

HOUSE BILL REPORT

HB 2253

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, Sheldon, Dickerson, Pennington, Boldt, Carrell, Mulliken, Foreman, Reams, Hatfield, Chandler, Quall, Carlson, Thompson, McMorris and Cooke.

Brief History:

Committee Activity:

Finance: 1/15/96, 1/25/96 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mulliken; Schoesler; Sheldon and Van Loven.

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 sales tax is imposed on retail sales of most items of tangible personal property and some services. 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. Sales tax is paid by the purchaser and collected by the seller.

Nonprofit organizations pay B&O tax and collect sales taxes on sales they make, 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 some nonprofit fundraising activities, including auctions, bazaars and rummage sales, and sales of meals for fund-raising purposes. These exemptions are subject to the following limits.

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. The first \$20,000 per year is exempt are exempt from B&O tax and sales tax collection requirements.

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

In 1995, the Legislature considered bills increasing the limits listed above. Only ESSB 5739, which increased the bazaar and rummage sale limit from \$1,000 to \$20,000, was enacted.

Summary of Substitute Bill: The limits for B&O and sales tax exemptions for nonprofit 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 on amount raised.)

Bazaars and rummage sales: Not more than 12 events per year. Not more than five days per event. The first \$35,000 of gross receipts per year is exempt from B&O tax and sales tax collection requirements.

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. The first \$50,000 of gross receipts per year is exempt from B&O tax and sales tax collection requirements.

Libraries: 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. The first \$35,000 of gross receipts per year is exempt from B&O tax and sales tax collection requirements.

Substitute Bill Compared to Original Bill: The substitute bill corrects a drafting error. It deletes a section which duplicates a section enacted in 1995.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on July 1, 1996.

Testimony For: This bill was passed last year by the House of Representatives. It will allow nonprofit organizations to raise money for charitable purposes without having to deal with paying taxes to the Department of Revenue.

Testimony Against: None.

Testified: Claire Hesselholt, Department of Revenue; Thelma Kruse, Washington Library Association; and Sharon Foster, YMCA of Washington's Council of Youth Agencies.