
Finance Committee

HB 2868

Brief Description: Exempting certain extended warranties from sales and use taxation.

Sponsors: Representatives Orcutt, Roach, Kilmer, Alexander, Linville, Condotta, Grant, Dunn, McDonald, Armstrong, McCune, Holmquist and Ahern.

Brief Summary of Bill

- Exempts an extended warranty from retail sales and use taxes, if the extended warranty applies to tangible personal property that is exempt from retail sales and use taxes.

Hearing Date: 1/27/06

Staff: Bob Longman (786-7139).

Background:

Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 1.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

When retail sales and use taxes were first adopted in 1935, the taxes applied only to sales and use of tangible personal property. However, since the late 1930s the Legislature has expanded the retail sales tax base to include some services. Installation, repair, cleaning, and similar services related to tangible personal property were added as early as 1939. Additional services have been subjected to retail sales taxes in more recent years.

An extended warranty is an agreement that provides for replacement or repair of an item at no additional charge or a reduced charge, for a specified time period. Extended warranties are typically sold for an additional price and may supplement a manufacturer's warranty that is included in the price of an item. The sale of an extended warranty can be viewed as a sale of an intangible contractual right rather than the actual sales of repair parts and services. As such, additional prices charged for an extended warranty were not subject to retail sales and use taxes until legislation applying these taxes to extended warranties was enacted in 2005.

Summary of Bill:

If an extended warranty applies to tangible personal property that is exempt from retail sales and use taxes, the extended warranty is also exempt from retail sales and use taxes.

Appropriation: None.

Fiscal Note: Requested on January 16, 2006.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.