

HOUSE BILL REPORT

HB 2182

As Reported by House Committee On:
Technology & Economic Development
Finance

Title: An act relating to ensuring the competitiveness of Washington state's fishing and seafood processing industries by supporting the recapitalization of fishing fleets through certain tax preferences.

Brief Description: Ensuring the competitiveness of Washington state's fishing and seafood processing industries by supporting the recapitalization of fishing fleets through certain tax preferences.

Sponsors: Representatives Tarleton, Smith, Takko, Pike, Clibborn, Zeiger, Hayes, Young, Fey, Sells and Blake.

Brief History:

Committee Activity:

Technology & Economic Development: 3/11/15, 1/21/16, 1/26/16 [DPS];
Finance: 2/5/16, 2/8/16 [DP2S(w/o sub TED)].

Brief Summary of Second Substitute Bill

- Provides a preferential business and occupation tax rate for manufacturers of qualified vessels or components of qualified vessels.
- Preserves the Multiple Activities Tax Credit for manufacturers of qualified vessels or components of qualified vessels when the qualified vessels or components are sold in state at retail or wholesale.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Morris, Chair; Tarleton, Vice Chair; Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Fey, Hudgins, Magendanz, Nealey, Rossetti, Santos, Wylie and Young.

Staff: Dominique Meyers (786-7150).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

Magnuson-Stevens Fishery Conservation and Management Act.

The Magnuson-Stevens Fishery Conservation and Management Act (Act) was enacted in 1976 and established eight regional councils to federally manage United States waters in the 200-mile off-shore Exclusive Economic Zone (EEZ). Under the Act, the North Pacific Fishery Management Council and Pacific Fishery Management Council were established and have the authority to protect the fisheries, within the EEZ waters off the coasts of Alaska, Washington, Oregon, and California, by controlling the number of boats that are authorized to harvest fish from the waters. This control has been exercised by defining a quota for legal catch for each fishery and prohibiting any new fishing vessels to be built except under specific conditions.

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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major 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 lower rates also apply to specific business activities.

Multiple Activities Tax Credit.

When a business performs more than one taxable activity for the same product, it reports each activity under the proper classification, but takes the Multiple Activities Tax Credit (MATC) so the B&O tax is not paid twice on the same amount. For instance, a business that both manufactures and sells a product at wholesale in Washington does not pay both manufacturing and wholesaling B&O tax. The MATC also applies to a business that has paid a gross receipt tax to another state.

Tax Preference Performance Statement.

In 2013 legislation was enacted requiring all new tax preference legislation to include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

Summary of Substitute Bill:

Business & Occupation Tax Preference.

A B&O tax preferential rate of 0.2904 is provided for manufacturers and processors for hire of qualified vessels, components of qualified vessels, or sales, at retail or wholesale, of qualified vessels or components of qualified vessels, manufactured by the seller. Qualified manufacturers and processors for hire are also allowed a MATC.

The manufacturer or processor for hire must obtain documentation from the buyer, to provide to the Department of Revenue, showing that the vessel meets the definition of a "qualified vessel" or that the component being installed will be installed in a "qualified vessel."

The tax preference expires on July 1, 2025.

Definitions.

"Qualified vessel" means a vessel that is limited to participation in rationalized federal fisheries, under the jurisdiction of the Pacific or North Pacific Fishery Management Councils, or state-managed limited entry fisheries. Questions as to a fishery's status as a rationalized fishery must be determined by the Washington Department of Fish and Wildlife.

"Rationalized fishery" means a federally managed fishery in which all participants are allocated a proportion of the harvest either through an individual share or through participation in a cooperative, and therefore are not competing for harvest. State-managed limited entry fisheries are fisheries managed by Alaska, Oregon, or Washington, occurring in either federal or state waters, in which a fixed number of participants are authorized to harvest.

Tax Preference Performance Statement.

A tax preference performance statement provides that the goal of the tax incentives is to improve industry competitiveness, specifically by increasing long-term industry competitiveness, economic activity, and jobs related to the maritime industry by providing a tax preference for recapitalizing the commercial fishing fleet. To measure the effectiveness of the tax preference, the JLARC must evaluate whether the number of qualified vessels manufactured in the state has increased since enactment of the tax preference. The JLARC may refer to data available from the Department of Commerce to perform the review.

If the number of qualified vessels has increased, the JLARC must recommend extending the expiration date of the tax preference.

Substitute Bill Compared to Original Bill:

The effective date of the bill was changed from October 1, 2015, to July 1, 2016.

The modification to the MATC required for the new preferential tax rate, was exempted from the requirement to include a tax preference performance statement and expiration date.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2016.

Staff Summary of Public Testimony:

(In support) This bill keeps jobs and income here in Washington. The benefit from this tax preference is far greater than the loss of revenue in the fiscal note. The ship building industry supports families and the economy of Washington. This bill is a great starting point to help make Washington competitive with other states that have ship building incentives. The estimated cost of recapitalizing the nations fishing fleet is upwards of \$10 billion, and Washington could capture some of this. The work on these ships should be done in Washington since the fishing fleet is the Pacific Northwest fleet. The last surge of vessel construction was done in the eighties and most of the fleet was built off shore, this bill could help bring the work back to Washington which has an old fleet that needs to be replaced.

(Opposed) None.

Persons Testifying: Representative Tarleton, prime sponsor; John Creighton, Port of Seattle Commission; Jill Mackie, Vigor Shipyards; and David Little, Clipper Seafoods.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Technology & Economic Development. Signed by 11 members: Representatives Lytton, Chair; Nealey, Ranking Minority Member; Condotta, Frame, Manweller, Ryu, Springer, Stokesbary, Vick, Wilcox and Wylie.

Minority Report: Without recommendation. Signed by 3 members: Representatives Robinson, Vice Chair; Orcutt, Assistant Ranking Minority Member; Reykdal.

Minority Report: Do not pass. Signed by 1 member: Representative Pollet.

Staff: Dominique Meyers (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology & Economic Development:

The second substitute bill modifies the tax preference performance statement by including a metric to assess increases in gross revenues of vessel manufactures after enactment of the preferential business and occupation (B&O) tax rate.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 9, 2016.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) If we take hundreds of thousands of state resources, we could potentially benefit with billions of dollars coming back to our economy. Federal loans will be given to shipyards across the country to modernize the nation's fishing fleet. Other states have the ability to give state revenues directly to shipyards, giving them a competitive advantage over shipyards in our state, when competing for these federal loans. There is a competition to win the bids to build boats with the federal government money that will provide up to \$15 billion to rebuild the nation's fleet. Two boats have already been sent to another state that won the bid to rebuild them. We need this reduction in the B&O tax rate to be competitive and win some bids against states that have the ability to give money directly to companies that Washington companies are competing against. This bill is important for job retention, as it is important to keep these jobs in Washington. We need to get in now, within the next year, or we could lose 10 years of business to come. Washington has the knowledge, capacity, and capability to build the boats here, with the strong work force that has the knowledge to do this work.

(Opposed) None.

Persons Testifying: Chad See, Freezer Longline Coalition; John Lockwood, Vigor; Dick Nelson, Dakota Creek; Joe Verdoes, Port of Anacortes; Dennis Moran, Fishermans Finest Inc.; and Paul Berendt, Washington Maritime Federation.

Persons Signed In To Testify But Not Testifying: None.