
Finance Committee

HB 1255

Brief Description: Eliminating the business and occupation tax deduction for initiation fees and dues.

Sponsors: Representatives Moeller, Sells, Upthegrove, Hudgins, Williams, Morrell, Springer, Roberts, O'Brien, Carlyle, Kenney, Liias, Green and Wood.

Brief Summary of Bill

- Eliminates the business and occupational tax deduction for initiation fees and dues.

Hearing Date: 1/27/09

Staff: Joseph Archuleta (786-7192)

Background:

Washington's major business tax is the business and occupation (B&O) tax. 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. Businesses must pay B&O tax even though they may not have any profits or may be operating at a loss. Major tax rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.5 percent for services; several lower rates also apply to specific business activities.

Specific B&O exemptions exist for several types of profit and nonprofit organizations. The eligibility conditions vary for each exemption. The term "exemption" is used broadly to include a wide variety of tax preference items which reduces tax liability upon a certain class of taxpayers. It includes exclusions, deductions, preferential tax rates, deferrals, and credits.

A B&O tax deduction is allowed for amounts derived from bona fide initiation fees and dues. The types of businesses that have claimed this in the past are social clubs, health and fitness services, golf and country clubs, chambers of commerce, and professional business associations. This is a B&O tax deduction for membership dues and fees that are in excess of the cost of

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providing the goods and services. The statute prohibits a deduction for dues that are graduated depending on the type of services received by individuals.

The Joint Legislative Audit & Review Committee's (JLARC) *2007 Tax Preference Performance Review* recommended, in order to ease the administration and compliance of the membership dues and fees tax preference, the Legislature should clarify which clubs should qualify and a simple method to value this deduction.

Summary of Bill:

Eliminates the business and occupational tax deduction for initiation fees and dues.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.