

HOUSE BILL REPORT

SHB 1447

As Passed House:

February 27, 1998

Title: An act relating to tax exemptions related to thoroughbred horses.

Brief Description: Providing tax exemptions related to thoroughbred horses.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Robertson, L. Thomas, Clements, Kastama and Cooke).

Brief History:

Committee Activity:

Finance: 1/29/98, 2/4/98 [DPS].

Floor Activity:

Passed House: 2/27/98, 97-0.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler; Thompson and Van Luven.

Staff: Linda Brooks (786-7153).

Background: Washington's major business tax is the business and occupation (B&O) tax. In 1997, the Legislature eliminated the distinction between financial services, selected business services, and other services and consolidated these activities into a single tax rate. These changes will take place July 1, 1998. After July the principal B&O tax rates will be:

Manufacturing, wholesaling, & extracting	0.484	percent
Retailing	0.471	percent
Services	1.5	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 the thoroughbred horse racing industry as follows:

Selling or Leasing Thoroughbred Racing Horses:

Persons who sell or lease thoroughbred racing horses pay the 0.471 percent retailing B&O tax on their gross receipts earned from selling horses at retail. Persons who sell thoroughbred racing horses at wholesale, however, are exempt from paying the 0.484 percent wholesaling B&O tax. A horse is sold at wholesale if the horse is resold within 60 days, there is no intervening use, and the seller receives a resale certificate from the buyer.

Breeding Thoroughbred Racing Horses:

A person pays the 1.5 percent service B&O tax on gross receipts earned from stud fees.

Training, Racing, Exercising, Grooming, or Shoeing Thoroughbred Racing Horses:

Persons who train, race, groom, or shoe the horses pay the 1.5 percent service B&O tax on their gross receipts received as compensation for their services.

Owning Thoroughbred Racing Horses:

Persons who own thoroughbred racing horses pay the 1.5 percent service B&O tax on their gross receipts from racing purses and other awards.

Conducting a Race Meet:

A person who holds a license from the Horse Racing Commission to conduct race meets is already exempt from paying B&O taxes on gross receipts earned from holding a meet. These receipts are subject, however, to a pari-mutuel tax.

Summary of Bill: Persons who race, raise, ride, exercise, groom, breed, train, or sell thoroughbred race horses are exempt from paying B&O taxes on any amounts received as compensation for these services or sales transactions. Compensation includes, but is not limited to, amounts received from purse winnings or awards.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: For 60 years persons connected with the horse racing industry did not pay B&O taxes. Our problems with the B&O tax began when the Department of Revenue reinterpreted the law about four years ago and determined that the B&O tax exemption for persons conducting race meets applied only to the operators of a race track. Operators of a race track are not the only persons required to obtain a license from the Horse Racing Commission. Other persons such as jockeys must also be licensed. It would be impossible to conduct a meet without jockeys, trainers, and other support personnel. The fact that jockeys, trainers, and breeders are paying B&O taxes now is the result of the decision of an administrative agency, but such a decision should be made by the Legislature.

Testimony Against: None.

Testified: Representative Eric Robertson, sponsor; and Frank Warnke, Larry Holis, and Ralph Vacca, Washington Horsemen's Action Committee (pro).