

HOUSE BILL REPORT

SSB 5739

As Reported By House Committee On:

Finance

Title: An act relating to sales by nonprofit organizations.

Brief Description: Exempting certain sales by nonprofit organizations from sales and use taxes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Strannigan, Rinehart, Johnson, Quigley, Long, Owen, Cantu, Hale, Finkbeiner, McCaslin, Palmer, Hochstatter, McDonald, Spanel, Schow, Prentice, Moyer, Loveland, Swecker, West, Rasmussen, Smith, Drew, Haugen, Franklin, Fairley, A. Anderson, Wojahn, Heavey, McAuliffe, Kohl, Hargrove, Oke and Bauer).

Brief History:

Committee Activity:

Finance: 3/23/95, 4/3/95 [DPA].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 12 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Staff: Bob Longman (786-7139).

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. The state retail sales tax is imposed on retail sales of most items of tangible personal property and some services. Sales tax does not apply to sales that are infrequent enough to be considered "casual and isolated" sales. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition of the property has not been subject to sales tax. Use tax is equal to the sales tax rate multiplied by the value of the property used. The use tax generally applies in respect to property acquired at a casual and isolated sale or acquired from out of state.

Nonprofit organizations pay B&O tax and collect sales taxes on their sales unless specifically exempted by statute. Exemption from federal income tax does not automatically provide exemption from state taxes.

B&O and sales tax exemptions are provided for fundraising auctions, bazaars and rummage sales, and sales of meals for fund-raising purposes, subject to the following conditions.

Auctions: Not more than one event per year. Not more than two days per event. (No dollar limit on amount raised.)

Bazaars and rummage sales: Not more than two events per year. Not more than two days per event. Not more than \$1,000 per event.

Meals: Not more than two events per week. Not more than \$1,000 per event.

There are no use tax exemptions for any of the items purchased at one of the auctions, bazaars, or rummage sales described above. Although the organization making the sale is not required to collect tax, the buyer is liable for use tax in an amount equal to the sales tax that would have been due. The vast majority of individuals do not report and pay use tax on these transactions.

Summary of Amended Bill: The restrictions for B&O and sales tax exemptions for fund-raising activities are changed as follows.

Auctions: Not more than two events per year. Not more than five days per event. (No dollar limit.)

Bazaars and rummage sales: Not more than 12 events per year. Not more than five days per event. Exempt on first \$35,000 of gross receipts per year.

Meals: Either (a) not more than two events per week or (b) not more than five days per event and no more than three events a year. Exempt on first \$50,000 of gross receipts per year.

New B&O and sales tax exemptions are created for sales of used books, used videos, used sound recordings, and similar used information products if the proceeds support a public library. These new exemptions apply to the first \$35,000 of gross receipts per year.

Amended Bill Compared to Substitute Bill: The amended bill is identical to a similar measure, SHB 1129, as it passed the House. The original Senate bill increased only the income limit for bazaars and rummage sales to \$10,000.

Appropriation: None.

Fiscal Note: Available. New fiscal note for amended bill requested on April 4, 1995.

Effective Date of Amended Bill: Ninety days after adjournment of session in which the bill passed.

Testimony For: If the \$1,000 limit is exceeded, nonprofit organizations then must pay tax on the entire amount of income. A compromise is needed. Bazaars and rummage sales are the main avenue for churches to raise money. The profit goes for good causes. The tax is an added burden.

Testimony Against: None.

Testified: Senator Gary Strannigan, prime sponsor; and Sharon Foster, YMCA's of Washington and Council of Youth Agencies.