

SB 6542, a bill to promote fairness and reduce the Business and Occupation tax on manufacturers

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Proposed bill would promote investment and job opportunities and help working families in Washington state

Introduction

SB 6542 is a bipartisan bill introduced by Senators Baumgartner, Hobbs, Mullet, Fain, Short and Wilson. The bill would lower the Business and Occupation (B&O) tax rate imposed on manufactures so these companies would pay the same competitive tax rate as The Boeing Company.¹

SB 6542 represents the second attempt by lawmakers to enact this tax relief for manufacturers in the past year. Last year a similar bill (SB 5977) passed by wide margins but was partially vetoed by Governor Jay Inslee on July 7, 2017.² It is not clear why the legislature did not attempt to override that surprise veto, since the tax cut bill passed with a vote of 33-16 in the Senate and 83-10 in the House.³

Proposed B&O manufacturing tax cut was vetoed in a surprise move last year

Last year SB 5977 passed as part of the hard-negotiated 2017-19 state budget deal. The governor's veto came as a surprise. The governor said he was not part of the final budget talks, did not consider himself bound by the deal reached, and thus did not believe

his surprise veto violated the state budget agreement.⁴

The governor said in his veto of the manufacturing tax cut: "... these tax reductions should be considered in a thoughtful, transparent process that incorporates public input and business accountability."⁵

It is worth noting the original SB 5977 was introduced as a "title only" bill, with the text being filled in later.⁶ This year's tax cut proposal (SB 6542) was introduced with its full text on January 23, providing adequate time for lawmakers to consider it this legislative session, and to satisfy the governor's transparency concerns about last year's budget deal.

Governor was asked not to veto manufacturing tax cut

Many individuals and small businesses contacted the governor last year imploring him not to veto the proposed B&O manufacturing tax relief. A frequent point made to the governor can be found in the comments of Pierce County Executive Bruce Dammeier:

"This bill will help attract, grow, and retain high-wage manufacturing jobs in Washington State by lowering Business and Occupation tax rates for general manufacturers to match the existing rate for commercial aircraft manufacturers [Boeing]."

1 "SB 6542: Lowering the ceiling of the business and occupation manufacturing tax rate to 0.2904 percent," Washington State Legislature, January 23, 2018, at <http://app.leg.wa.gov/billsummary?BillNumber=6542&Year=2018>

2 "2017-19 budget: 'This deal is getting worse all the time,'" by Jason Mercier, Washington Policy Center Blog, July 8, 2017, at <https://www.washingtonpolicy.org/publications/detail/2017-19-budget-this-deal-is-getting-worse-all-the-time>

3 "SB 5977: Relating to revenue," Washington State Legislature, June 30, 2017, at <http://app.leg.wa.gov/billsu>
[mary?BillNumber=5977&Year=2017](http://app.leg.wa.gov/billsu)

4 "Governor Inslee Bill Signing Ceremony," TVW, July 7, 2017, at <https://www.tvw.org/watch/?clientID=9375922947&eventID=2017071005&startStreamAt=1671&autoStartStream=true>

5 "Veto message on SSB 5977," Washington State Legislature, July 7, 2017, at <http://lawfilesex.leg.wa.gov/biennium/2017-18/Pdf/Bills/Vetoes/Senate/5977-S.V.T.O.pdf>

6 "An Act Relating to Revenue," by Jason Mercier, Washington Policy Center Blog, January 16, 2018, at <https://www.washingtonpolicy.org/publications/detail/an-act-relating-to-revenue>

“In Pierce County, advanced manufacturing is critical to our economy and a key component of our local workforce development plan. Simply put, lower rates will help us remain competitive and ensure our talented workforce can find jobs locally.”⁷

Goal of SB 6542 is to stem reduction of high-paying manufacturing jobs

The text of SB 6542 notes that “manufacturing jobs in Washington have been in decline, losing over fifty thousand jobs since the turn of the century.” To help stop this reduction SB 6542, includes a tax preference performance statement saying (in-part):⁸

“Therefore, it is the legislature’s specific public policy to enhance taxpayer equity by lowering the business and occupation rate ceiling to 0.2904 for all manufacturers in the state in order to increase the sustainability of manufacturing in Washington as well as increase manufacturing’s competitiveness around the world, thereby enabling manufacturing to continue to be a critical and hopefully growing source of family-wage jobs throughout the state.”

Due to the phase-in of the tax cut, legislative staff estimates the bill would result in about a \$75 million reduction in state revenue over the remainder of the current four-year outlook. Annual manufacturer tax relief after that is estimated at about \$80 million in reduced revenue to the state each a year. General growth in the state economy, however, is expected to bring the state a much greater increase in revenue than is estimated would be reduced under SB 6542.

Reducing B&O manufacturing tax rate serves the public interest

Reducing the B&O tax rate for manufacturers would serve the public interest because it would promote investment and expansion of the state’s manufacturing sector. Increased investment creates job opportunities, often with good pay, health coverage and retirement benefits, which in turn directly benefits Washington’s working families.

Reducing the B&O tax rate imposed by the state would also promote fairness. Under a policy initiated by Governor Gary Locke and extended by Governor Inslee, companies in the aerospace sector pay a much lower B&O tax rate than other manufacturers. Critics of the policy say this gives an unfair advantage to one large corporation (Boeing) and its suppliers while neglecting manufacturers in other sectors.

Passage of SB 6542 would redress this imbalance and ensure the state provides equal tax treatment for all manufacturers and their employees. The need to put all manufacturers on the same competitive tax footing as The Boeing Company and other aerospace companies remains as important a policy goal today as it did last year. The policy benefits the public interest by promoting the creation of good-paying manufacturing jobs in the state.

Conclusion

Last year, lawmakers of both parties voted overwhelmingly, 33-16 in the Senate and 83-10 in the House, to provide manufacturers much needed tax relief, only to see Governor Inslee issue a surprise veto, killing that part of the bill. This year, SB 6542 provides a second chance to implement this important policy while addressing the transparency concerns expressed in the Governor’s veto message.

Manufacturers who provide high-paying jobs with good benefits in the state should not be discriminated against simply because they are not part of the aerospace industry. SB 6542 is an opportunity for lawmakers and the governor to promote tax equity by putting all the state’s manufacturers on the same competitive tax footing.

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7 “What advice did governor receive on B&O tax cut veto?,” by Jason Mercier, Washington Policy Center Blog, September 18, 2017, at <https://www.washingtonpolicy.org/publications/detail/what-advice-did-governor-receive-on-bo-tax-cut-veto>

8 “SB 6542: Lowering the ceiling of the business and occupation manufacturing tax rate to 0.2904 percent,” Washington State Legislature, January 23, 2018, at <http://lawfilesexternal.wa.gov/biennium/2017-18/Pdf/Bills/Senate%20Bills/6542.pdf>