

# HOUSE BILL REPORT

## HB 1447

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### As Reported By House Committee On:

Finance

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

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

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

**Brief History:**

**Committee Activity:**

Finance: 1/29/98, 2/4/98 [DPS].

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler; Thompson and Van Luven.

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

**Background:** 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 Substitute Bill:** Persons who race, raise, ride, exercise, groom, breed, train, or sell thoroughbred race horses are exempt from paying B&O taxes on any amounts received as compensation for these services or sales transactions. Compensation includes, but is not limited to, amounts received from purse winnings or awards.

**Substitute Bill Compared to Original Bill:** Sales and use tax exemptions for feed are deleted.

The B&O tax exemption is broadened to also apply to amounts received as compensation by persons who race, ride, or groom thoroughbred race horses. Clarification is also made that amounts received from purse winnings or awards by anyone who races, raises, rides, exercises, grooms, breeds, trains, or sells the thoroughbred race horses are exempt from B&O taxes.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** For 60 years persons connected with the horse racing industry did not pay B&O taxes. Our problems with the B&O tax began when the Department of Revenue reinterpreted the law about four years ago and determined that the B&O tax exemption for persons conducting race meets applied only to the operators of a race track. Operators of a race track are not the only persons required to obtain a license from the Horse Racing Commission. Other persons such as jockeys must also be licensed. It would be impossible to conduct a meet without jockeys, trainers, and other support personnel. The fact that jockeys, trainers, and breeders are paying B&O taxes now is the result of the decision of an administrative agency, but such a decision should be made by the Legislature.

**Testimony Against:** None.

**Testified:** Representative Eric Robertson, sponsor; and Frank Warnke, Larry Holis, and Ralph Vacca, Washington Horsemen's Action Committee (pro).