

SENATE BILL REPORT

SB 6004

As Reported by Senate Committee On:
Ways & Means, April 26, 2019

Title: An act relating to fiscal matters.

Brief Description: Relating to fiscal matters. [**Revised for 1st Substitute:** Concerning the taxation of travel agents and tour operators.]

Sponsors: Senator Rolfes.

Brief History:

Committee Activity: Ways & Means: 4/26/19 [DPS, w/oRec, DNP].

Brief Summary of First Substitute Bill

- Increases the preferential business and occupation tax rate for travel agents and tour operators.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6004 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Billig, Carlyle, Conway, Darneille, Hasegawa, Hunt, Keiser, Liias, Palumbo, Pedersen and Van De Wege.

Minority Report: That it be referred without recommendation.

Signed by Senators Mullet, Capital Budget Cabinet; Rivers.

Minority Report: Do not pass.

Signed by Senators Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Bailey, Becker, Schoesler, Wagoner, Warnick and Wilson, L..

Staff: Alia Kennedy (786-7405)

Background: Business and Occupation Tax. Washington's major business tax is the business and occupation (B&O) tax. B&O tax is imposed on the gross receipts of business

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activities conducted within the state, without any deduction for the costs of doing business. Businesses must pay the B&O tax even if they do not make any profits or are operating at a loss. A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and activities not classified elsewhere. Several preferential rates also apply to specific business activities.

Preferential Tax Rate for Travel Agents and Tour Operators. Travel agents and tour operators are subject to a preferential B&O tax rate of 0.275 percent. Without the tax preference, these businesses would be classified under general services and taxed at a rate of 1.5 percent on gross receipts.

Travel agents arrange transportation and accommodations on behalf of their customers. Travel agents may receive commissions from service providers, for example, cruise lines or hotels, and may charge fees to their customers. The B&O tax applies to these commissions and fees rather than to the price of the underlying ticket or room.

Tour operators, in contrast, sell transportation and accommodations to customers that the tour operators provide themselves or purchase from third-party providers. Unlike travel agents, tour operators are personally liable for the services purchased from third-party providers when a customer cancels. Also unlike travel agents, the B&O tax applies to the price the customer pays for the ticket or room.

Summary of Bill (First Substitute): Beginning July 1, 2019, the preferential B&O rate for travel agents and tour operators is increased from 0.275 to 0.9 percent.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2019.

Staff Summary of Public Testimony: No public hearing was held.

Persons Testifying: N/A

Persons Signed In To Testify But Not Testifying: N/A