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**Finance Committee**

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**HB 2778**

**Brief Description:** Allowing tax deductions for nonprofit convention and tourism promotion corporations.

**Sponsors:** Representatives Murray, Kristiansen, Dickerson, Clements, Chase, McDonald and Dunn.

**Brief Summary of Bill**

- Allows nonprofit businesses to deduct payments from taxable income under the Business and Occupation tax, if received from governments for the purpose of promoting conventions and tourism.

**Hearing Date:** 1/25/06

**Staff:** Mark Matteson (786-7145).

**Background:**

*Business and Occupation tax.* Washington's major business tax is the Business and Occupation (B&O) tax. 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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Retailing activities, for example, are taxed at a 0.471 percent rate, while general services are taxed at a 1.5 percent rate.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Payments received by non-governmental entities from governments are subject to tax unless expressly exempt. One example of an exemption is for payments received by an artistic or cultural organization from a governmental entity.

*Hotel-motel taxes and room charges.* Several local hotel-motel taxes are authorized under statute on charges for lodging at hotels, motels, rooming houses, private campgrounds, recreation vehicle parks, and similar facilities for continuous periods of less than one month. In general, receipts from these taxes are required to be used for the promotion of tourism or the construction and operation of tourism-related facilities. In calendar year 2004, about \$48.5 million was distributed to local jurisdictions for these purposes.

In 2003, the Legislature authorized the creation of tourism promotion areas. Counties with populations between 40,000 and 1,000,000, and all incorporated cities and towns located in such counties, are authorized to impose a charge on lodging to increase tourism and conventions within such areas. A fee of up to \$2 per day per lodging unit if rented may be assessed. Funding must be used for advertising, publicizing or otherwise distributing information to attract and welcome tourists, and operating tourism destination marketing organizations, in order to increase convention and tourism business.

In calendar 2004, after the passage of the legislation, \$932 thousand was collected in four cities and one county imposing the charge.

*Governmental convention and tourism promotion.* Governments allocate portions of budgets for the purpose of promoting conventions and tourism. According to data received in the Budgeting, Accounting, and Reporting System (BARS), local governments in Washington State spent about \$12.4 million in operating funding in calendar year 2004 on conventions and tourism, and an additional \$3 million for the purposes of marketing events at fairgrounds and stadia.

Governments may contract with private entities to assist with the promotion of tourism or conventions. Many local governments establish contracts with local convention and visitors' bureaus or local chambers of commerce for the purposes of promoting tourism or conventions.

**Summary of Bill:**

Payments received by nonprofit businesses from governments for the purpose of promoting conventions and tourism may be deducted from taxable income for the purposes of determining B&O tax liability.

**Appropriation:** None.

**Fiscal Note:** Requested on January 13, 2006.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.