

HOUSE BILL REPORT

SB 5083

As Reported by House Committee On: Ways & Means

Title: An act relating to clarifying that the basis for business and occupation tax for real estate firms is the commission amount received by each real estate firm involved in a transaction.

Brief Description: Clarifying that the basis for business and occupation tax for real estate firms is the commission amount received by each real estate firm involved in a transaction.

Sponsors: Senators Ranker, Kilmer, Swecker, Hobbs, Holmquist Newbry, Zarelli, Hargrove, Eide, Harper, Tom, Honeyford, White, Parlette, Erickson, Shin, Hewitt, Sheldon, Roach and Benton.

Brief History:

Committee Activity:

Ways & Means: 3/22/11, 3/31/11 [DP].

Brief Summary of Bill

- Exempts real estate commissions that are shared among more than two real estate firms from the business and occupation tax.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass. Signed by 27 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

Staff: Rick Peterson (786-7150).

Background:

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

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

deduction for the costs of doing business. 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. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.8 percent for professional and personal services, and activities not classified elsewhere.

When the real estate commission on a particular transaction is shared between an originating broker and a cooperating broker, each broker pays the B&O tax only on their share of a commission. However, the payment of a portion of the commission to a third broker for referring a potential buyer or seller is not allowed by the Department of Revenue as a deduction from B&O tax. The broker receiving a referral fee is also liable for B&O tax on the fee.

In 2008 the Legislature changed the terms used to describe businesses and professionals providing real estate brokerage services to real estate firms, brokers, managing brokers, and designated brokers.

Summary of Bill:

The business and occupation tax applies to the respective share of the commission for each real estate firm that receives a commission at the time of closing on a real estate transaction. The terms and definitions related to real estate brokerage services are updated to be consistent with real estate licensing laws.

The bill applies both prospectively and retroactively.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This is an excellent bill that deserves your support. The bill preserves the way real estate firms have always been taxed. The fiscal impact is just the rejection of a recent tax interpretation that is being repealed by the bill.

(Commented) Just like spending on programs, diverting revenues that could go into the state's coffers does have potential negative impacts on the bottom line for the budget. This bill along with another bill on today's agenda total about \$2.5 million. There are certainly programs that could be preserved if those tax breaks were not granted. Every tax break

should have accountability measures that assure that, if adopted, the tax break will deliver as advertised and is worth the money that is spent just as you do with spending programs.

(Opposed) None.

Persons Testifying: (In support) Senator Ranker, prime sponsor; and Bill Clarke, Washington Association of Realtors.

(Commented) Nick Federici, Protecting our Economic Future Coalition.

Persons Signed In To Testify But Not Testifying: None.