

FINAL BILL REPORT

SHB 2778

C 310 L 06

Synopsis as Enacted

Brief Description: Exempting certain amounts received by nonprofit convention and tourism promotion corporations from business and occupation tax.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Murray, Kristiansen, Dickerson, Clements, Chase, McDonald and Dunn).

House Committee on Finance

Senate Committee on International Trade & Economic Development

Senate Committee on Ways & Means

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. The Department of Revenue administers local hotel-motel taxes on behalf of the jurisdictions imposing the tax. 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 rented lodging unit may be assessed. Funding must be used for advertising, publicizing, or otherwise distributing information to attract and welcome tourists, or for operating tourism destination marketing

organizations, in order to increase convention and tourism business. In calendar 2004, \$931,685 was collected in the 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 funds 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, which are typically nonprofit entities, for the purposes of promoting tourism or conventions.

Summary:

Payments received by nonprofit businesses from public entities for the purpose of promoting conventions and tourism are exempt from B&O tax. Exempt payments include eligible amounts received from the state, counties, cities, towns, municipal and quasi-municipal corporations, public corporations, port districts, and Indian tribes.

Votes on Final Passage:

House	96	0	
Senate	47	0	(Senate amended)
House	98	0	(House concurred)

Effective: June 7, 2006