

HB 1982

Bill Analysis

February 23, 1999

Brief Description: Exempting horse training businesses from state taxes.

Bill Sponsors: Representatives Thomas, Dunshee, Boldt, Linville, Hatfield, Koster, Morris and Grant.

Brief Summary of Bill

- Persons who board, breed, train, or sell horses are exempt from paying business and occupation tax on any amounts received as compensation for these services or sales transactions.
- Sales of feed for horses are exempt from the retail sales and use tax.

Staff: Linda Brooks, 786-7153.

Background:

Business & Occupation Tax

Washington's major business tax is the business and occupation (B&O) tax. The principal B&O tax rates are:

Manufacturing, wholesaling, and 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.

Persons who sell or lease horses at retail pay the 0.471 percent retailing B&O tax on their gross receipts. Persons who sell horses at wholesale pay the 0.484 percent wholesaling B&O tax on their gross receipts, if the horses are not registered with a nationally recognized breeding association. However, there is a B&O tax exemption for gross receipts earned from selling horses at wholesale, if the horses are registered with a nationally recognized breeding association. 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.

Horse breeders pay the 1.5 percent service B&O tax on gross receipts earned from stud fees. Persons who board, breed, or train the horses pay the 1.5 percent service B&O tax on their gross receipts received as compensation for their services.

Sales & Use Tax

The sales tax is imposed on retail sales of most items of tangible personal property and some services. Use tax is imposed on the use of an item in this state, when the acquisition of the item or service has not been subject to sales tax. The combined state and local sales and use tax rate is between 7 and 8.6 percent, depending on location.

Farmers are exempt from sales and use 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. Nonetheless, under Department of Revenue practice, the sales of feed for registered breeding horses is not subject to sales and use tax. Sales of feed for gelded or spayed horses are subject, however, to sales and use tax. Since geldings and spayed mares may be boarded with breeding stock, feed purchased by a stable is fully taxable unless the bill segregates the charges.

Summary of Bill:

Business & Occupation Tax

Persons who board, breed, train, or sell horses are exempt from paying B&O tax on any amounts received as compensation for these services or sales transactions.

Sales & Use Tax

Sales of feed for horses are exempt from the retail sales and use tax.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect July 1, 1999.