

HOUSE BILL REPORT

HB 1593

As Reported By House Committee On:

Finance

Title: An act relating to tax status of child care providers and nonprofit organizations that provide services to children and families.

Brief Description: Providing tax exemptions for entities providing services to children.

Sponsors: Representatives Boldt, Morris, Carrell, Sherstad, Kremen, Hargrove, Mastin and Kessler.

Brief History:

Committee Activity:

Finance: 2/23/95, 3/6/95 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Staff: Rick Peterson (786-7150).

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Nonprofit organizations pay B&O tax unless specifically exempted by statute. Exemption from federal income tax does not automatically provide exemption from state taxes. Specific B&O exemptions, covering all or most income, exist for several types of nonprofit organizations. The eligibility conditions vary for each exemption.

Nonprofit health or social welfare organizations are eligible for a B&O tax exemption on income received from governments for performing health or social welfare services. Health or social welfare services include the care of orphans or foster children, day care of children, and many other services.

Nonprofit health or social welfare organizations are managed by a governing board of at least eight persons, none of whom is a paid employee of the organization. Compensation to officers and executives must be for actual services performed and cannot exceed levels comparable to compensation within state service. The assets of the nonprofit corporation must be irrevocably dedicated to the purposes of the organization, and no part of the income of the organization may be paid to any member, officer, director or trustee except for services performed by these persons.

Privately operated kindergartens are exempt from B&O tax. The Department of Revenue has interpreted this exemption to include any kindergarten, nursery school, preschool, or day care center that cares for children below the first grade level. An organization caring for children of all ages must pay B&O tax at the 2.09 percent services rate on income received from children at or above the first grade level. However, a specific B&O tax exemption is available to churches providing child care for periods of less than 24 hours.

Summary of Substitute Bill: Nonprofit organizations are exempt from B&O tax on income derived from:

- (1) child care resource and referral services;
- (2) services related to the adoption of children;
- (3) child placement services, including recruitment and training of foster parents and care of orphans and foster children.

The B&O tax exemption for nonprofit health or social welfare organizations providing care of orphans and foster children is expanded to include child care resource and referral, adoption services and child placement services.

The B&O tax exemption for nonprofit church day care is expanded to include all day care providers, except profit-making providers are exempt only to the extent they have more than 10 children.

Substitute Bill Compared to Original Bill: The substitute bill disallows B&O exemption for profit-making providers to the extent they have more than 10 children.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on March 7, 1995.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes July 1, 1995.

Testimony For: Church day care businesses do not have to pay taxes. This is an unfair advantage. The Legislature is trying to reform welfare. One of the impediments is low-cost day care. Sixty-four hours of training to providers, or about

200 children, could have had day care if the B&O tax wasn't charged. This is not a high profit business. Because there is a higher B&O tax for older children, many child care providers won't take school age children.

Testimony Against: None.

Testified: Representative Marc Boldt, prime sponsor; Laura Wells, Child Care Resources; Caryn Swan, Community Day Care Association; Nancy Rowswell, child care provider; and Jean Sloan, Child Care Action Council.