
Finance Committee

HB 1703

Brief Description: Establishing an equine industry tax credit, allowing the horse racing commission to impose a fee, and using equine industry sales tax revenues for federal regulatory compliance.

Sponsors: Representatives Stearns, Schmick and Goodman.

Brief Summary of Bill

- Creates a business and occupation tax credit for amounts paid to the federal Horseracing Integrity Safety Authority or the Washington Horse Racing Commission (Commission).
- Authorizes the Commission to impose a new fee.
- Creates an annual \$1.5 million transfer from the state general fund to the newly created Washington Equine Industry Federal Regulatory Account from amounts derived from sales taxes on equine-related products and services.

Hearing Date: 2/21/25

Staff: Rachelle Harris (786-7137).

Background:

Washington Horse Racing Commission and Parimutuel Tax.

The Washington Horse Racing Commission (Commission) is responsible for licensing, regulating, and supervising all horse race meets held in Washington where the parimutuel system of betting is used. The Commission is also responsible for inspecting each race course in the state at least once a year.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Betting or wagering on a horse race is lawful only when done via the parimutuel method. The parimutuel method is a wagering system in which the bets are pooled, taxes and commissions are removed, and payoffs are calculated by sharing the pool among all of the winning bets.

Licenses that operate race meets must withhold and pay a parimutuel tax that is a percentage of all the daily gross receipts from the in-state parimutuel machines. The tax is paid to the Commission daily, for each authorized day of parimutuel wagering. The parimutuel tax rate is:

- 1.3 percent if gross receipts from the previous calendar year are greater than \$50 million; or
- 1.803 percent if gross receipts from the previous calendar year are less than \$50 million.

The receipts from the parimutuel tax are deposited in the Washington Horse Racing Commission operating (WHRCO) account. The WHRCO account also holds any gifts, grants, or endowments the Commission receives. The Commission may authorize expenditures from the WHRCO account. Money in the account must be used for the Commission's operating expenses, except as otherwise required in the terms of a gift, grant, or endowment. If sufficient funds are available for operating expenses, the Commission may spend up to \$300,000 per fiscal year in support of the equine industry. If a licensee is a nonprofit, and meets less than ten days a year, they are not subject to the parimutuel tax.

Sums paid to the Commission, including license fees, but excluding licensee withholdings paid to the Commission related to nonprofit race meets and Washington-bred-only horse race payments, are retained by the Commission for the payment of salaries to its members, secretary, clerical and office expenses, and all other expenses incurred.

Race Fee.

Every person wanting to hold a horse race with betting and wagering must apply to the Commission for a license and must pay a fee. The licensee shall provide certain information on the race meet. The number of horse race meet days as well as the gross receipts from parimutuel betting from the previous calendar year shall determine the daily fee. Licensees that had gross receipts from parimutuel machines in excess of \$50 million in the previous year must pay a \$500 daily fee, while those at or below \$50 million in the previous year must pay a \$200 daily fee. There must be at least six, but no more than 11, races per day for each licensee subject to the daily fee.

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. 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 and wholesaling; and 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75

percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. There are many specialized B&O tax rates and preferential rates that apply to specific business activities.

Summary of Bill:

The Commission is authorized to impose fees to pay federal fees and be in compliance with the Horseracing Integrity and Safety Act of 2020. Revenues from the fees must be deposited into the newly created Washington Equine Industry Federal Regulatory (WEIFR) account. Money in the account can only be used to pay fees charged by the federal Horseracing Integrity Safety Authority (HISA).

A B&O tax credit is created for persons that conduct horseracing meets in the state. The credit is the amount paid to either the federal HISA or to the Commission. The person must have made the payment before claiming the credit. In order to claim the credit, the person must file all returns, forms, and any other necessary information with the Department of Revenue (DOR). Filing for the tax credit does not require an application. The Commission must be able to provide information to verify eligibility for the tax credit.

Beginning July 1, 2026, and July 1 of each year thereafter, the Office of the State Treasurer must transfer an amount not to exceed \$1.5 million per fiscal year from the general fund into the WEIFR account. The amount deposited into the WEIFR account will be funded by the imposition of state sales and use taxes charged on:

- equines;
- equine feed;
- prescription or over-the-counter drugs, or supplements dispensed to equines;
- equine tack;
- horse bedding and grooming supplies;
- other taxable sales directly related to equine ownership, riding, or boarding; and
- the sale of horses, including equines claimed at class 1- and class C-regulated race meets.

Each biennium the \$1.5 million limit may be reviewed and increased for inflation as determined by the DOR and federal fee amounts determined by the Commission.

Appropriation: None.

Fiscal Note: Requested on January 30, 2025.

Effective Date: The bill takes effect on July 1, 2025.