



Washington Enacts Tax Preference Legislation

On June 30, 2013, Washington Governor Jay Inslee signed into law legislation expanding Business and Occupation (B&O) tax and sales and use tax preferences. The bill creates or extends exemptions for taxpayers in numerous businesses and industries, including payroll services, agriculture, restaurants, cooperative finance, financial information, alternative energy, blood and tissue collection, amusement and recreation and aviation. (L. 2013, S5882 (c. 13), effective 10/01/2013 unless otherwise stated..)

Payroll services. A B&O exemption is provided for amounts received for providing payroll and related human resources services to an affiliated business.

Agriculture. The B&O exemption applicable to the sale of dairy products to purchasers who transport the products out of state has been expanded to exempt sales to purchasers who use the dairy products as components or ingredients in the manufacturing of a dairy product. The temporary B&O tax exemptions provided to apiarists in 2008 (applicable to the wholesale sale of honey bee products, amounts received for providing pollination services and the sale to or use of bees by an eligible apiarist) are extended until July 1, 2017 (effective July 1, 2013) . In addition, a sales and use tax exemption is created for the purchase and use of feed by an eligible apiarist for the purpose of raising a bee colony to make honey bee products (effective July 1, 2013). A sales and use tax exemption is provided for the purchase of propane and natural gas by mint farmers who use the fuel to produce mint oil.

Restaurants. A sales and use tax exemption is provided for sales to restaurants of products that impart flavor to food during the cooking process and are either consumed during the cooking process (e.g., wood chips or charcoal briquettes) or physically support the food during cooking process and are made entirely of wood (e.g., cedar grilling planks).

Cooperative finance organizations. A B&O exemption is created for amounts received by cooperative finance organizations from loans to rural electrical cooperatives or other nonprofit of governmental utility providers.

The logo for dm-t, featuring the lowercase letters 'dm-t' in a bold, serif font.

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Financial information. The sale of standard financial information, which includes, financial market data, bond ratings, credit ratings and deposit, loan or mortgage reports, to qualifying international investment management companies (QIIMC), is exempted from sales and use tax. A QIIMC is a person who is primarily in the business of providing investment management services and whose gross income is at least 10% derived from providing such services to persons or funds residing outside the United States or funds with at least 10% of their investments located outside of the United States. Taxpayers may not claim the exemption once the total aggregate purchase price of standard financial information exceeds \$15 million in a calendar year.

Amusement and recreation. The bill amends the definition of "amusement and recreation services" to exclude providing the opportunity to dance in exchange for a cover charge. As a result, cover charges for the opportunity to dance will be exempt from retail sales tax and will, for purposes of the B&O tax, be taxable under the services and other activities classification.

Alternative energy. The B&O tax rate applicable to manufacturers and wholesalers of solar energy systems is extended until June 30, 2017. The sales and use tax exemption for machinery and equipment used in generating electricity using fuel cells, wind, sun, biomass energy, tidal or wave energy, geothermal resources, anaerobic digestion or technology that converts exhaust gas or landfill gas is extended through January 1, 2020 (effective July 1, 2013). The sales and use tax exemption for solar energy machinery and equipment is extended until June 30, 2018 (effective July 1, 2013). The expiration of the sales tax exemption for sales of hog fuel used to produce electricity, steam heat or biofuel is postponed until June 30, 2024 (effective July 1, 2013). In addition, for taxpayers claiming the hog fuel exemption who close a facility in Washington resulting in job losses, the Department of Revenue may declare the amount of the exemption claimed for the previous two years to be immediately due. The bill also requires those claiming the hog fuel exemption to file an annual survey with the Department of Revenue which will be used by the joint legislative audit and review committee in reviewing of the exemption's impact on employment and wages.

Aviation. A sales and use tax exemption is permitted for the sales of large private airplanes (an airplane weighing more than 41,000 pounds that is not owned or leased by a government entity or used in interstate commerce and which has been assigned a category A, B, C or D test flow



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management system weight class by the FAA). Repair, cleaning, alteration and improvement services provided to large private airplanes are also exempt from sales and use tax. Large private airplanes owned by a nonresident that are in Washington state for less than 90 days are exempt from Washington's aircraft registration fee and aircraft excise tax. Large private airplanes that are in the state longer than 90 days exclusively for repairs, alterations, reconstruction, flight testing, or storage for more than 1 year will also be exempt from the registration fee upon filing of a written statement by the nonresident owner. Aircraft engaged in commercial flying constituting interstate commerce and stored in Washington for more than 1 year will be subject to the aircraft excise tax. The amendments related to aviation are effective January 1, 2014.

Blood and tissue banks. The B&O tax exemption for blood and tissue banks is expanded to apply to organizations with a primary purpose of testing blood or processing blood, on behalf of itself or another qualifying blood bank or blood and tissue bank.

Other preference items. Clay targets purchased by nonprofit gun clubs are exempted from sales and use tax. Personal property valued at less than \$10,000 purchased or received as a prize in a game of chance from a nonprofit organization for a fundraising activity will not be subject to use tax.

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