

HB 1450

Bill Analysis

February 18, 1997

Brief Description: Exempting time share resort properties held in trust from B&O and retail sales taxes.

Bill Sponsors: Representatives Thompson, Dunshee, Butler, Pennington, Van Luven, Schoesler, Boldt, Carrell, Mulliken, Morris and Mielke.

Staff: Rick Peterson (786-7150)

Background: Washington's major business tax is the business and occupation (B&O) tax. 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. There are several different tax rates. The tax rate for real property management and motel, hotel, and resort management is 1.75 percent.

The state retail sales tax is imposed on retail sales of most items of tangible personal property and some services. Taxable services include construction, repair, telephone, some personal services, and recreation and amusement services. Lodging services of less than 30 days duration are subject to the sales tax. The 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 8.6 percent depending on the location.

Businesses that sell goods and services subject to the retail sales tax collect the retail sales tax from their customers and also pay the retailing B&O tax (0.471 percent).

The "hotel-motel" tax is a special sales tax on short-term lodgings provided by hotels, motels, rooming houses, trailer camps, and similar facilities. A local-option hotel-motel tax was first authorized in 1967 for King County to build the Kingdome. This taxing authority has since been extended to all counties and most cities.

All counties and most cities are authorized to levy up to a 2 percent hotel-motel tax, known as the "state-shared" or "basic" hotel-motel tax. The city tax is credited against the county hotel-motel tax and both the city and county taxes are credited against the state sales tax. Therefore, the total amount of tax paid by the consumer is not increased because of the state-shared hotel-motel tax.

In recent years, the Legislature has authorized additional state and local option hotel-motel taxes. These local-option taxes are not credited against the state sales tax. Therefore, these taxes increase the total amount of tax paid by the consumer.

A timeshare unit is property in which a person purchases occupancy rights for three or more separate time periods over a period of at least three years.

In some arrangements timeshare participants directly own a specific portion of the facility. When these participants stay overnight in the facility sales tax and hotel-motel tax is not applied.

In other timeshare arrangements participants do not directly own a specific portion of the facility but rather purchase a right to stay at the facility for a period of time. In this case the payments made by the participants are treated as lodging purchases. So, sales tax, hotel-motel tax, and retailing B&O tax are applied in a manner similar to taxes paid by a hotel/motel.

When a person, who is not a participant in the timeshare facility, rents a unit, then the timeshare facility is treated like a hotel/motel. In this case, retail sales tax and any applicable hotel-motel tax is charged the customer and the facility pays B&O retailing tax on this income.

Summary of Bill: Timeshare resort properties, which are held in trust primarily for occupancy by the trust beneficiaries, are exempt from sales tax, hotel-motel tax, and B&O tax. This exemption applies to income from both timeshare participants and nonparticipants.

Businesses which operate timeshare resort properties, which are held in trust primarily for occupancy by the trust beneficiaries, are exempt from B&O tax.

Fiscal Note: Available

Effective Date: If enacted, the bill takes effect 90 days after adjournment.