

HOUSE BILL REPORT

EHB 2968

As Passed House:

February 17, 2004

Title: An act relating to excise tax deductions for governmental payments to nonprofit organizations for salmon restoration.

Brief Description: Providing excise tax deductions for governmental payments to nonprofit organizations for salmon restoration.

Sponsors: By Representatives Linville, Quall and Rockefeller.

Brief History:

Committee Activity:

Finance: 2/3/04, 2/5/04 [DP].

Floor Activity:

Passed House: 2/17/04, 96-0.

Brief Summary of Engrossed Bill

- Provides a business and occupation tax deduction for nonprofit organizations that receive government grants to support salmon restoration purposes.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

Staff: Bob Longman (786-7139).

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. Since the B&O tax is not based on profits, nonprofit organizations are not automatically exempt from B&O tax. Exemption from federal income tax does not automatically provide exemption

from state and local taxes. Specific B&O exemptions, covering all or most gross income, exist for several types of nonprofit organizations. The eligibility conditions vary for each exemption. The exemptions include: nonprofit agricultural fairs, nonprofit church day care, bazaars and rummage sales, fund-raising auctions, nonprofit student loan agencies, nonprofit consumer debt counseling organizations, nonprofit fraternal organization for premiums for death benefits, the Red Cross, sheltered workshops, youth organizations for membership fees and certain service fees, trade shows, kidney dialysis facilities, health or social welfare organizations, nonprofit artistic and cultural organizations, and public safety standards and testing organizations.

For B&O tax, a deduction is like an exemption, except in the manner in which it is reported on the taxpayer's return. For an exemption, the taxpayer does not report the exempt income at all. For a deduction, the taxpayer shows the deduction as a reduction from taxable gross income.

Summary of Engrossed Bill:

For B&O tax, a nonprofit organization is allowed a deduction from taxable gross income for government grants received to support salmon restoration purposes.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: Taxing state grants for nonprofit salmon restoration would just move money from one government pocket to another. These taxes have never been collected in the past. Federal grants for salmon restoration do not include any funds to pay state taxes. It would bankrupt the nonprofit organizations to try to pay the taxes out of other funds. We should encourage salmon restoration efforts, not tax them. The amount of tax is fiscally insignificant for the state but very significant to the organizations. This bill is drafted too narrowly. The bill should be expanded to exempt all projects for salmon restoration, not just nonprofits. We should put as much money as possible towards salmon restoration.

Testimony Against: None.

Persons Testifying: (In support) Representative Linville, prime sponsor; Ed Owens, Coalition of Coastal Fisheries; and Duke Schaub, Association of General Contractors.

(Concerns) Ric Abbett and Darlene Madenwald, Trout Unlimited; Terry Wright,

Northwest Indian Fisheries Commission; and Michael Karp, A World Institute for Sustainable Humanities.

Persons Signed In To Testify But Not Testifying: None.