

HOUSE BILL REPORT

HB 1129

As Reported By House Committee On:

Finance

Title: An act relating to tax exemptions for nonprofit organizations.

Brief Description: Modifying tax exemptions for nonprofit organizations.

Sponsors: Representatives Schoesler, Brown, Mulliken, Sheahan, Robertson, Buck, Dyer, Delvin, Skinner, Cooke, McMorris, Talcott, Fuhrman, Brumsickle, Sheldon, Campbell, Boldt, Elliot, Koster, Chandler, Van Luven, K. Schmidt, L. Thomas, Casada, Carlson, Backlund, Basich, Huff, Mitchell, Kremen and Benton.

Brief History:

Committee Activity:

Finance: 1/26/95, 2/21/95 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. 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 Substitute 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.

Substitute Bill Compared to Original Bill: The substitute bill increased number of times fund-raising events can be held, and amounts of money that can be raised. It provides a specific exemption for library used book sales.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 1995.

Testimony For: Local government cannot meet the communities needs. Churches and charities provide programs through various fundraisers. These fundraisers are returned to the community 100 percent. There is no profit margin. One type of fundraiser, book sales, supplement the regional libraries' budgets.

Testimony Against: None.

Testified: Keith Rodabaough, Mt. Vernon Kiwanas; Betty Rae Green, Friends of King County Libraries; Nancy Stafford, Woodinville Friends of Libraries; Thelma Krus, Timberland Regional Library; Louis H. Haugh, Friends of Libraries; and Sharon Foster, Council of Youth Agencies; Boy and Girl Scouts, and YMCA's of Washington.