

# SENATE BILL REPORT

## SB 5440

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As of February 10, 2021

**Title:** An act relating to manufacturing tax reform to preserve aerospace and other manufacturing jobs in Washington.

**Brief Description:** Concerning manufacturing tax reform to preserve aerospace and other manufacturing jobs in Washington.

**Sponsors:** Senators Wilson, J., Fortunato and Frockt.

**Brief History:**

**Committee Activity:** Business, Financial Services & Trade: 2/11/21.

**Brief Summary of Bill**

- Reduces the manufacturing business and occupation tax multiplier for various industries to 0.00 percent.

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### SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

**Staff:** Clinton McCarthy (786-7319)

**Background:** 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 taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Financial institutions are subject to the 1.5 percent service and other B&O tax rate.

While the standard B&O tax rate for manufacturing is 0.484 percent, there are a number of

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manufacturing sectors that have lower preferential rates. Examples include:

- semiconductor materials—0.275 percent;
- various agricultural goods manufactured into refined products—0.138 percent;
- seafood products—0.138 percent;
- dairy products—0.138 percent;
- fruit or vegetable products—0.138 percent;
- aluminum—0.2904 percent; and
- solar energy systems using photovoltaic modules or stirling converters—0.275 percent.

In 2020, the preferential B&O tax rate for the manufacturing, wholesaling, and retailing of commercial airplanes and airplane components of 0.357 percent was eliminated, and the rate of 0.484 percent was instituted.

**Summary of Bill:** The following manufacturing tax rate multipliers are reduced to zero:

- manufacturers, and this tax multiplier is expanded to include processors for hire;
- semiconductor materials;
- various agricultural goods into refined products;
- seafood products;
- dairy products;
- fruit or vegetable products;
- commercial airplanes or components of such planes beginning July 1, 2021;
- aluminum; and
- solar energy systems using photovoltaic modules or stirling converters.

These preferential rates are only applicable to out of state activity.

**Appropriation:** None.

**Fiscal Note:** Requested on February 9, 2021.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** The bill takes effect on October 1, 2021.