

# HB 1809

## Bill Analysis

February 16, 1999

**Brief Description:** Exempting certain cost-sharing agreements and persons in the travel service business from the business and occupation tax.

**Bill Sponsors:** Representatives Ruderman, Thomas, Dunshee, Esser and K. Schmidt.

### Brief Summary of Bill

- Travel service businesses are exempt from paying B&O tax on amounts received as reimbursements for administrative services performed for foreign affiliates.
- To qualify for exemption, the reimbursements must be made under the terms of a written cost-sharing agreement and the travel service business must hold a passenger vessel surety bond.

**Staff:** Linda Brooks, 786-7153.

### 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. Deductions for the costs of doing business are not allowed. Currently, there are six different B&O tax rates. The three principal rates are:

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

The tax rate depends on the type of business activity. A business providing travel service activities pays B&O tax at a 0.275 percent rate on those activities. A travel service business

may pay B&O taxes at different rates, if the business provides more than just travel services. For example, if a travel service business also provided accounting services, then the 1.5 service B&O tax rate would apply to revenues associated with the accounting services.

Federal law requires persons who operate commercial vessels with sleeping accommodations for 50 or more persons who embark passengers at United States ports to have proof of the financial ability to indemnify passengers for failure to provide transportation.

Some travel service businesses have written cost-sharing agreements with foreign affiliates. Under these agreements the travel service business performs administrative services for their foreign affiliates, and the foreign affiliates reimburse the travel service businesses for their costs.

A foreign affiliate is an affiliate organized under laws outside the United States.

#### **Summary of Bill:**

A person engaged in a travel service business is exempt from paying B&O tax on amounts received as reimbursements for administrative services performed on behalf of foreign affiliates if the following two conditions are met:

1. The reimbursements are paid under a written cost-sharing agreement for allocable reimbursement of administrative services performed on behalf of a foreign affiliate; and
2. The person holds a passenger vessel surety bond for the indemnification of passengers for failure to provide transportation.

The bill contains an incorrect reference to the Code of Federal Regulations (CFR). The reference is to 48 CFR 540, a reserved section. Instead of 48 CFR 540, passenger vessel surety bonds are required under 46 CFR 540.

**Appropriation:** None.

**Fiscal Note:** Available.

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