

SENATE BILL REPORT

ESHB 3116

As Reported By Senate Committee On:
Ways & Means, March 1, 2004

Title: An act relating to modifying tax exemptions for blood banks, bone or tissue banks, and comprehensive cancer centers.

Brief Description: Modifying tax exemptions for qualifying blood banks, tissue banks, and blood and tissue banks.

Sponsors: House Committee on Finance (originally sponsored by Representatives Murray, Cairnes, Sehlin, Sommers, McIntire, Lovick, Hatfield, Kenney, Morrell and Santos).

Brief History:

Committee Activity: Ways & Means: 2/26/04, 3/1/04 [DPA].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Fairley, Fraser, Hale, Honeyford, Johnson, Pflug, Prentice, Rasmussen, Regala, Roach, Sheahan, B. Sheldon and Winsley.

Staff: Terry Wilson (786-7433)

Background: As a general rule, nonprofit organizations are subject to state and local taxes unless there is a specific statutory exemption. Exemption from federal income tax does not automatically provide exemption from state and local taxes. Washington does provide tax exemptions for several types of nonprofit organizations, including blood, bone, and tissue banks. These banks are exempt from business and occupation taxes, retail sales and use taxes, and property taxes.

In 1995, the Legislature expanded the property tax exemption for blood banks to include leased property and to include bone and tissue banks. In addition, 1) a business and occupation (B&O) tax exemption was provided for income of nonprofit blood, bone, or tissue banks to the extent that it was exempt from federal income tax, and 2) a sales and use tax exemption was provided for nonprofit blood, bone, or tissue banks for the purchase or use of medical supplies, chemicals, or specialized materials. The sales and use tax exemption did not apply to construction materials, office equipment, building equipment, administrative supplies or vehicles.

In 1999, a question arose as to whether the Fred Hutchinson Cancer Research Center qualified as a blood, bone, and tissue bank for purposes of the tax exemptions. Litigation ensued. In 2003, the Thurston County Superior Court ruled that the extension of the exemptions to bone and tissue banks in 1995 was beyond the title of the bill, that the exemptions only applied to

nonprofit blood banks, and that the Fred Hutchinson Cancer Research Center was not a nonprofit blood bank.

Summary of Amended Bill: Existing B&O tax, sales and use tax, and property tax exemptions for nonprofit blood, bone, and tissue banks are reenacted. Definitions and qualification requirements are revised. The entities must be exempt from federal income tax as nonprofit organizations and registered under federal law. Comprehensive cancer centers are not eligible for exemption as blood, bone, or tissue banks.

Amended Bill Compared to Substitute Bill: The substitute bill applied retroactively to the date of the previous enactment, July 1, 1995.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 26, 2004.

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

Testimony For: This bill is an attempt to get around the title problem with the last bill. When these exemptions were adopted in 1995, there were immediate reduction in charges to physicians. The Department of Revenue originally said the Fred Hutchinson Cancer Research Center qualified. The superior court initially said that the Fred Hutchinson Cancer Research Center qualified because of the definition. Because of a potential two subject problem with the bill, the agreement was that the Senate bill should be limited to cancer centers and the House bill to bone and tissue banks. The retroactivity clause should be removed so as not to prejudice the current litigation.

Testimony Against: None.

Testified: PRO: Susie Tracy, WA State Medical Assoc.; CONCERNS: Mike Ryherd, Fred Hutchinson Cancer Research Center.