

HOUSE BILL REPORT

HB 2926

As Reported By House Committee On:

Finance

Title: An act relating to the thoroughbred industry.

Brief Description: Requiring less money from and providing tax exemptions for the thoroughbred industry.

Sponsors: Representatives Silver, Mastin and Robertson.

Brief History:

Committee Activity:

Finance: 2/5/96 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives B. Thomas; Morris, Ranking Minority Member; Hymes; Mason; Pennington; Sheldon and Van Luven.

Minority Report: Do not pass. Signed by 5 members: Representatives Carrell, Vice Chairman; Boldt, Vice Chairman; Dickerson, Assistant Ranking Minority Member; Mulliken and Schoesler.

Staff: Rick Peterson (786-7150).

Background: 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.

Farmers are exempt from sales tax on feed, seed, and fertilizer. This exemption is not available to some horse trainers/breeders because they do not fit the statutory definition of farmer. However, under Department of Revenue practice the sales of feed for registered breeding horses is not subject to retail sales tax. Sales of feed for gelded horses is subject to sales tax.

Washington's major business tax is the business and occupation (B&O) tax. Although there are several different rates, the principal rates are as follows:

Manufacturing, wholesaling, & extracting - 0.506 percent

Retailing - 0.471 percent

Services:

- Selected business services - 2.0 percent

- Financial services - 1.6 percent

- Other activities - 1.83 percent

The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business.

B&O tax applies to the gross incomes of the participants in horse racing who are not race meet operators. For example, some horse sales are subject to retailing B&O tax, horse owners pay B&O service tax on income from race purses and bonuses, horse owners pay B&O service tax on gross income from breeding activities, and income from boarding, training, exercising, riding, grooming, and shoeing horses is taxable under the B&O service rate.

An exemption from the B&O tax is provided for operators of licensed horse racing meets. Instead, these meets pay the parimutuel tax on the gross amount wagered on races. The rate of tax is 0.5 percent for nonprofit races of no more than 10 days with daily receipts of less than \$120,000. The tax rate for other races is 1.0 percent if daily receipts are \$250,000 or less, and 2.5 percent if daily receipts are greater than \$250,000.

Fifty percent of the tax proceeds is used by the Horse Racing Commission for administration. The remainder is deposited into the fair fund (46 percent), the state trade fair fund (3.0 percent), and the general fund (1.0 percent). The fair fund is administered by the Director of Agriculture for assisting county, district, and community agricultural fairs, and youth shows and fairs. The state trade fair fund is administered by the Director to Community, Trade and Economic Development and is allocated to state international trade fairs.

Licensed race meet operators are authorized to retain 12.5 percent of gross amount wagered if daily receipts are \$250,000 or less. If daily receipts are over \$250,000, the licensee may retain 14.0 percent.

Summary of Substitute Bill: Feed sold for thoroughbred race horses is exempt from sales and use tax.

Raising, breeding, training, or selling thoroughbred race horses is exempt from B&O tax. Amounts received as purses for thoroughbred races are exempt from B&O tax.

The 1.0 percent parimutuel tax rate on race meets with daily receipts of \$250,000 or less is decreased to 0.5 percent. The 2.5 percent parimutuel tax rate on race meets with daily receipts greater than \$250,000 is decreased to 2.0 percent.

The amount of daily receipts that can be retained by race meet operators is increased from 12.5 percent to 13.0 percent if receipts are \$250,000 or less, and from 14.0 percent to 14.5 percent if daily receipts are over \$250,000.

Substitute Bill Compared to Original Bill: The substitute bill corrects a typographical error.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill will help restore the horse racing industry. This is a bill agreed upon by the horse racing industry to save racing at Playfair in Spokane. The money will help Playfair operate the track in Spokane. Without this bill Playfair will not reopen. The B&O and sales tax exemption will help the horse owners.

Testimony Against: The closure of Longacres caused a reduction in the monies available for the fairs. This bill will reduce the share of the handle tax that goes to fairs.

Testified: Representative Jean Silver, prime sponsor; Representative Dave Mastin, sponsor; Ron Crockett, Northwest Racing Association (pro); Dan Hillyard, Playfair (pro); Mike Odom, OPHRN (pro); and Marlyta Deck, Washington State Fairs Association (concerns).