
Finance Committee

HB 1575

Brief Description: *Modifying the taxation of physical fitness services.*

Sponsors: *Representatives Quall, Cairnes, Morris, O'Brien, Roach, Reardon, Grant, Woods, Linville, Pflug, Hatfield, Carrell, Eickmeyer, Bush, Gombosky, Miloscia, Ruderman, Fromhold, Wood, Lovick, Delvin, Haigh, Hurst, Edmonds, Schoesler, Simpson, Lambert, Cooper, Lantz, Rockefeller, Esser, Barlean, Cox, Sehlin and Van Luven.*

Brief Summary of Bill

Physical fitness services are exempted from retail sales and use taxes, and are reclassified under the business and occupation tax as service activities.

Hearing Date: *2/13/01*

Staff: *Mark Matteson (786-7145).*

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services, including physical fitness services. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent; currently, local rates levied range from 0.5 percent to 2.3 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

The business and occupation (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. Different

tax rates apply for various classifications of business activities and firms may be subject to one or more rate, depending upon the sources of income. The tax rate is 0.471 percent for the activities of firms defined as retailing, which includes physical fitness services. Firms engaged in service activities, generally, are subject to a 1.5 percent B&O rate.

All retail goods and services are included in the tax base for the retail B&O classification and for retail sales and use taxes, unless specifically exempted. In 1981, the Legislature provided several tax breaks to nonprofit youth organizations, including a B&O deduction for membership fees and dues paid for the use of organizations' recreational facilities, as well as a sales tax exemption for amusement and recreation services. In 1993, the Legislature extended the state and local retail sales tax base to certain services, including physical fitness services. This change imposed state and local retail sales and use taxes on charges made for such services, and reduced the B&O tax rate for businesses providing physical fitness services from 1.5 percent to 0.471 percent. In 1994, certain personal services, including physical fitness services, provided by nonprofit youth organizations and governmental agencies were exempted from retail sales taxes.

The effect of the various Legislative changes since 1981 means that nonprofit youth organizations that provide physical fitness services pay no B&O taxes and are not required to collect sales taxes on their services. However, other organizations that provide physical fitness services must collect retail sales taxes and must pay retail B&O taxes on the provision of those services.

Physical fitness services are activities where the primary focus is exercise and include exercise classes, provision of exercise equipment, and provision of personal trainers. Physical fitness services do not include instructional lessons, such as those for tennis, golf, martial arts, and other activities where the primary focus is instruction. Physical fitness services are also different than amusement and recreation services, which include activities like golf, basketball, racquet ball, and swimming, as well as the provision of associated facilities.

Summary of Bill:

Physical fitness services are exempted from the retail sales and use taxes. For the business and occupation tax, physical fitness services are reclassified from retail activities to service activities, resulting in a change in the B&O tax rate from 0.471 percent to 1.5 percent.

Appropriation: None.

Fiscal Note: Requested on February 06, 2001.

Effective Date: The bill takes effect on July 01, 2001.