

SENATE BILL REPORT

SSB 6351

As Passed Senate, March 3, 2026

Title: An act relating to increasing fiscal resources for students and children by providing targeted sales tax exemptions for schools and certain before-and-after school care programs and arts and cultural classes.

Brief Description: Increasing fiscal resources for students and children by providing targeted sales tax exemptions for schools and certain before-and-after school care programs and arts and cultural classes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Cortes, Krishnadasan, Conway, Dhingra, Frame, Hasegawa, Nobles, Pedersen, Saldaña, Stanford, Trudeau, Valdez and Wilson, C.).

Brief History:

Committee Activity: Ways & Means: 2/19/26, 3/02/26 [DPS].

Floor Activity: Passed Senate: 3/3/26, 49-0.

Brief Summary of First Substitute Bill

- Exempts schools from retail sales tax on the purchase of certain select services.
- Excludes before-and-after school care programs and classes provided by nonprofit arts and cultural organizations from the definition a retail sale subject to retail sales tax and retailing business and occupation tax.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6351 be substituted therefor, and the substitute bill do pass.

Signed by Senators Robinson, Chair; Stanford, Vice Chair, Operating; Trudeau, Vice Chair, Capital; Frame, Vice Chair, Finance; Gildon, Ranking Member, Operating; Torres,

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.

Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Dozier, Assistant Ranking Member, Capital; Boehnke, Braun, Cleveland, Conway, Dhingra, Hansen, Hasegawa, Kauffman, Muzzall, Pedersen, Riccelli, Saldaña, Wagoner, Warnick, Wellman and Wilson, C..

Staff: Alia Kennedy (786-7405)

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. 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. The general B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5, 1.75, or 2.1 percent for services and for activities not classified elsewhere—depending on taxable income. Current law authorizes multiple exemptions, deductions, and credits to reduce the B&O tax liability for specific taxpayers and business industries.

Retail 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 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 products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities 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 percent to 4.1 percent, depending on the location.

Retail Services. Businesses that sell intangible products to customers are subject to B&O tax under the services and other classification. Customers do not pay retail sales and use tax on most services. A select number of services are subject to retail sales and use tax, such as construction services, personal training at athletic and fitness facilities, extended warranties and maintenance agreements, alarm monitoring services, and vehicle towing, to name a few. If the service is taxable as a retail sale, then the business activity is subject to retailing B&O tax.

Digital Products. Retail sales and use taxes apply to all digital products, regardless of how they are accessed. Digital products are digital goods and Digital Automated Services (DAS). A DAS is any service transferred electronically that uses one or more software applications. A digital good is a sound, image, data, fact, or information, or any combination thereof, transferred or accessed electronically.

Newly Enacted Retail Services. Pursuant to ESSB 5814, beginning October 1, 2025, the following select services are classified as retail services and subject to retail sales tax and retailing B&O tax:

- custom software and customization of prewritten software;
- custom website design, support, and development services;
- information technology related training services, technical support, and other services;
- investigation, security services, security monitoring, armored car services, but excluding locksmith services;
- temporary staffing, except for temporary staff provided at hospitals;
- advertising services, but excluding web hosting services, domain name registration, and services rendered in respect to newspapers, printing or publishing, certain radio and television broadcasting, out-of-home advertising, including billboards, street furniture advertising, transit advertising, place-based advertising, such as in-store displays or point-of-sale advertising, dynamic or static signage at live events, naming rights, and fixed signage advertising; and
- live presentations.

The following DAS are also classified as retail services and subject to retail sales tax and retailing B&O tax:

- any service that primarily involves the application of human effort by the seller;
- live presentations;
- advertising services; and
- digital processing services.

The sale of services between members of an affiliated group are not considered a retail service for purposes of retail sales tax and retailing B&O tax.

Live Presentations. Live presentations include, but are not limited to, lectures, seminars, workshops, or courses where participants attend either in person or via the Internet or telecommunications equipment that allows audience members and the presenter or instructor to give, receive, and discuss information with each other in real time. A taxable live presentation requires a fee, charge, or any other exchange of consideration between any parties involved.

Tax Preference Requirements. All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. An automatic ten-year expiration date is applied to new tax preferences if an alternative expiration date is not provided in the legislation.

Summary of First Substitute Bill: Retail Sales Tax Exemption for Schools. The following services are exempt from retail sales tax if the sale is made to an elementary or secondary school, school district, or educational service district:

- custom software and customization of prewritten software;
- custom website design, support, and development services;

- information technology related training services, technical support, and other services;
- investigation, security services, security monitoring, armored car services;
- temporary staffing;
- advertising services; and
- live presentations.

The following DAS are exempt from retail sales tax if the sale is made to an elementary or secondary school, school district, or educational service district:

- any service that primarily involves the application of human effort by the seller;
- live presentations;
- advertising services; and
- digital processing services.

Live Presentations Exclusions. Before-and-after school care programs and programs provided by arts and cultural nonprofit organizations are excluded from the definition of live presentations. As a result, retail sales tax does not apply to the sale of before-and-after school care programs and classes provided by arts and cultural nonprofit organizations. The gross income derived from the sale of such services is subject to B&O tax under the services and other activities classification, rather than the retailing B&O tax classification.

Before-and-after school care programs are programs for school aged children that primarily occur before or after regular school hours and that provide educational or other enrichment activities including, but not limited to, athletics, tutoring, clubs, outdoor exploration, specialized skill building, and similar activities.

Programs provided by arts and cultural nonprofit organizations includes classes, seminars, rehearsals, workshops, or courses dedicated to promoting, providing, or supporting education in visual, performing, literary, or media arts to the general public. .

Tax Preference Requirements. The act is not subject to tax preference performance review or automatic expiration.

Appropriation: None.

Fiscal Note: Requested on February 7, 2026.

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

Effective Date: The bill takes effect on July 1, 2026.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: The tax exemption for schools is much needed but should be expanded to include school districts and educational services

districts. The bill should apply to K-12 public schools. School districts are currently paying taxes on basic educational services, many of which are for special education programs. The taxes imposed on services have a significant impact on the limited budgets of school districts. This bill is a priority for school districts across the state. The bill should be expanded to include homeschooled students taking enrichment classes, as well as enrichment classes held at community centers, senior centers, and retirement homes.

OTHER: The term "classes" is too ambiguous and does not indicate what activities are excluded from tax.

Persons Testifying: PRO: Grace Yuan, School Alliance; Charlie Brown, South Sound Superintendents, Federal Way School District; Logan Noel-Endres, Washington State School Directors' Association (WSSDA); Marissa Rathbone, Washington Assn of School Administrators (WASA) & WA Assn of School Business Officials (WASBO); Clifford Traisman, Seattle, Bellevue, Highline, Northshore Public School Districts; Mary Templeton, School Alliance; Jason Kuo, Washington State Music Teachers Association; Lance Goodpaster, Franklin Pierce Schools; Braden Sigua, Pacific Science Center; Tori Emerson, President, Washington State PTA.

OTHER: Milt Harper, Student Orchestras of Greater Olympia.

Persons Signed In To Testify But Not Testifying: No one.