment is at least $1,000.
- Modifies electronic funds transfer procedures for payment of state excise taxes.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 10 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa and Santos.

Staff: Bob Longman (786-7139).

Background:

The Department of Revenue (DOR) collects the state's major excise taxes, such as the retail sales tax and the business and occupation (B&O) tax. For large businesses, excise taxes must be paid monthly. The due date is the 20th day of each month for activity in the previous month. In 2003, the Legislature changed the due date for monthly tax returns from the 25th to the 20th day. The DOR is authorized by statute to allow smaller businesses to report taxes quarterly or annually. Quarterly and annual returns are due by the end of the month following the end of the reporting period.

Penalties are imposed if taxes are not paid on time. In 2003, the Legislature increased penalties for late excise taxes. A new penalty of 5 percent was applied to any billing or assessment of unpaid tax by the DOR. If taxes remain unpaid, the penalties increase over time.

In 1990, the Legislature required taxpayers with an annual tax liability of more than $240,000 to make payment of their excise tax returns using electronic funds transfer (EFT). In 1999, the Legislature allowed any taxpayer to make payment using electronic funds. An EFT payment must be completed so that the state receives the collectible funds on or before the next banking day after the due date.

Summary of Bill:

Taxpayers filing monthly excise tax returns are required to report and pay taxes by the 25th of the month rather than the 20th. This change applies to tax returns due after July 31, 2006.

The 5 percent penalty for a billing of unpaid state excise taxes applies only if there is a "substantial underpayment." A substantial underpayment occurs when the payment is less than 80 percent of the tax due and the amount of underpayment is at least $1,000. This change applies to tax assessments originally issued after June 30, 2006.

If a taxpayer uses the automated clearinghouse debit procedure for an EFT, the payment will be deemed to have been received on the due date if the taxpayer initiates the transfer on or before 11:59 p.m. Pacific time on the due date with a payment effective date on or before the next banking day after the due date. A legislative findings section recites the DOR's understanding of the automated clearinghouse procedure. These EFT provisions apply to payments due after July 31, 2006.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed, except sections 1 through 4, relating to due dates, which take effect August 1, 2006 and sections 5 through 7, relating to penalties, which take effect July 1, 2006.

Testimony For: The 5 percent mandatory penalty included on DOR billings and the due date of the 20th of the month are burdensome for businesses, especially small businesses. The penalty is unfair because it applies even to math errors or minor errors. Washington is the only state with a penalty like this. The early due date required companies to send in thousands of dollars of taxes on money that hadn't even been collected yet, due to billing cycles. These changes should never have been made in 2003.

Testimony Against: None.

Persons Testifying: Representative Ericks, prime sponsor; Cindi Holmstrom, Department of Revenue; Amber Carter, Association of Washington Business; Mark Johnson, Washington Retail Association; Gary Smith, Independent Business Association; and Carolyn Logue, National Federation of Independent Business.

Persons Signed In To Testify But Not Testifying: None.