

## Explanatory Statement

### The Law As It Presently Exists

Taxes imposed by the state of Washington include a retail sales tax, a temporary excise tax on the sale of some carbonated beverages, and a business and occupation (B&O) tax on the privilege of engaging in various business activities in the state. Each of these taxes produces revenue that is deposited into the state general fund for the general support of programs of state government.

The sales tax is imposed on retail sales in the state. Sales of some products are exempt from the sales tax, including the sale of food and food ingredients. Until 2010, food and food ingredients included candy and bottled water. Consequently, candy and bottled water were exempt from the sales tax.

In 2010, the legislature amended the law to remove candy from the sales tax exemption for food and food ingredients. Candy became subject to the sales tax effective June 1, 2010. Candy is defined as a preparation of sugar, honey, or other sweeteners in combination with chocolate, fruits, nuts, or other ingredients or flavorings in the form of bars, drops, or pieces. Candy does not include products that contain flour or require refrigeration.

In 2010, the legislature amended the law to remove bottled water from the sales tax exemption for food and food ingredients. Bottled water became subject to the sales tax effective June 1, 2010, and ending July 1, 2013. In 2010, the legislature also enacted a statutory amendment that the sales tax would continue to apply to bottled water after July 1, 2013, if the voters approve Referendum 52 at the November 2010 general election. Bottled water is water sold in sealed containers for human consumption. Bottled water sold for medical purposes or to people who do not otherwise have a readily available source of clean water remains exempt from sales tax.

In 2010, the legislature enacted an excise tax on the sale of certain carbonated beverages sold in the state. The tax took effect July 1, 2010, and expires on July 1, 2013. The carbonated beverages subject to this tax are nonalcoholic beverages that are naturally or artificially carbonated, and contain caffeine, extracts, fruit juice, herbs, sweeteners, or syrup. The tax is calculated at the rate of two cents per twelve ounces, and is applied once, either at the wholesale or retail level. The tax does not apply to the first ten million dollars of carbonated beverages sold in the state by any bottler.

The B&O tax is imposed on various business activities in the state, such as manufacturing, selling, or providing services. The rate of the tax varies, depending upon the type of activity in which the business engages. As a general rule, businesses engaged in manufacturing pay a tax at the rate of 0.484 percent of the value of the products they manufacture. Lower rates apply to some manufacturing activities.

In 2010, the legislature amended statutes governing the B&O tax on manufacturing meat products. For perishable meat products, the amendments apply a tax rate of

0.138 percent of the value of the manufactured product. For nonperishable meat products, the amendments apply a tax rate of 0.484 percent of the value of the manufactured product.

In 2010, the legislature amended statutes governing the B&O tax on manufacturing fruit and vegetable products by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables. Under the 2010 law, an exemption from the B&O tax for manufacturing fruit and vegetable products is limited to products that contain only fruits, vegetables, or both (and certain other substances such as water, sugar, salt, seasonings, preservatives, and similar substances). The exemption does not apply to manufacturing other products that contain fruits or vegetables as ingredients, which are consequently taxed at the rate of 0.484 percent of the value of the manufactured product. Under the 2010 law, when the exemption from B&O tax on manufacturing fruit and vegetable products expires on July 1, 2012, manufacturing fruit and vegetable products containing only fruits, vegetables, or both (and certain other substances such as water, sugar, salt, seasonings, preservatives, and similar substances) will be taxed at the rate of 0.138 percent of the value of the manufactured product. Manufacturing of other products that contain fruits or vegetables as ingredients are taxed at the rate of 0.484 percent of the value of the manufactured product.

#### **The Effect Of The Proposed Measure If Approved**

The measure would repeal the 2010 law applying the sales tax to candy. The measure also would repeal the 2010 law applying the sales tax to bottled water beginning June 1, 2010, and expiring July 1, 2013, and would repeal the 2010 law providing that, if the voters approve Referendum Measure 52 at the November 2010 general election, the sales tax would continue to apply to bottled water after July 1, 2013.

The measure would repeal the 2010 law enacting a temporary excise tax on carbonated beverages.

The measure would repeal the 2010 law that limits to perishable meat products a 0.138 percent B&O tax rate relating to manufacturing meat products.

The measure would repeal the 2010 law that limits the B&O tax exemption relating to manufacturing fruit and vegetable products, to manufacturing products that contain only fruits, vegetables, or both (and certain other substances such as water, sugar, salt, seasonings, preservatives, and similar substances). The measure also would repeal the 2010 law that limits a 0.138 percent B&O tax rate on manufacturing fruit and vegetable products applicable after the exemption expires in 2012, to products that contain only fruits, vegetables, or both (and certain other substances such as water, sugar, salt, seasonings, preservatives, and similar substances).