

HOUSE BILL REPORT

HB 1808

As Reported by House Committee On: Finance

Title: An act relating to making the nonprofit and library fund-raising exemption permanent.

Brief Description: Making the nonprofit and library fund-raising exemption permanent.

Sponsors: Representative Orcutt.

Brief History:

Committee Activity:

Finance: 2/14/19, 2/21/19 [DPS].

Brief Summary of Substitute Bill

- Makes permanent the use tax exemption for receipt of a prize valued under \$12,000 from a nonprofit organization or library for a fundraising activity.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary, Vick and Wylie.

Staff: Rachelle Harris (786-7137).

Background:

Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Business and Occupation Tax.

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 the B&O tax even though they may not have any profits or may be operating at a loss.

Nonprofit Fundraising Activities Tax Exemption.

Amounts received from fundraising activities by nonprofit organizations and libraries are exempt from the B&O tax. Similarly, sales made by nonprofit organizations or libraries are exempt from the sales tax. Individuals who purchase or receive as a prize an article of tangible personal property from a nonprofit organization or library for a fundraising activity are exempt from paying use tax on the item, if the property is worth \$12,000 or less.

To qualify for a use tax exemption, a nonprofit or library fundraising event must be:

- exempt from paying B&O tax on the gross income received from the event;
- limited in time rather than an ongoing business endeavor; and
- raising money to further the goals of the nonprofit organization or library.

This tax exemption is scheduled to expire July 1, 2020.

Summary of Substitute Bill:

The use tax exemption for receipt of a prize of an article of tangible personal property from a nonprofit organization or library for a fundraising activity is made permanent. The Department of Revenue (DOR) must annually adjust the value exempted for inflation.

Substitute Bill Compared to Original Bill:

The substitute bill provides a process through which the DOR will adjust the exempted amount for inflation.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Fundraisers for nonprofits often have dozens of prizes being given away. This exemption benefits the nonprofits because it encourages people to purchase items and to contribute to the cause of the nonprofit. This exemption was evaluated by the Joint

Legislative Audit and Review Committee and they recommended it be extended. Fundraisers often provide matching funds for state-funded capital projects.

(Opposed) None.

Persons Testifying: Representative Orcutt, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.