

# HOUSE BILL REPORT

## HB 2031

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to limiting the taxation of pay phone services.

**Brief Description:** Limiting the taxation of pay phone services.

**Sponsors:** Representatives Cairnes, Crouse, Poulsen, Morris, Reardon, Delvin and Barlean.

**Brief History:**

**Committee Activity:**

Finance: 2/20/01, 3/6/01 [DP].

**Brief Summary of Bill**

- City business tax rates for pay phone services must not exceed the retailing rate.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 9 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Van Luven and Veloria.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Santos.

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

**Background:**

Cities and towns may impose gross receipts taxes on businesses. Rates for utility businesses are generally much higher than rates for other businesses such as retailers. Utility rates cannot exceed 6 percent without voter approval. Rates for retailers cannot exceed 0.2 percent without voter approval. The rate of tax applicable to telephone services depends on whether the services are network telephone services or competitive telephone services. The higher utility tax rates apply to network telephone services. The lower retailer rates apply to competitive telephone services. Coin telephone services are

expressly included in the statutory definition of network telephone service and are therefore subject to utility tax rates.

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**Summary of Bill:**

If a city or town imposes gross receipts taxes on pay phone services, the tax must be at the same rate as applies to retailers. Pay phone service is defined as service provided on a fee-per-call basis, whether the telephone is coin-operated or is activated by calling collect or using a calling card.

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**Appropriation:** None.

**Fiscal Note:** Requested on February 13, 2001.

**Effective Date:** The bill takes effect on August 01, 2001.

**Testimony For:** Since the breakup of Ma Bell, payphones are no longer exclusively owned and controlled by monopoly utility companies. Small businesses now own many payphones. As telephone services become competitive, it is no longer appropriate to charge the high excise tax rates that applied to utilities. It is time to lower the rate applied to payphones. This is a fairness issue. Payphone owners are not utilities. We cannot pass high taxes onto customers.

**Testimony Against:** Cities are concerned about the revenue loss and urge the committee to look carefully at the local fiscal note on this bill. Reducing city tax revenue without reducing city responsibilities for service is the same thing as an unfunded mandate. We ask that you not reduce tax revenue without reducing our responsibilities or providing alternative revenue sources.

**Testified:** (In support) Todd Mielke, Northwest Payphone Association; and Charles Truman, Northwest Payphone Association.

(Opposed) Ron Rosenbloom, Association of Washington Cities.