

SENATE BILL REPORT

HB 2593

As Reported By Senate Committee On:
Ways & Means, March 7, 1996

Title: An act relating to taxation of railroad-related businesses.

Brief Description: Changing the taxation of railroad-related businesses.

Sponsors: Representatives Schoesler, Mason, B. Thomas and Boldt; by request of Department of Revenue.

Brief History:

Committee Activity: Ways & Means: 2/21/96, 3/7/96 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rinehart, Chair; Loveland, Vice Chair; Bauer, Cantu, Drew, Finkbeiner, Fraser, Hargrove, Hochstatter, Johnson, Kohl, Long, McDonald, Moyer, Quigley, Roach, Sheldon, Snyder, Spanel, Strannigan, Sutherland, West, Winsley and Wojahn.

Staff: Terry Wilson (786-7433)

Background: Public and privately-owned utilities pay a gross receipts public utility tax instead of the business and occupation tax. Public utility tax rates vary from 0.642 percent to 5.029 percent as follows:

Railroad, express, telegraph, natural gas, and sewerage collection	3.852%
Light and power	3.873%
Water distribution	5.029%
Taxicabs, limousine services, other urban transportation carriers, and marine vessels for hire under 65 ft. (except tugboats)	0.642%
Motor transportation (except urban transportation), tugboats, and public utilities not elsewhere classified	1.926%

Railroad car businesses operate rail cars or rent rail cars that are used on another company's railroad. Railroad car businesses are taxed at the 3.852 percent rate.

The Federal Railroad Revitalization and Regulatory Reform Act of 1976 (often called the 4-R Act) prohibits tax discrimination against railroads. The state's public utility tax imposes a rate of 3.852 percent on railroad businesses and a rate of 1.926 percent on trucking and

airline businesses. The public utility tax on railroads was challenged as discriminatory. The Department of Revenue settled the case and agreed to tax railroads at the lower 1.926 percent rate.

The sales tax is imposed on retail sales of most items of tangible personal property and some services, including the renting or leasing of personal property. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total rate is between 7 percent and 8.2 percent, depending on the location.

Summary of Bill: The public utility tax rate for railroads and railroad car businesses is reduced to 1.926 percent. The rental of rail cars is removed from the public utility tax and made subject to the sales tax.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: Although the fiscal note indicates a slight revenue loss, this money probably would not be collected anyway and the state could lose the whole tax.

Testimony Against: None.

Testified: Ryan Spiller, Department of Revenue (pro).