

HOUSE BILL REPORT

HB 2081

As Passed House:

March 9, 1999

Title: An act relating to extending the prohibition on taxes or fees specific to internet service providers.

Brief Description: Continuing a moratorium that prohibits a city or town from imposing a specific fee or tax on an internet service provider.

Sponsors: Representatives Ruderman, Crouse, Dunshee, Thomas, Kessler, Murray, O'Brien, Ogden, Rockefeller, Stensen, Constantine and Lantz; by request of Governor Locke.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 2/24/99, 2/26/99 [DP].

Floor Activity:

Passed House: 3/9/99, 87-4.

Brief Summary of Bill

- Extends moratorium on taxation of Internet service providers from July 1, 1999, to July, 1, 2002.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: Do pass. Signed by 12 members: Representatives Crouse, Republican Co-Chair; Poulsen, Democratic Co-Chair; Ruderman, Democratic Vice Chair; Bush; Cooper; Delvin; McDonald; Mielke; Morris; Reardon; Thomas and Wolfe.

Staff: Julia Harmatz (786-7135).

Background:

The rapid growth in sales of goods over the Internet raises hard questions about how states might fairly tax those transactions. In 1997 the Legislature found that the business of providing Internet service benefits all levels of society. Further, this business is important to Washington's continued growth in the high technology sector of the economy and thus should not be burdened by new taxes. As such, the Legislature passed Substitute Senate Bill 5763 (Chapter 304, 1997). This law granted Internet service providers a moratorium on taxes specific to their businesses.

On-line service providers and electronic commerce lobbying groups, of course, want to make cyberspace tax-free, arguing that taxation would choke off Internet growth. Tax policy should not discriminate against electronic sales, but neither should the Internet be protected from taxes that apply in other realms of commerce.

Summary of Bill:

This bill extends the tax moratorium on Internet service providers from July 1, 1999, to July 1, 2002. Until that time, cities and towns may not impose any new taxes or fees specific to Internet service providers, but may tax Internet service providers under generally applicable business taxes at a rate not to exceed the rate applied to a general service classification.

The provision of Internet services is classified as a selected business service activity for the purposes of applying the business and occupation tax. If that section of the law is repealed, then the provision of Internet services will be placed under the general service business and occupation tax classification.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Five years ago Tacoma tried to tax Washington Internet service providers as telecommunication providers. The moratorium is coherent with the national plan. The Governor is on the National Committee on Electronic Commerce. The committee will make recommendations for taxation.

Testimony Against: None.

Testified: Rep. Ruderman, prime sponsors; Gary Gardner, Washington Association of Internet Service Providers; and Chris Hedrick, Governor's Office.