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**Finance Committee**

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**HB 2590**

**Brief Description:** Exempting nonprofit organizations organized for zoological purposes from certain excise taxes.

**Sponsors:** Representatives Dickerson and McIntire.

**Brief Summary of Bill**

- Extends the deductions under the B&O tax and exemptions under the sales and use tax for artistic and cultural organizations to certain nonprofit zoological societies.

**Hearing Date:** 1/17/06

**Staff:** Mark Matteson (786-7145).

**Background:**

*B&O 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. The tax rate for most types of businesses that provide services is 1.5 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. In addition, nonprofit organizations are also generally subject to the tax.

*Retail Sales and Use Taxes.* The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent. Currently, local rates levied range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on taxable items and services used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

All items or services sold or acquired at retail are subject to the retail sales and use taxes unless specifically exempted otherwise. Tax is due at the time of sale or first use within the state.

*Artistic and Cultural Organizations.* One category of nonprofit organizations that has been granted deductions from B&O tax for certain types of income, and an exemption from retail sales and use taxes for certain purchases, is artistic and cultural organizations. This category is defined to include only those organizations that are organized and operated exclusively for the purpose of providing artistic or cultural exhibitions, presentations, or performances, or cultural or art education programs. Examples of such organizations are performance art companies and art museums. Such organizations are allowed to deduct income derived from government grants, tuition for educational programs, items manufactured for artistic or cultural purposes by the organization, and business activities (such as admissions fees). These organizations are also exempt from paying sales and use taxes on objects of art, items with cultural value, objects used to create art, and items used to display art or to present cultural performances.

To qualify for the B&O tax deductions and sales and use tax exemptions, an artistic or cultural organization must be organized as a nonprofit corporation and must be managed by a board of at least eight persons, none of whom may be a paid employee of the organization. In addition, the corporation must satisfy other requirements pertaining to compensation to officers and members, licensing, use of moneys for which a deduction is sought, and accountability.

*Zoological Societies.* Zoological societies (zoos) are facilities provided to promote, preserve, and support wildlife. Zoos may provide a number of services to customers, including animal exhibitions, educational and outreach programs, and special events, among others. Zoos may receive funds from admissions, governments, fundraisers, or other means.

Some zoos are owned and/or managed by nonprofit corporations. The nonprofit may own and operate the zoo directly, such as in the case of Cougar Mountain Zoo in Issaquah, or may contract with the city that owns the zoo to manage it, such as in the case of Woodland Park Zoo in Seattle.

In July 2005, the state Board of Tax Appeals upheld a ruling by the Department of Revenue that the Woodland Park Zoological Society, the organization that manages Woodland Park Zoo, is not an artistic or cultural organization for the purposes of state tax law and the respective deductions and exemptions under the B&O and sales and use taxes. In its ruling, the board distinguished between organizations whose primary focus is human art or culture and those whose focus is animals.

**Summary of Bill:**

The deductions under the B&O tax and the exemptions under the sales and use taxes that are allowed to artistic or cultural nonprofit corporations are extended to nonprofit corporations that are organized for the exclusive purpose of providing zoological exhibitions, presentations, or performances, or zoological education programs, at a zoological facility that is publicly owned.

**Appropriation:** None.

**Fiscal Note:** Requested on 1/11/06.

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