
Finance Committee

HB 1769

Brief Description: Providing retailers with an allowance for sales and use tax collection costs.

Sponsors: Representatives Ericks, Strow, Simpson and Linville.

<p>Brief Summary of Bill</p> <ul style="list-style-type: none">• Provides retailers with an allowance for sales and use tax collection costs.
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Hearing Date: 2/6/07

Staff: Jeff Mitchell (786-7139).

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

Retail sales tax is collected from purchasers by retail vendors at the time of sale using tax rate schedules supplied by the Department of Revenue (DOR). Sales tax receipts are legally considered as trust funds of the state. Total transactions are reported on the seller's tax return and receipts are forwarded to the DOR on a monthly, quarterly, or annual basis.

State or local retail sales taxes are imposed by 46 states, the District of Columbia, and approximately 7,400 local jurisdictions in the United States.

In 1998, the DOR conducted a study to determine the cost incurred by retailers in collecting and remitting state and local sales taxes in Washington state. The study identified and measured the costs that retailers face in collecting and remitting state and local sales tax. The study also estimated the costs of implementing a sales tax rate or base change and measured both direct and

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indirect compensation that retailers currently receive. The study measured these costs and benefits for large, medium, and small taxpayers. Small retailers were defined as retailers with gross retail sales between \$150,000 and \$400,000. Medium-sized retailers were defined as those with annual gross retail sales between \$400,000 and \$1,500,000, and large taxpayers were those with annual gross retail sales over \$1,500,000. The study found that the annual cost of collecting and remitting sales tax as a percentage of total state and local sales tax collections was 6.47 percent for small retailers, 3.35 percent for medium retailers, and 0.97 percent for large retailers. The average annual state and local sales tax collections for the survey respondents were \$18,352 for small retailers, \$51,662 for medium retailers, and \$68,765 for large retailers.

In 2004, at the request of the Council on State Taxation, Federated Department Stores, Federation of Tax Administrators, J.C. Penney Corporation, Inc., Multistate Tax Commission, National Conference of State Legislatures, National Retail Federation, Radioshack, Inc., Streamlined Sales Tax Project, and Wal-Mart Stores, Inc., Pricewaterhouse Coopers LLP conducted a study of state and local retail sales tax compliance costs in the United States. For reporting purposes, the study divided retailers into three size categories based on annual retail sales: small (between \$150,000 and \$1,000,000); medium (between \$1,000,000 and \$10,000,000); and large (more than \$10,000,000). The study found that the annual cost of state and local retail sales tax compliance in 2003 as a percentage of total state and local sales tax collected was 13.47 percent for small retailers; 5.2 percent for medium retailers; and 2.17 percent for large retailers. The study found that average sales tax compliance cost was more than six times greater for small retailers than for large retailers.

The Washington Award for Vocational Excellence program is an annual program that was established in 1984. The purpose of this program is to recognize and honor students in community colleges, technical colleges, and high school vocational programs, who have distinguished themselves through outstanding performance. One hundred forty-seven students receive the award each year. The work force training and education coordinating board administers the program. Recipients of the award may receive a grant for up to two years of educational costs at a postsecondary institution located in the state of Washington.

Summary of Bill:

A tax credit is authorized for sellers as an allowance for sales and use tax collection costs. The seller's credit is equal to 90 percent of 1.5 percent multiplied by the seller's total state and local general sales tax liability for a reporting period. An amount equal to the remaining 10 percent is dedicated to the WAVE program. The revenue decrease from the tax credit and contribution to the WAVE program does not reduce municipal tax distributions.

Appropriation: None.

Fiscal Note: Requested on January 29, 2007.

Effective Date: The bill takes effect on October 1, 2007.