

# HOUSE BILL REPORT

## SHB 2341

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As Passed Legislature

**Title:** An act relating to a sales tax exemption for certain personal services provided by nonprofit and government agencies.

**Brief Description:** Exempting from the sales tax certain personal services provided by nonprofit youth organizations and government agencies.

**Sponsors:** By House Committee on Revenue (originally sponsored by Representatives Romero, Cooke, Talcott, L. Thomas, Wood, Silver and Roland).

**Brief History:**

Reported by House Committee on:  
Revenue, February 5, 1994, DPS;  
Passed House, February 26, 1994, 81-7;  
Passed Legislature.

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### HOUSE COMMITTEE ON REVENUE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Foreman, Ranking Minority Member; Anderson; Caver; Leonard; Romero; Silver; Talcott and Thibaudeau.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Rust and Wang.

**Staff:** Rick Peterson (786-7150).

**Background:** The state retail sales tax applies to the sale to consumers of most goods and many services. The state tax rate is 6.5 percent of the selling price. Local governments may levy additional sales taxes. The average local sales tax rate is 1.5 percent. The sales tax is paid by the purchaser and collected by the seller.

Taxable services include construction, repair, automobile parking and storage, telephone services, some recreation and amusement services, and services provided by abstract, title insurance, escrow, credit bureau businesses. In 1993, the Legislature added several categories of services to the sales tax including: coin-operated laundry facilities in

apartment houses, hotels, trailer camps, and tourist camps; landscape maintenance and horticultural services other than horticultural services provided to farmers; service charges associated with tickets to professional sporting events; guided tours and guided charters; physical fitness services; tanning salon services; tattoo parlor services; massage services; steam bath services; turkish bath services; escort services; dating services; and the rental of equipment with an operator.

Many types of services remain exempt from sales tax. Major exempt categories include medical, legal, accounting, engineering, motion pictures, veterinary, cable television, and beauty and barber services.

Physical fitness services, which are subject to sales tax, include activities such as, weight lifting, running tracks, exercise equipment, aerobics classes, and personal trainers. A sales tax exemption has existed since 1981 for sales of amusement and recreation services by a nonprofit youth organization to its members. However, this exemption is limited to "amusement and recreation" activities and does not cover physical fitness activities. This exemption does not cover sales of amusement and recreation services by a government agency.

Washington law does not provide a general exemption from the retail sales tax for nonprofit organizations or government agencies. Most sales tax exemptions are for specific items, such as food for home consumption and prescription drugs. Nonprofit organizations generally collect tax from purchasers when selling goods and services subject to sales tax and pay tax when buying goods and services subject to sales tax. A few exemptions exist for nonprofit organizations: sales of amusement and recreation services by nonprofit youth organizations, sales to the Red Cross, sales of art objects to nonprofit artistic and cultural organizations, and fund raising auction sales by public benefit nonprofit organizations.

**Summary of Bill:** The bill expands the existing sales tax exemption for amusement and recreational services sold by nonprofit youth organizations to include physical fitness services. A sales tax exemption is created for physical fitness classes provided by a local government.

**Fiscal Note:** Available. New fiscal note requested on substitute bill February 7, 1994.

**Effective Date:** The bill takes effect July 1, 1994.

**Testimony For:** The YMCA is more than a fitness center. The Y's provide late night programs for at risk youth, youth and family programs, child care, programs for disabled persons and scholarships for needy children. The organization gives a lot back to the community. Local government park and recreation programs are now required to collect tax on folks who weren't taxed before. These include programs for youth at risk and senior citizens.

**Testimony Against:** Current administration of the tax is unfair. The Department of Revenue has ruled that YMCA's need only collect tax on 15 percent of their dues, while for profit fitness centers must now collect tax on 100 percent of their dues. Fitness services should not be taxed. If they are taxed, then the tax should apply equally. The issue is fair competition.

**Witnesses:** (Pro) Representative Sandra Romero, Prime Sponsor; Sharon Foster, YMCA of Washington State; Ruth Weigelt, Olympia YMCA; Neil Nicoll, Seattle YMCA; Mike Ryherd, Evergreen Alliance; Dr. Dick Moe, Metro Parks of Tacoma; Chuck Field, Bainbridge Park District; and Terry Higashiyama, Renton Parks.

(Con) Al Levine, Northwest Athletic Clubs of America; Earl Pratt, Yakima Athletic Club; Mike Funk, Valley Racquet and Fitness Club; Mark Haye, Highline Athletic Club; and George Easterman, Riverside Health and Fitness.