

HOUSE BILL REPORT

HB 2775

As Reported By House Committee On:

Commerce & Labor

Title: An act relating to exclusions from industrial insurance coverage for beneficiaries of irrevocable trusts.

Brief Description: Exempting beneficiaries of irrevocable trusts from industrial insurance coverage.

Sponsors: Representatives Goldsmith, McMorris and L. Thomas.

Brief History:

Committee Activity:

Commerce & Labor: 1/30/96, 1/31/96 [DPS].

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives McMorris, Chairman; Hargrove, Vice Chairman; Thompson, Vice Chairman; Cairnes; Fuhrman; Goldsmith; Horn and Lisk.

Minority Report: Do not pass. Signed by 4 members: Representatives Romero, Ranking Minority Member; Conway, Assistant Ranking Minority Member; Cody and Cole.

Staff: Chris Cordes (786-7117).

Background: Industrial insurance covers all persons, corporate or otherwise, whose trade or business engages in work covered by the industrial insurance law or contracts with workers for personal labor. All employment in Washington must be insured, except employment specifically exempted by statute. Exemptions include sole proprietors, partners, and certain corporate officers.

A trust is an arrangement in which one party (the trustee) holds property interests (the trust estate) for the benefit of another party (the beneficiary). A trust may be revocable or irrevocable.

An example of a business trust is the Massachusetts trust regulated by Washington statute. These trusts are unincorporated business associations created to hold property

for the benefit and profit of persons who are holders of transferable certificates evidencing beneficial interests in the trust estate. These certificate holders are entitled to the same personal liability limitation as stockholders in private corporations.

To do business in Washington, a Massachusetts trust must file its trust instrument with the Secretary of State, listing its assumed business name and the names and addresses of its trustees. The trust is subject to Washington taxes, the law that applies to corporations with respect to issuance of securities, filing of required reports, service of process, the right to sue and be sued and deal in property, and other laws in a manner similar to the laws applicable to corporations.

Summary of Substitute Bill: Beneficiaries of irrevocable trusts are added as employment exempt from mandatory industrial insurance coverage. A trust beneficiary is a holder of a transferable certificate evidencing beneficial interests in the trust estate.

Substitute Bill Compared to Original Bill: The substitute bill adds a definition of the trust beneficiary, who is a holder of a transferable certificate evidencing beneficial interest in the trust estate.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: A trust is irrevocable when the settlor of the trust cannot revoke it. The business trust concept functions like a partnership, but without the partnership liabilities. It is not like a standard employment relationship because the beneficiaries work together for profit. The trust beneficiaries are not considered to be in an employment situation for other purposes. Existing trusts believed that they were exempt from mandatory coverage until recently. This form of business relationship is rare and is not a form that would work for many businesses. It took two years of research for one group to decide that a trust was the correct approach for them. The beneficiaries of the trust are treated more like family than employees. The beneficiaries are more self-sufficient and productive than they were as employees. Individual responsibility is the key to the trust arrangement.

Testimony Against: None.

Testified: Blain Nelson; Fred Murray; Dennis Stauffer; Ron McKnight; and Tom Stoddard.