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Taxes headed down

Don't spend the money yet, but it seems likely that lawmakers will pass one or more tax relief measures in the next several weeks. Most of the action is in the House, which has already seen committee action on three significant tax bills. Each of them targets a different constituency, with two business tax proposals having solid bipartisan support.

The three are: sHB 1024, which provides sales tax exemptions for machinery and equipment used in manufacturing; HB 1023, which reduces the Business and Occupation (B&O) taxes passed in the 1993 legislative session; and HB 1022, which cuts the state property tax.

Proposal	Tax Changes	1995-97 Revenue Impact
sHB 1024	Sales and use tax exemptions for capital investment related to manufacturing, revisions in existing high tech and distressed area tax deferral programs.	\$147.0 million
HB 1023	Reduces the B&O tax rate: - for selected business services from 2.5% to 2.0% and continues the exemption from the surtax; - for financial businesses from 1.7% to 1.6% and continues the exemption from the surtax; - for other services from 2.0% to 1.75%, continuing the 4.5% surtax through July 1, 1997.	\$173.1 million
HB 1022	Reduces the state property tax levy for schools by 5%.	\$92.0 million

Source: Bill documents and fiscal notes.

Manufacturing Exemption (sHB 1024). The machinery and equipment exemption is so far the only proposal to have the governor's endorsement. It's also a priority for economic development groups in the state, as it heals one of the sore thumbs in state tax policy. As reported by the state revenue department, acting as staff to the advisory committee for a manufacturing tax study, "only 17 states tax the acquisition of business machinery used in manufacturing, and Washington's state rate is at the top among these states." The proposal in the Legislature reflects the leanest version of several options discussed by the task force, yet it represents a solid first step toward creating a more competitive business climate.

The bill exempts from the sales and use tax new and replacement equipment and machinery used directly in manufacturing and labor involved in installation. It also liberalizes existing limitations on the distressed area sales tax exemption program and expands the high technology tax deferral program, providing for a tax exemption if certain requirements are met. As passed out of the House Committee on Trade & Economic Development, the state-wide M&E exemption applies only to the state portion of the sales tax, a response to the concern that some cities would suffer significant revenue losses if the exemption also applied to local sales taxes, as originally proposed. These losses would appear to affect few communities, and a mitigation proposal giving some reimbursement to uniquely impacted governments while maintaining a full state and local sales tax exemption is likely.



Research conducted by the revenue department and by a consulting firm retained by the Association of Washington Business confirm that passage of this bill would ultimately contribute to the state's economy (and tax revenues) by stimulating additional capital investment. The revenue department estimates that the state would break-even in about nine years, while the AWB consultant estimates pay-back in about four years.

Initially, the state would see a \$147 million revenue loss in the coming biennium, which the governor believes can be funded from surplus revenues which cannot be spent under the 601 limit.

Business and Occupations Tax Reductions (HB 1023). Service businesses took one of the biggest hits in the 1993 session, with the 1.5 percent B&O rate lifted to 2.5 percent, 1.7 percent and 2.0 percent for business, financial, and other services, respectively. In addition the "other" services were subject to the surtax of 6.5 percent (reduced to 4.5 percent Jan. 1) applied to all businesses except retailing, financial and selected business services, and public and nonprofit hospitals. (The surtax expires July 1, 1997.) HB 1023, as it passed the House Revenue Committee, effectively cuts the increases in half. The proposal has bipartisan support, as well as support from trade associations and general business groups. The size of the 1993 increase, a 67 percent tax hike for business services, fueled the tax limitation campaigns that November. House Republicans have made tax reduction a priority, and will most likely see this measure as an essential complement to the tax exemptions for capital investment discussed above.

Property Tax Cut. Property tax relief appears as a specific pledge in the *Republican Contract with Washington State.* This proposal, amounting to about \$0.19 per \$1,000 of assessed valuation (or \$19 on a \$100,000 home) will have minimal impact on the average homeowner, who may see the effects completely masked by valuation increases and tax hikes by local governments. Nonetheless, Republicans seem committed to the reduction as a "first step" in providing meaningful tax relief. Their efforts are frustrated by the high cost of meaningful property tax relief without creating massive tax shifts between classes of property owners.

— RSD