

HOUSE BILL REPORT

HB 1323

As Reported by House Committee On:
Finance

Title: An act relating to creating a business and occupation tax deduction for certain amounts received by zoological facilities.

Brief Description: Creating a business and occupation tax deduction for certain amounts received by zoological facilities.

Sponsors: Representatives Fitzgibbon, Stokesbary, Macri, Barkis and Leavitt.

Brief History:

Committee Activity:

Finance: 2/7/19, 2/26/19 [DPS].

Brief Summary of Substitute Bill

Provides a business and occupation (B&O) tax deduction for the income derived for business activities conducted by an accredited zoological facility.

Provides a B&O tax deduction for moneys received from public sources to support zoological presentations, performances, or education programs provided by an accredited zoological facility.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary and Vick.

Staff: Tracey O'Brien (786-7152).

Background:

Business & 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

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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.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. In general, the credit is \$70 per month for service businesses and \$35 per month for all other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$28,000 per year, or less than \$46,667 if at least 50 percent of its taxable income is from services or activities not classified elsewhere.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Zoos and Aquariums.

The Association of Zoos and Aquariums (AZA) is a 501(c)(3) nonprofit organization and is an independent accrediting organization for zoos and aquariums. Currently, it accredits over 230 institutions worldwide. Zoos and aquariums must meet the AZA's standards in animal care, educational programs, scientific research, and conservation to be accredited.

There are four AZA-accredited zoos or aquariums in Washington. The Woodland Park Zoo, the Seattle Aquarium, Point Defiance Zoo and Aquarium, and Northwest Trek Wildlife Park.

Summary of Substitute Bill:

A B&O tax credit is allowed for income derived by a zoological facility from its business activities. In addition, a B&O tax credit is allowed for the income received from a

government entity to support zoological exhibitions, presentations, performances, or educational programs provided by the zoological facility.

A "zoological facility" is defined as a local government or nonprofit facility accredited by the Association of Zoos and Aquariums.

The tax preference performance statement categorizes this tax preference as one to address inconsistencies in the tax law and states that the public policy objective is to provide education and recreational opportunities for Washington citizens and assist zoological facilities in fulfilling their public purpose. The Legislature intends to renew the preference if the zoological facilities increase their annual spending on programs that improve access for underserved populations through the use of community access admissions, school programming, transportation costs, or in-community programming.

Substitute Bill Compared to Original Bill:

A tax preference performance statement is provided. "Local government facilities" are added to the definition of "zoological facility".

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on January 1, 2020.

Staff Summary of Public Testimony:

(In support) A decision was made to transfer the ownership of Woodland Park Zoo from the City of Seattle to a 501(c)(3) nonprofit organization, which created a situation where the zoo is liable for B&O tax on its entrance fees. This is true for other similar institutions such as the Seattle Aquarium, Point Defiance Zoo and Aquarium, and Northwest Trek Wildlife Park. These facilities are of great economic and educational value to our communities. They provide educational programs and host thousands of students every year. Admission and transportation assistance is available for qualified schools. More can be accomplished if the state treats zoological facilities the same as other cultural facilities. With the savings, the science, technology, engineering, and mathematics curriculum can be expanded, underserved communities can be reached, and conservation programs increased.

(Opposed) Woodland Park Zoo refuses to be open and transparent to the public. This is evidenced by the public records case that went to the Washington Supreme Court. The zoo is not a core or essential government function. Indeed, it is a private business and should be treated as such. There are no significant statistical, educational, or conservation gains resulting from zoos. Wildlife confinement and exhibition is not educational. These are entertainment venues and should be treated as such.

Persons Testifying: (In support) Representative Fitzgibbon, prime sponsor; Brad Rutherford, Seattle Aquarium; Andrew Austin, Metro Parks Tacoma; and Wei Ying Wong, Woodland Park Zoo.

(Opposed) Marla Katz, Friends of Woodland Park Zoo Elephants; and Richard Hall.

Persons Signed In To Testify But Not Testifying: None.