

# SPECIAL NOTICE

June 10, 2005

For further information contact:

Telephone Information Center  
1-800-647-7706 or (360) 705-6676

Alternate Formats (360) 705-6715  
Teletype 1-800-451-7985

## Gambling Business and Occupation Tax

ESHB 1031 (Chapter 369, Laws of 2005) imposes a new business and occupation (B&O) tax on the gross income of persons engaged in the business of operating contests of chance and income from pari-mutuel wagering. The new B&O tax is **effective July 1, 2005**.

### Contests of Chance

“Contests of chance” means any contests, games, gaming schemes, or gaming devices, other than the state lottery as defined in RCW 67.70.010, in which the outcome depends upon an element of chance, and the skill of the contestants may also be a factor in the outcome. The term includes social card games, bingo, raffle, punchboard games and pull-tabs as defined in chapter 9.46 RCW. Contests of chance do not include race meets for which a license must be obtained from the Washington Horse Racing Commission or “amusement games” as defined in RCW 9.46.0201.

### Existing B&O Tax

The existing B&O tax is calculated by taking the gross income of the business from contests of chance and multiplying by the B&O rate of 1.5 percent.

“Gross income of the business” does not include the monetary value or actual cost of any prizes that are awarded, amounts paid to players for winning wagers, accrual of prizes for progressive jackpot contests, or repayment of amounts used to seed guaranteed progressive jackpot prizes.

### New B&O Tax

Effective July 1, 2005, a new additional tax will be imposed on businesses operating contests of chance equal to the gross income of the business from contests of chance multiplied by the rate of 0.1 percent through June 30, 2006, and 0.13 percent thereafter. This new tax applies to the income from contests of chance when the gross income from these activities equals or exceeds \$50,000 per year. Revenues collected from this additional tax will be deposited in the problem gambling account. Funds in the problem gambling account can only be used for purposes of the Problem and Pathological Gambling Treatment Program administered by the Department of Social and Health Services.

### Reporting Income

Persons reporting \$50,000 or more per year of income from contests of chance will report under the new Gambling Contests of Chance B&O tax classification. However, persons reporting less than \$50,000 in income

per year from contests of chance will continue to report under the Service and Other Activities B&O tax classification.

## **Conducting Race Meets – Pari-mutuels Wagering**

### **New B&O Tax Rate**

Effective July 1, 2005, a new B&O tax is imposed on persons engaging within this state in the business of conducting race meets for which a license must be obtained from the Washington Horse Racing Commission. The amount of tax is equal to the gross income of the business from pari-mutuel wagering multiplied by the rate of 0.1 percent through June 30, 2006, and 0.13 percent thereafter. “Gross income of the business” received from pari-mutuel wagering does not include amounts paid to players for winning wagers, or taxes imposed or other distributions required under chapter 67.16 RCW.

The B&O tax imposed on persons conducting race meets is in addition to any other tax imposed on such activities and will be deposited in the problem gambling account.

### **Reporting Income Through Electronic Filing (E-file)**

Businesses conducting race meets **must** use E-file to report the tax due on pari-mutuel wagering. To register for E-file, go to <http://dor.wa.gov>.

## **Nonprofit Organizations – Fundraising Exemption**

The gross income received by nonprofit organizations from operating contests of chance or conducting race meets may qualify for the fundraising B&O tax exemption. If such activities are held on an infrequent basis, the resulting income would generally qualify for the B&O tax exemption. However, if such activities are held on an ongoing basis at a regular place of business, the resulting income would not qualify for the fundraising exemption and would be subject to tax as discussed above.

## **For More Information**

- ◆ To get details on the nonprofit fundraising exemption, refer to WAC 458-20-169 available on the Department’s web site at <http://dor.wa.gov> under *Laws and Rules*.
- ◆ To obtain a binding tax ruling on the taxability of your activities, provide a written explanation including the frequency and locations of the activities and send it to:

Taxpayer Information and Education  
Washington State Department of Revenue  
PO Box 47478  
Olympia, WA 98504-7478

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