

# FINAL BILL REPORT

## SB 6599

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Synopsis as Enacted

**Brief Description:** Exempting fund-raising activities by nonprofit organizations from sales and use taxation.

**Sponsors:** Senators Benton, Spanel, Kohl and Oke; by request of Department of Revenue.

**Senate Committee on Ways & Means**

**House Committee on Finance**

**Background:** Nonprofit organizations are subject to the business and occupation (B&O) tax on their income and must collect sales taxes on their sales unless specifically exempt by statute. Exemption from federal income tax does not automatically provide an exemption for state taxes. Most nonprofit organizations pay B&O tax at the services rate of 1.75 percent (1.5 percent July 1, 1998). However, because of the \$420 per year B&O tax credit, nonprofit organizations with gross incomes below \$22,963 per year (\$28,000 beginning July 1, 1998) owe no B&O tax.

In addition, nonprofit organizations are exempt from the B&O tax and are not required to collect sales tax on the following fund-raising activities:

***Bazaars And Rummage Sales.*** The first \$20,000 raised in any year from bazaars and rummage sales conducted by nonprofit organizations is exempt from B&O tax and sales tax if the sales are conducted no more than twice each year and each sale lasts no more than two days.

***Public Benefit Organization Auctions.*** Income from fund-raising auctions conducted by nonprofit organizations exempt from federal income tax under section 501(c)(3) of the federal Internal Revenue Code is exempt from B&O tax and sales tax if the auction is held no more than once a year and the auction lasts no more than two days.

In addition, bona fide initiation fees, dues, contributions, donations, and tuition fees may be deducted from income in computing tax liability unless the dues are in exchange for any significant amount of goods or services or the dues are graduated upon the amount of goods or services rendered.

**Summary:** Amounts received by nonprofit organizations for fund-raising activities are exempt from B&O tax and sales tax.

Fund-raising activities are activities involving the direct solicitation of money or property or the anticipated exchange of goods or services for money between the organization and the person solicited for the purpose of furthering the goals of the organization. Fund-raising activities do not include the operation of a regular place of business in which sales are made during regular hours.

Nonprofit organization includes organizations exempt from tax under section 501(c) (3), (4), or (10) of the federal Internal Revenue Code or that would be exempt except that it is not organized as a nonprofit corporation.

Section 501(c)(3) includes organizations that are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes; or to foster national or international amateur sports competition; or for the prevention of cruelty to children or animals. Section 501(c)(4) includes civic leagues. Section 501(c)(10) includes fraternal societies operating under the lodge system.

In addition, nonprofit organization includes organizations that meet all of the following criteria:

- (1) The members, stockholders, officers, directors, or trustees of the organization do not receive any part of the organization's gross income, except as payment for services rendered;
- (2) The compensation received by any person for services rendered to the organization does not exceed an amount reasonable under the circumstances; and
- (3) The activities of the organization do not include a substantial amount of political activity, including influencing legislation and participating in any campaign on behalf of any candidate for political office.

**Votes on Final Passage:**

Senate	49	0
House	94	0

**Effective:** June 11, 1998