

HOUSE BILL REPORT

SB 5195

As Passed House
April 14, 1997

Title: An act relating to the taxation of membership sales in discount programs.

Brief Description: Providing for taxation of membership sales in discount programs.

Sponsors: Senators Deccio and Newhouse; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 4/3/97, 4/7/97 [DPA].

Floor Activity:

Passed House: 4/14/97, 62-32.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 8 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Boldt; Pennington; Schoesler; Thompson and Van Luven.

Minority Report: Do not pass. Signed by 7 members: Representatives Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Butler; Conway; Kastama; Mason and Morris.

Staff: Rick Peterson (786-7150).

Background: The business and occupation (B&O) tax is Washington's major business tax. This tax is imposed on the gross receipts of business activities conducted within the state. There are no deductions for the costs of doing business. Although there are several different rates, on July 1, 1997, the principal rates will be as follows:

Manufacturing/wholesaling/extracting	0.484 percent
Retailing	0.471 percent
Services	
- Business Services	2.0 percent
- Financial Services	1.6 percent
- Other service and business activities	1.75 percent

B&O taxes under the business services, financial services, and other service and business activities categories are calculated on the entire gross income of the business, including gross income from sales to clients located in Washington and clients located outside Washington.

Businesses taxed under these categories are treated as consumers of materials they purchase even if these materials are included with the service. These businesses pay sales and use tax on these materials.

Businesses that consolidate discount coupons from a variety of retail businesses into a book or create a directory of participating retailers and sell these together with a membership– card are taxed under the other service and business activities category of the B&O tax. This policy was established in a 1993 Department of Revenue tax decision. This decision was written in response to an appeal by a taxpayer who was assessed retail sales tax on discount membership book sales.

Summary of Amended Bill: Income from sales of discount membership programs where the membership materials are delivered out of state is exempt from B&O tax.

Amended Bill Compared to Original Bill: The original bill created a lower B&O tax rate of 0.471 percent for discount membership program sales. It also established a sales and use tax exemption for purchases of discount membership materials. These provisions are not contained in the amended bill.

Appropriation: None.

Fiscal Note: Available. A fiscal note on the amended bill as passed by the House Finance Committee was ordered on April 8, 1997.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 1997.

Testimony For: This bill is a matter of tax fairness. It will preserve 80 full-time jobs in Washington. The business relied on tax reporting instructions from the Department of Revenue when negotiating its business contracts. The recent change in the Department of Revenue's tax reporting position will have a substantial impact on its business operations.

Testimony Against: None.

Testified: Representative Mary Skinner; Representative Jim Honeyford; and Jacky Crawford and Jake Kupp, Quest International.