

HB 1447

Bill Analysis

January 29, 1998

Brief Description: Providing tax exemptions related to thoroughbred horses.

Bill Sponsors: Representatives Robertson, L. Thomas, Clements, Kastama and Cooke.

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, seed, and fertilizer. 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. Thoroughbred racing horses are considered to be breeding horses. 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 thoroughbred breeding stock, feed purchased by a stable is fully taxable unless the bill segregates the charges.

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. B&O tax applies to the gross incomes of the participants in the thoroughbred horse racing industry as follows:

Selling or Leasing Thoroughbred Racing Horses:

Persons who sell or lease thoroughbred racing horses pay the 0.471 percent retailing B&O tax on their gross receipts earned from selling horses at retail. Persons who sell thoroughbred racing 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.

Breeding Thoroughbred Racing Horses:

A person pays the 1.5 percent service B&O tax on gross receipts earned from stud fees.

Training, Racing, Exercising, Grooming, or Shoeing Thoroughbred Racing Horses:

Persons who train, race, groom, or shoe the horses pay the 1.5 percent service B&O tax on their gross receipts received as compensation for their services.

Owning Thoroughbred Racing Horses:

Persons who own thoroughbred racing horses pay the 1.5 percent service B&O tax on their gross receipts from racing purses and other awards.

Conducting a Race Meet:

A person who holds a license from the Horse Racing Commission to conduct race meets is already exempt from paying B&O taxes on gross receipts earned from holding a meet. These receipts are subject, however, to a pari-mutuel tax.

Summary of Bill: Sales of feed for thoroughbred racing horses is made statutorily exempt from the retail sales and use tax.

Persons who sell thoroughbred racing horses are exempt from paying B&O taxes on amounts received as proceeds from the sales.

Persons who raise, breed, or train thoroughbred racing horses are exempt from paying B&O taxes on any amounts received as compensation for these services. Persons who race, groom, or shoe the horses may still owe B&O taxes.

Horse owners are exempt from paying B&O taxes on any amounts received as racing purses.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which the bill is passed.