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## Finance Committee

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### HB 2383

**Brief Description:** Revising tax exemptions for entities organized solely as a blood, bone, or tissue bank.

**Sponsors:** Representatives Berkey, Gombosky and Haigh; by request of Department of Revenue.

#### Brief Summary of Bill

- Modifies existing tax exemptions for blood, bone, and tissue banks as follows.
- Organ and body parts are included in the definition of tissue.
- Transportation of blood, bone, and tissue for transplant is included in the definition of exempt activities.

Only activities that are integrally related to transplanting or replacing existing human blood, bone, or tissue are eligible for exemption.

**Hearing Date:** 1/24/02

**Staff:** Bob Longman (786-7139).

#### Background:

As a general rule, nonprofit organizations are subject to state and local taxes unless there is a specific statutory exemption. Exemption from federal income tax does not automatically provide exemption from state and local taxes. Washington does provide tax exemptions for several types of nonprofit organizations, including blood, bone, and tissue banks. These banks are exempt from business and occupation taxes, retail sales and use taxes, and property taxes. For the purpose of these exemptions, blood, bone, and tissue banks are defined as those organized solely for the purpose of performing research on, procuring, testing, processing, storing, packaging, distributing, or using blood, bone, or tissue.

The Business and Occupation (B & O) tax is Washington's major business tax. This tax is imposed on the gross receipts of business activities. Nonprofit blood, bone, and tissue banks

are exempt from B & O tax to the extent their gross receipts are exempt from federal income tax.

Retail sales and use taxes apply to the sale or use of tangible personal property and of certain services acquired at retail. Sales and use taxes apply to the selling price or value of the item. Sales and use taxes are imposed by the state, counties, and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location. Nonprofit blood, bone, and tissue banks are exempt from sales and use taxes on medical supplies, chemicals, and most other materials used for the bank. However, construction materials, office equipment, building equipment, administrative supplies, and vehicles are not exempt.

Property taxes are annual taxes based on the market value of property. Property taxes are levied by the state and several types of local governments. Property owned or leased by a nonprofit blood, bone, or tissue bank is exempt from property taxes. If the property is leased, the owner of the property must pass the benefit of the exemption on to the nonprofit organization.

**Summary of Bill:**

For tax exemption purposes, the definition of "blood, bone, or tissue bank" is modified to specify that organ and body parts are included as "tissue." This change is retroactive to January 1, 2001.

Transportation and retrieval of tissue for the purpose of transplant or replacement is included in definition of exempt activities. Only activities that are integrally related to transplanting or replacing existing human blood, bone, or tissue are eligible for exemption. These changes declared to be a clarification of the original intent of the Legislature, and apply retroactively without a date limit.

All of these changes are made in the B & O tax exemption statute, which is referenced by the sales, use, and property tax statutes. Therefore, the changes will apply to the sales, use, and property tax exemptions for blood, bone, and tissue banks as well.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.