

# HOUSE BILL REPORT

## SB 5728

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### As Passed House:

April 14, 1995

**Title:** An act relating to business and occupation tax of international investment management companies.

**Brief Description:** Modifying the business and occupation tax on international investment management companies.

**Sponsors:** Senators Gaspard, McDonald, Wojahn, Rinehart, Rasmussen and Winsley.

### Brief History:

#### Committee Activity:

Finance: 3/30/95 [DP].

#### Floor Activity:

Passed House: 4/14/95, 87-4.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 10 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Hymes; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

**Minority Report:** Do not pass. Signed by 1 member: Representative Dickerson, Assistant Ranking Minority Member.

**Staff:** Bob Longman (786-7139).

**Background:** Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Although there are several different rates, the principal rates are:

Manufacturing, wholesaling, & extracting	0.506%
Retailing	0.471%
Services:	
- Business Services	2.5%
- Financial Services	1.7%
- Other activities	2.09%

Financial services include banking, loan, security, investment management, investment advisory, or other financial business.

In 1993, the B&O tax rate on financial businesses was increased from 1.5 percent to 1.7 percent, the rate on selected business services was increased from 1.5 percent to 2.5 percent, and the rate on all other services was increased from 1.5 percent to 2.0 percent.

In addition to these permanent tax increases, in 1993 a surtax of 6.5 percent was imposed on all B&O tax classifications except selected business services, financial services, retailing, and public and nonprofit hospitals. The surtax was lowered to 4.5 percent on January 1, 1995. The surtax expires July 1, 1997. The surtax is calculated by multiplying each permanent rate to which it applies by 1.045. For example, the 2 percent service rate becomes 2.09 percent during the time the 4.5 percent surtax is in effect.

**Summary of Bill:** The B&O tax rate for international investment management businesses as it applies to international investment managers is reduced from 1.7 percent to 0.275 percent. This rate is subject to the 4.5 percent surtax and so will be equal to 0.287 percent until July 1, 1997.

Investment management services is defined as investment research, investment consulting, portfolio management, fund administration, fund distribution, investment transactions, and related investment services. International investment management services are provided if at least 10 percent of the gross income is from providing investment management services to persons or collective investment funds residing outside the United States or to persons or collective investment funds with at least 10 percent of their investments located outside the United States.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 1995.

**Testimony For:** (on companion measure HB 1662) This state's effective tax rate on investment and fund management services is presently four times that of other state's rates. The Washington B&O tax discriminates against service businesses that provide services internationally. The bill provides tax parity with other states with regard to taxation of investment management services. International investment management companies pay a family wage and provide good benefits. It is important to retain these businesses and attract new firms to Washington.

**Testimony Against:** None.

**Testified:** (on companion measure HB 1662) Representative Brian Thomas, prime sponsor; James M. McDonald and Karl J. Ege, Frank Russell Company; and Erling Mork, Tacoma-Pierce County Economic Development Board.