

HOUSE BILL REPORT

HB 2778

As Reported by House Committee On:
Finance

Title: An act relating to the business and occupation taxation of payments and contributions to nonprofit convention and tourism promotion corporations by public entities.

Brief Description: Allowing tax deductions for nonprofit convention and tourism promotion corporations.

Sponsors: Representatives Murray, Kristiansen, Dickerson, Clements, Chase, McDonald and Dunn.

Brief History:

Committee Activity:

Finance: 1/25/06, 1/27/06 [DPS].

Brief Summary of Substitute Bill

- Exempts from the Business and Occupation tax amounts received by nonprofit entities from governments for the purpose of promoting conventions and tourism.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa and Santos.

Staff: Mark Matteson (786-7145).

Background:

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Retailing activities, for example, are taxed at a 0.471 percent rate, while general services are taxed at a 1.5 percent rate.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Payments received by non-governmental entities from

governments are subject to tax unless expressly exempt. One example of an exemption is for payments received by an artistic or cultural organization from a governmental entity.

Hotel-motel taxes and room charges. Several local hotel-motel taxes are authorized under statute on charges for lodging at hotels, motels, rooming houses, private campgrounds, recreation vehicle parks, and similar facilities for continuous periods of less than one month. In general, receipts from these taxes are required to be used for the promotion of tourism or the construction and operation of tourism-related facilities. In calendar year 2004, about \$48.5 million was distributed to local jurisdictions for these purposes.

In 2003, the Legislature authorized the creation of tourism promotion areas. Counties with populations between 40,000 and 1,000,000, and all incorporated cities and towns located in such counties, are authorized to impose a charge on lodging to increase tourism and conventions within such areas. A fee of up to \$2 per day per lodging unit if rented may be assessed. Funding must be used for advertising, publicizing or otherwise distributing information to attract and welcome tourists, and operating tourism destination marketing organizations, in order to increase convention and tourism business.

In calendar 2004, after the passage of the legislation, \$932,000 was collected in four cities and one county imposing the charge.

Governmental convention and tourism promotion. Governments allocate portions of budgets for the purpose of promoting conventions and tourism. According to data received in the Budgeting, Accounting, and Reporting System (BARS), local governments in Washington spent about \$12.4 million in operating funding in calendar year 2004 on conventions and tourism, and an additional \$3 million for the purposes of marketing events at fairgrounds and stadia.

Governments may contract with private entities to assist with the promotion of tourism or conventions. Many local governments establish contracts with local convention and visitors bureaus or local chambers of commerce for the purposes of promoting tourism or conventions.

Summary of Substitute Bill:

Payments received by nonprofit businesses from governments for the purpose of promoting conventions and tourism are exempt from B&O tax.

Substitute Bill Compared to Original Bill:

Converts the proposed deduction from B&O tax into an exemption from B&O tax.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The tourism and convention business is a growing industry. At the state level, we don't support this industry as do other states, in part because of constitutional restrictions. This is an opportunity to show state support.

The state does not provide sufficient funding for tourism. I've seen really big estimates of return-on-investment. This is a rural issue as well as an urban issue.

The Washington Convention and Visitors Bureaus Association is bringing this to clean up uncertainty in the law concerning this industry. A few of our members have been paying tax but most have not. The bill makes it clear that funds, derived from hotel-motel taxes and lodging fees, would in fact be used for tourism purposes.

The state receives about \$12 billion annually from tourism. In addition to the Governor's support for creating a "Washington" brand, Mayor Nickels also wants to create a brand for Seattle.

Testimony Against: None.

Persons Testifying: Representative Murray, prime sponsor; Representative Kristiansen; Becky Bogard, Washington Convention and Visitors Bureau; and Dan Welsh, Seattle Convention and Visitors Bureau.

Persons Signed In To Testify But Not Testifying: None.