

## SALES TAXES

---

### RETAIL SALES/USE TAX - PRODUCER GOODS

#### **82.04.050(1d) FERROSILICON**

#### **82.04.190(1d)**

Description: Tangible personal property purchased for the production of ferrosilicon which, in turn, is used in the production of magnesium is excluded from the definition of retail sale. To qualify, the primary purpose of the exempt items must be to create a chemical reaction with an ingredient of ferrosilicon.

Purpose: To encourage magnesium production businesses to locate in Washington.

Category/Year Enacted: Business incentive. 1986

Primary Beneficiaries: One proposed facility, not currently in operation.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) No firm is believed to be engaged in this activity, and thus there is no fiscal impact for the exemption.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes, if any firm were currently taking the exemption.

#### **82.08.0255(1) MOTOR VEHICLE FUEL FOR AIRCRAFT RESEARCH**

#### **82.12.0256(1)**

Description: Manufacturers of aircraft are exempt from retail sales/use tax on motor vehicle fuel used for purposes of research, development and testing.

Purpose: To encourage aircraft research development and testing to take place in Washington.

Category/Year Enacted: Business incentive. 1963

Primary Beneficiaries: Aircraft manufacturers.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) The statute specifies that motor vehicle fuel, not aircraft fuel, is eligible for this exemption. Since any current aircraft research, development or testing is presumed to utilize aircraft fuel, which is different than motor vehicle fuel, this exemption has no current impact.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes, if anyone were actually exempt under this statute.

## SALES TAXES

---

### **82.08.02565    MANUFACTURING MACHINERY** **82.12.02565**

Description: New or replacement manufacturing machinery and equipment is exempt from retail sales/use tax if it is used in a manufacturing operation. Both materials and installation labor are included for machinery, equipment, pollution control equipment and the internal use portion of cogeneration equipment. Repair parts and labor, R&D equipment, testing devices and certain logging and rock-crushing equipment are also covered by the exemption. Excluded from the exemption are short-lived tools, hand tools, and consumable supplies.

Purpose: To encourage manufacturing activity to take place in Washington and create family wage jobs.

Category/Year Enacted: Business incentive. 1995

Primary Beneficiaries: About 15,000 - 16,000 manufacturing firms in Washington are potentially eligible.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$148,900	\$162,400	\$176,500	\$192,400
Local taxes	\$ 43,200	\$ 47,100	\$ 51,200	\$ 55,800

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### **82.08.02566    PROTOTYPES OF AIRCRAFT PARTS** **82.12.02566**

Description: Purchases of materials used to develop prototypes of aircraft parts are exempt from retail sales/use tax, if the firm that develops the prototypes has taxable sales of less than \$20 million annually. The statute limits the amount of sales tax exemption to \$100,000 per firm.

Purpose: To assist relatively small manufacturers of aircraft parts.

Category/Year Enacted: Business incentive. 1997

Primary Beneficiaries: Approximately 100 firms.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 291	\$ 302	\$ 315	\$ 328
Local taxes	\$ 84	\$ 88	\$ 91	\$ 95

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

**82.08.02567 ELECTRICITY GENERATION; RENEWABLE RESOURCES**  
**82.12.02567**

Description: Exemption from retail sales/use tax is provided for machinery and equipment, including installation labor and services, used directly in generating electricity by the use of wind, sun, land-fill gas or fuel cells. The facility must be capable of generating a minimum of 200 watts of electricity. This exemption is scheduled to expire on June 30, 2009.

Purpose: To encourage the development of alternative energy generation facilities.

Category/Year Enacted: Business incentive. 1996, broadened in 1998, 1999 and 2001.

Primary Beneficiaries: The costs of solar generation continue to exceed those of conventional generation facilities, although technology improvements may lower the cost and utilization of solar power. Wind power represents the majority of the impact of this exemption.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 9,750	\$ 13,000	\$ 13,000	\$ 13,000
Local taxes	\$ 2,850	\$ 3,800	\$ 3,800	\$ 3,800

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

**82.08.02568 ANODES AND CATHODES**  
**82.12.02568**

Description: Exemption from retail sales/use tax for various ingredients used in producing anodes and cathodes that are used in manufacturing aluminum. These include carbon, petroleum coke, coal tar, pitch and similar substances.

Purpose: To support the aluminum industry.

Category/Year Enacted: Business incentive. 1996

Primary Beneficiaries: Aluminum manufacturers.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 2,719	\$ 2,871	\$ 2,874	\$ 2,977
Local taxes	\$ 788	\$ 832	\$ 833	\$ 863

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes, although the few remaining firms in this industry might choose to relocate.

## SALES TAXES

---

**82.08.026      NATURAL AND MANUFACTURED GAS**  
**82.12.023**  
**82.14.030(1)**

Description: Natural and manufactured gas delivered through a pipeline, which is subject to the use tax on brokered gas pursuant to RCW 82.12.022, is exempt from retail sales/use tax.

Purpose: Washington firms that distribute natural gas are subject to public utility tax. Large industrial customers may purchase gas directly from out-of-state suppliers through brokers that is not subject to public utility tax. In 1989 a new "use" tax was levied on such purchases, equivalent to the public utility tax. This exemption assures that these purchases are subject to the special use tax, rather than sales tax.

Category/Year Enacted: Tax base. 1989

Primary Beneficiaries: Large industrial users of natural or manufactured gas.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 15,983	\$ 18,860	\$ 22,255	\$ 26,260
Local taxes*	\$(22,457)	\$(26,499)	\$(31,269)	\$(36,898)

\*Includes local use tax at the maximum 6% rate. Thus, the overall local impact would be a gain in revenue resulting from shifting from local utility use tax to regular local sales tax.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No.

**82.08.0274      FORM LUMBER**  
**82.12.0268**

Description: Form lumber that is used in construction to mold concrete is exempt from retail sales/use tax. The lumber must be used in a single project and be incorporated into the same project. The exemption applies only to projects done by contractors for other persons. Therefore, lumber used by "spec" builders is not exempt under this provision.

Purpose: To exempt the contractor's intervening use as a consumer of form lumber.

Category/Year Enacted: Other business. 1965

Primary Beneficiaries: Contractors and subcontractors who use lumber as forms for concrete.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000)      Minimal. It is believed that form lumber is rarely incorporated into the same structure, and therefore there is little or no impact for this exemption.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

**82.08.0276    APPAREL USED FOR DISPLAY**  
**82.12.0271**

Description: Manufacturers, wholesalers and retailers of wearing apparel are exempt from retail sales/use tax on clothing displayed to promote sales.

Purpose: Represents a legislative judgment that this limited intervening use of the clothing by the seller should not result in retail sales or use tax liability.

Category/Year Enacted: Other business. 1967

Primary Beneficiaries: Sellers of clothing which is displayed in their stores.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000)            Minimal. Because of the frequent turnover of display merchandise, such items are now commonly sold at retail and therefore subject to tax.

**82.08.0298    FUEL FOR COMMERCIAL FISHING BOATS**  
**82.12.0298**

Description: Diesel fuel used by vessels engaged in commercial deep-sea fishing or in the operation of commercial charter fishing boats is exempt from retail sales/use tax. Such vessels must regularly operate outside of state territorial waters and the gross income from fishing must be at least \$5,000 annually.

Purpose: To recognize that the majority of such fuel is consumed outside of the state.

Category/Year Enacted: Other business. 1987

Primary Beneficiaries: Commercial fishers and sport fishing charter boat operators.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 729	\$ 735	\$ 762	\$ 796
Local taxes	\$ 213	\$ 215	\$ 223	\$ 233

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

**82.08.0315      FILM & VIDEO PRODUCTION EQUIPMENT**  
**82.12.0315**

Description: Rental of equipment or sale of related services by motion picture and video production businesses are exempt from retail sales/use tax. Such equipment includes video, electrical, lighting and motion picture equipment.

Purpose: To support the motion picture industry and encourage more films to be produced in this state.

Category/Year Enacted: Business incentive. 1995

Primary Beneficiaries: Motion picture and video production companies.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 580	\$ 580	\$ 580	\$ 580
Local taxes	\$ 170	\$ 170	\$ 170	\$ 170

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

**82.08.810      AIR POLLUTION CONTROL FACILITIES**  
**82.12.810**

Description: Construction of air pollution control facilities at a thermal electric generating facility which was placed in operation after 1969 and before July 1, 1997 is exempt from retail sales/use tax. The exemption is contingent upon production levels for the plant being maintained above the 20 percent annual capacity factor between 2002 and 2023. If production falls below this level, all or a portion of the tax previously exempted must be repaid.

Purpose: To reduce the cost of installing air pollution control devices, allowing the plant to remain in operation.

Category/Year Enacted: Business incentive. 1997

Primary Beneficiaries: The Centralia thermal generating plant.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000)      Due to confidentiality requirements, the impact of this exemption cannot be publicly stated because it is believed to affect fewer than three taxpayers.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

### **82.08.811      COAL USED AT THERMAL GENERATING PLANTS** **82.12.811**

Description: Purchases of coal used at a thermal electric generating facility placed in operation after 1969 and before July 1, 1997 are exempt from retail sales/use tax. The exemption is contingent upon owners of the plant demonstrating to the Dept. of Ecology that progress is being made to install the necessary air pollution control devices and that the facility has emitted no more than 10,000 tons of sulfur dioxide during the pervious 12 months.

Purpose: To encourage the Centralia plant to install the necessary air pollution control devices.

Category/Year Enacted: Business incentive. 1997

Primary Beneficiaries: The Centralia thermal generating plant.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000)      Due to confidentiality requirements, the impact of this exemption cannot be publicly stated because it is believed to affect fewer than three taxpayers.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### **82.08.820      WAREHOUSING REMITTANCE** **82.12.820**

Description: Certain warehouses and grain elevators are eligible for an exemption in the form of a remittance of the state retail sales/use tax paid on purchases of machinery and on materials and labor for construction of these facilities. Warehouses must be more than 200,000 square feet in size; the exemption equals 100 percent of the state retail sales/use tax paid on construction and 50 percent of the state tax paid on equipment, including materials handling and racking equipment. For grain elevators the exemption is either 50 or 100 percent of the state tax paid, depending upon the capacity of the facility. The remittance does not cover local sales/use taxes.

Purpose: To encourage construction of warehouses in Washington and to increase the competitiveness of the warehouse and distribution industry in this state.

Category/Year Enacted: Business incentive. 1997

Primary Beneficiaries: Warehouse firms, retailers that operate distribution centers, port districts, etc.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 2,806	\$ 2,890	\$ 2,977	\$ 3,066
Local taxes	\$ 0	\$ 0	\$ 0	\$ 0

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

**82.08.955      DISTRIBUTION OF BIODIESEL/ALCOHOL FUELS**  
**82.12.955**

Description: Exemption from retail sales/use tax is allowed for machinery and equipment which is used directly to facilitate the retail sale of biodiesel or alcohol fuel blend or for vehicles used to deliver such fuels. The exemption also includes services associated with the construction of structures to facilitate the sale of these fuels. This exemption is scheduled to expire on July 1, 2009.

Purpose: To encourage fuel dealers to sell biodiesel and alcohol fuels.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Dealers and distributors of alternative fuels

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 12	\$ 18	\$ 18	\$ 19
Local taxes	\$ 4	\$ 5	\$ 5	\$ 5

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

**82.08.960      DISTRIBUTION OF WOOD BIOMASS FUELS**  
**82.12.960**

Description: Exemption from retail sales/use tax is allowed for machinery and equipment which is used directly to facilitate the retail sale of wood biomass fuel blend or for vehicles used to deliver such fuels. The exemption also includes services associated with the construction of structures to facilitate the sale of such fuel. This exemption is scheduled to expire on July 1, 2009.

Purpose: To encourage fuel dealers to sell wood biomass fuels.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Dealers and distributors of wood biomass fuel.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000)      None, so far. There are currently no known plans for a fuel dealer to begin selling this type of fuel.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.



## SALES TAXES

---

### **82.08.965      FACILITIES FOR MANUF. SEMICONDUCTOR MATERIALS**

#### **82.12.965**

Description: Exemption from retail sales/use tax is provided for new construction by manufacturers of semiconductor materials. The exemption covers all construction costs, including materials, labor and installation of fixtures. The exemption is contingent upon commencement of commercial operations by a new semiconductor microchip fabrication facility with an investment in new buildings and equipment amounting to at least \$1 billion. It is believed that such a condition will be met by January 1, 2006 and the exemption is assumed to become effective at that time. The exemption lasts for a period of 12 years from the effective date.

Purpose: To encourage the retention of existing semiconductor firms in Washington and to attract similar businesses to the state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Approximately 20 firms in the semiconductor cluster.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 0	\$ 0	\$ 700	\$ 1,700
Local taxes	\$ 0	\$ 0	\$ 200	\$ 500

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### **82.08.970      SEMICONDUCTOR MATERIALS, GASSES & CHEMICALS**

#### **82.12.970**

Description: Exemption from retail sales/use tax is provided for gasses and chemicals used by manufacturers of semiconductor materials. The exemption is contingent upon commencement of commercial operations by a new semiconductor microchip fabrication facility with an investment in new buildings and equipment amounting to at least \$1 billion. It is believed that such a condition will be met by January 1, 2006 and the exemption is assumed to become effective at that time. The exemption lasts for a period of 12 years from the effective date.

Purpose: To encourage the retention of existing semiconductor firms in Washington and to attract similar business to the state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Approximately 20 firms in the semiconductor cluster.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 0	\$ 0	\$ 210	\$ 540
Local taxes	\$ 0	\$ 0	\$ 60	\$ 160

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

### **82.08.975      AIRCRAFT PRE-PRODUCTION COMPUTER EXPENDITURES**

#### **82.12.975**

Description: An exemption from retail sales/use tax is allowed for design and pre-production computer software and hardware expenditures by manufacturers of commercial aircraft or components of aircraft. Eligible computer expenditures are those made after the date that an agreement is signed between the state and a manufacturer of a super-efficient airplane. The exemption becomes effective on the first of the month that such an agreement is signed. This agreement was signed on December 18, 2003; thus the exemption is effective December 1, 2003. The exemption is scheduled to expire on July 1, 2024.

Purpose: To encourage development and engineering of commercial aircraft in Washington.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Manufacturers of commercial aircraft and components of such aircraft.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 1,900	\$ 2,800	\$ 3,300	\$ 3,500
Local taxes	\$ 550	\$ 810	\$ 960	\$ 1,015

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### **82.08.980      STRUCTURES FOR SUPER-EFFICIENT AIRCRAFT**

#### **82.12.980**

Description: Exemption from retail sales/use tax is allowed for the construction of an assembly facility for a super-efficient aircraft. The exemption is effective on the first of the month that an agreement is signed between the state and a manufacturer of a super-efficient airplane. Such an agreement was signed on December 18, 2003; thus the effective date is December 1, 2003. The exemption is scheduled to expire on July 1, 2024.

Purpose: To encourage siting of an assembly facility in Washington for a super-efficient aircraft.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Manufacturer of a super-efficient aircraft and potentially a port district upon which the facility might be located.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)*</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 0	\$ 20,500	\$ 2,900	\$ 0
Local taxes	\$ 0	\$ 6,000	\$ 800	\$ 0

\*Estimates assume construction of an entirely new structure on port district property.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

### **82.12.010(1) USE TAX ON RENTAL VALUE**

Description: An out-of-state business that brings property into this state for temporary business use (less than 180 days during a 365 consecutive day period) may compute use tax based on an amount representing the reasonable rental value of the item, rather than the total market value. The usual measure of the use tax is the purchase price or the fair market value at the time of the first use in Washington.

Purpose: To encourage out-of-state firms to do business in Washington by allowing them to use equipment in this state on a temporary basis without incurring use tax liability of the full market value.

Category/Year Enacted: Other business. 1985; the allowable time for in-state use was doubled to 180 days in 1994.

Primary Beneficiaries: Out-of-state firms with contracts in Washington.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 1,535	\$ 1,646	\$ 1,717	\$ 1,793
Local taxes	\$ 331	\$ 355	\$ 370	\$ 386

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### **82.12.0263 EXTRACTED FUEL**

Description: Fuel consumed by manufacturers or extractors is exempt from use tax when the fuel is used in the process of manufacturing or extracting at the same plant.

Purpose: To support the fuel manufacturing and extracting industry.

Category/Year Enacted: Other business. 1949

Primary Beneficiaries: Manufacturers and extractors of fuel.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 2,106	\$ 1,927	\$ 1,985	\$ 2,064
Local taxes	\$ 616	\$ 563	\$ 580	\$ 603

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

### **82.12.0265      BAILED PROPERTY USED IN RESEARCH**

Description: Use tax does not apply to the value of bailed property when the bailee consumes the property while conducting research and development activities for a bailor who is not subject to tax. "Bailment" consists of granting the right of possession of tangible personal property to another person (bailee) without financial compensation to the property owner (bailor).

Purpose: Bailment typically applies to tangible personal property owned by the federal government that is used by federal contractors. The purpose of the exemption is to increase the competitive position of in-state firms competing for the federal contracts by reducing the associated tax burden.

Category/Year Enacted: Other business. 1951

Primary Beneficiaries: Contractors with the federal government.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 659	\$ 679	\$ 699	\$ 720
Local taxes	\$ 193	\$ 198	\$ 204	\$ 210

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

### **82.12.0272      ITEMS DISPLAYED IN TRADE SHOWS**

Description: Tangible personal property held for sale which is displayed in a trade show for up to 30 days is exempt from use tax. The exemption pertains to items that are actually demonstrated and not simply available for sale as part of the dealer's inventory.

Purpose: To stimulate trade and the economy by encouraging trade shows to take place in this state.

Category/Year Enacted: Other business. 1971

Primary Beneficiaries: Manufacturers and distributors that exhibit products at trade shows.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 539	\$ 555	\$ 572	\$ 589
Local taxes	\$ 157	\$ 162	\$ 167	\$ 172

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

## SALES TAXES

---

### **82.12.800      USE OF VESSELS BY MANUFACTURERS & DEALERS**

**82.12.801**

**82.12.802**

Description: These three statutes relate to the application of use tax for firms that manufacture or sell boats and boat trailers. The following uses of a vessel and trailer by the manufacturer or a vessel dealer are exempt from use tax per RCWs 82.12.800 and .801: (1) testing, setting-up, repairing, remodeling or otherwise making the vessel seaworthy; (2) training of employees; (3) activities promoting the sale of the vessel; (4) loaning or donating the vessel to nonprofit organizations or governmental entities for limited periods; (5) transporting, displaying or demonstrating the vessel at boat shows; and (6) delivering, showing and operating the vessel for a prospective buyer.

Any other intervening use of the vessel by the manufacturer or a dealer is subject to use tax. However, RCW 82.12.802 provides that the use tax in such instances is to be measured by the reasonable rental value of the vessel for that particular use, rather than the fair market value. To utilize this valuation basis, the manufacturer or dealer must demonstrate that the vessel is truly held for sale.

Purpose: To clearly identify the uses of vessels and related equipment which are not considered as taxable "intervening" uses and to provide a basis for the use tax in other taxable situations.

Category/Year Enacted: Other business. 1997

Primary Beneficiaries: Manufacturers and dealers of boats and boat trailers.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 309	\$ 327	\$ 345	\$ 363
Local taxes	\$ 90	\$ 96	\$ 102	\$ 105

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.