

# HOUSE BILL REPORT

## SSB 5309

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**As Reported By House Committee On:**  
Finance

**Title:** An act relating to excise tax exemptions related to horses.

**Brief Description:** Providing excise tax exemptions related to horses.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Morton and Anderson).

**Brief History:**

**Committee Activity:**

Finance: 2/26/98, 3/2/98 [DP].

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 13 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler and Thompson.

**Minority Report:** Do not pass. Signed by 1 member: Representative Dickerson, Assistant Ranking Minority Member.

**Staff:** Linda Brooks (786-7153).

**Background:** The sales tax is imposed on retail sales of most items of tangible personal property and some services. Use tax is imposed on the use of an item in this state, when the acquisition of the item or service has not been subject to sales tax. The combined state and local sales and use tax rate is between 7 and 8.6 percent, depending on location.

Farmers are exempt from sales and use tax on feed. This exemption is not available to some horse trainers/breeders, because they do not fit the statutory definition of farmer. Nonetheless, under Department of Revenue (DOR) practice, the sales of feed for registered breeding horses is not subject to retail sales and use tax. Sales of feed for gelded or spayed horses are subject, however, to sales and use tax. Since geldings and spayed mares may be boarded with breeding stock, feed purchased by a stable is fully taxable unless the bill segregates the charges.

The sale or lease of a horse for breeding purposes is exempt from sales and use tax. The sale or lease of a gelding or spayed mare, however, is subject to sales and use tax.

Washington's major business tax is the business and occupation (B&O) tax. In 1997, the Legislature eliminated the distinction between financial services, selected business services, and other services and consolidated these activities into a single tax rate. These changes will take place July 1, 1998. After July the principal B&O tax rates will be:

Manufacturing, wholesaling, & extracting	0.484 percent
Retailing	0.471 percent
Services	1.5 percent

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. Persons who sell horses pay the 0.471 percent retailing B&O tax on their gross receipts. Persons who sell horses at wholesale, however, are exempt from paying the 0.484 percent wholesaling B&O tax. A horse is sold at wholesale if the horse is resold within 60 days, there is no intervening use, and the seller receives a resale certificate from the buyer. Persons who board or breed horses pay the 1.5 percent service B&O tax on their gross receipts earned from these activities.

**Summary of Bill:** Feed sold for horses is exempt from the sales and use tax. Any amounts received as compensation for boarding, breeding or selling horses are exempt from the B&O tax.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 1998.

**Testimony For:** The horse industry benefits youth. Youth learn about raising horses through organizations such as Future Farmers, 4-H, and other clubs. Kids who are involved in these activities stay out of trouble. Sales tax applies to spayed mares and gelding, but sales tax does not apply to sales of breeding horses nor to feed purchased for breeding horses. The fact that some types of horses are exempt whereas others are subject to tax creates confusion. Additionally, horses or feed are often sold by private parties. A horse auctioneer has to collect sales tax, but the auctioneer competes against private parties who sell horses without collecting sales tax. Similarly, a feed store owner must charge sales tax on hay, but she finds herself competing against private parties who sell hay without collecting sales tax.

**Testimony Against:** None.

**Testified:** Eddie Armstrong, Washington State Horse Council (pro); Angela Day, Day Hill Feed and Grain (pro); Betty Jo Watkins (pro); Ed Flood, Auction Yard (pro); and Louise Ross, Gaitaway Stables (pro).