

HOUSE BILL REPORT

HB 1125

As Reported by House Committee On:
Finance

Title: An act relating to limiting the maximum combined sales tax rate on lodging.

Brief Description: Limiting the combined sales tax rate on lodging.

Sponsors: Representatives Cairnes, Morris and Esser.

Brief History:

Committee Activity:

Finance: 1/25/01, 1/30/01 [DPS].

Brief Summary of Substitute Bill

- Requires local sales taxes to provide an exemption for lodging if the total sales tax rate would exceed the greater of 12 percent or the total sales rate in effect on December 1, 2000.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos and Veloria.

Staff: Bob Longman (786-7139).

Background:

State and local sales taxes apply to lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities. General retail sales tax rates ranges between 7.0 and 8.6 percent, depending on location. The state sales tax rate is 6.5 percent. In addition to the state rate, local governments may impose a sales tax up to 1.0 percent for general purposes. Additionally, local governments may impose up to 1.8 percent in sales taxes for dedicated purposes such as transit, criminal justice, juvenile detention, or zoos. However, no local government is using its full taxing authority for these dedicated purposes. The highest current local rate for dedicated purposes is 1.1

percent.

"Hotel-motel" taxes are special sales taxes on lodging rentals. Some hotel-motel taxes are credited against the state sales tax rather than being added to rental charges paid by customers. Other hotel-motel are imposed in addition to ordinary state and local sales taxes and are added to the amount paid by the customer. The state imposes an additional hotel-motel tax to support the Washington State Convention and Trade Center. The rate of this tax is 7 percent in Seattle and 2.8 percent in the remainder of King County, and applies only to facilities with 60 or more lodging units. In general, cities and counties may impose additional hotel-motel taxes up to 2 percent, as long as the total sales tax rate when combined with other hotel-motel, convention center, and state and local sales taxes, does not exceed 12 percent. Because of exceptions to this general rule, some combined rates exceed 12 percent. For example, the total combined sales tax rate on lodging in Seattle is 15.6 percent, and in Bellevue is 14.4 percent. In most other areas of King County it is 12.4 percent.

An additional sales and use tax of two tenths of one percent to support King County Metro public transportation was approved by the voters of King County at the November 7, 2000 election. This additional tax will take effect April 1, 2001. The county ordinance for this new tax provides an exemption for lodging sales that are subject to the state convention and trade center tax. Thus, facilities with more than 60 lodging units are exempt from this tax. There is some question whether state law allows this exemption.

Summary of Substitute Bill:

A local sales and use tax change adopted after December 1, 2000, must provide an exemption for sales of lodging if the total sales tax rate would exceed the greater of 12 percent or the total sales rate in effect on December 1, 2000.

Substitute Bill Compared to Original Bill:

The substitute corrects a drafting error that left out some words.

Appropriation: None.

Fiscal Note: Requested on January 22, 2001.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: In 1997, the lodging industry agreed to additional hotel-motel tax

authority for many jurisdictions, with the understanding that the total sales tax rate for lodging would not exceed certain limits. When King County decided to increase transit taxes last year, it was learned that the limits in the 1997 legislation would not apply to the transit tax increase. This bill just applies the intent of the 1997 legislation to the transit tax increase and any future similar local tax increases. This bill will help preserve the authority of cities to impose hotel-motel taxes by eliminating the possibility of other local taxes squeezing out the total rate capacity. The Department of Revenue has clarified that this bill will not affect the Pierce County zoo tax that was enacted last year.

Testimony Against: None.

Testified: Becky Bogard, Washington State Hotel & Lodging Association; Chuck Williams, King County; Ron Rosenbloom, Association of Washington Cities; Randy Lewis, city of Tacoma; and George Walk, Pierce County.