

# SENATE BILL REPORT

## EHB 1032

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As Reported by Senate Committee On:  
Ways & Means, April 19, 2017

**Title:** An act relating to the excise taxation of martial arts.

**Brief Description:** Concerning the excise taxation of martial arts.

**Sponsors:** Representatives Ryu, Orcutt, Kirby, Vick, Santos, Nealey, Appleton, Manweller, Sawyer, Muri, Blake, Goodman, Stonier, Ortiz-Self, Springer, Hargrove, Peterson, Tarleton, Pettigrew, Stokesbary, Farrell, Clibborn, Stanford, Lytton, Pollet, Kagi, Fitzgibbon, Barkis, Van Werven, Frame, Dolan, Buys, Gregerson, Haler, Young, Dent, Kilduff, Shea and Macri.

**Brief History:** Passed House: 4/06/17, 92-3.

**Committee Activity:** Ways & Means: 4/19/17 [DP, w/oRec].

### Brief Summary of Bill

- Removes martial arts activities not held at an athletic facility from the definition of a retail sale and reclassifies these activities to a service and other activity for business and occupation tax purposes.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Braun, Chair; Brown, Vice Chair; Rossi, Vice Chair; Honeyford, Vice Chair, Capital Budget ; Ranker, Ranking Minority Member; Rolfes, Assistant Ranking Minority Member, Operating Budget; Frockt, Assistant Ranking Minority Member, Capital Budget; Bailey, Billig, Conway, Darneille, Fain, Hasegawa, Keiser, Miloscia, Padden, Pedersen, Warnick and Zeiger.

**Minority Report:** That it be referred without recommendation.

Signed by Senators Becker, Carlyle and Schoesler.

**Staff:** Jeff Olsen (786-7428)

**Background:** Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a

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sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital product, or service, then use taxes apply to the value of property, digital product, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 to 3.1 percent, depending on the location.

Business and Occupation Tax. Washington's major business tax is the 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. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Retailing activities are subject to a rate of 0.471 percent, and service and other activities are subject to a rate of 1.5 percent.

House Bill 1550. House Bill 1550, effective January 1, 2016, revised the definition of retail sales in regards to physical fitness activities. While HB 1550 excluded most yoga, tai chi, and chi gong events from the definition of retail sales, martial arts was included in the definition of a taxable retail sale. This represented a change from the definition of retail sales prior to HB 1550 under which martial arts was not considered a retail sale. HB 1550 did include in the definition of retail sales yoga, tai chi, and chi gong events held at an athletic or fitness facility. Athletic or fitness facility is defined as an indoor or outdoor facility or portion of a facility that is primarily used for physical activities including exercise classes, personal training, and tennis.

**Summary of Bill:** Martial arts activities that do not occur at an athletic or fitness facility, but instead occur at any other facility, such as a community center, school, or stand-alone yoga or martial arts studio, are removed from the definition of retail sale. These activities are not subject to the sales tax, but are subject to the service and other activities B&O tax rate of 1.5 percent. "Martial arts" are defined as any of the various systems of training for physical combat or self-defense, including but not limited to karate, kung fu, tae kwon do, Krav Maga, boxing, kickboxing, jujitsu, shootfighting, wrestling, aikido, judo, hapkido, Kendo, tai chi, and mixed martial arts.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2017.

**Staff Summary of Public Testimony:** No public hearing was held.

**Persons Testifying:** N/A.

**Persons Signed In To Testify But Not Testifying:** N/A.