

HOUSE BILL REPORT

HB 1266

As Reported by House Committee On:
Finance

Title: An act relating to exempting certain standard financial information purchased by investment management companies from sales and use tax in order to improve industry competitiveness.

Brief Description: Exempting certain standard financial information purchased by investment management companies from sales and use tax in order to improve industry competitiveness.

Sponsors: Representatives Springer, Orcutt, Tarleton, Vick, Pettigrew, Walen and Stokesbary.

Brief History:

Committee Activity:

Finance: 1/31/19, 2/25/19 [DPS].

Brief Summary of Substitute Bill

- Reauthorizes and expands the sales and use tax exemption for the purchase of standard financial information by qualifying investment management companies and their affiliates.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Morris, Springer, Stokesbary, Vick and Wylie.

Minority Report: Do not pass. Signed by 3 members: Representatives Frame, Macri and Orwall.

Staff: Tracey O'Brien (786-7152).

Background:

Retail Sales and Use Tax.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a tax preference performance statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Standard Financial Information Tax Preference.

In 2013 the Legislature enacted a retail sales and use tax exemption for the sale of standard financial information to qualifying international investment management companies. "Standard financial information" is defined as financial data, facts or information, or financial information services, that is developed for more than one customer. Standard financial information includes, but is not limited to, financial market data, bond ratings, credit ratings, and deposit, loan, or mortgage reports. A "qualifying international investment management company" is defined as a person who is primarily engaged in the business of providing investment management services, with at least 10 percent of the gross income derived from such services to persons or collective investment funds outside of the United States, or collective investment funds with at least 10 percent of their investments positioned outside of the United States. The amount of deductible purchases is limited to \$15 million per year.

The standard financial information may be provided in hard copy, in a storage medium, or as a digital product transferred electronically. To receive the tax exemption, the seller must obtain an exemption certificate from the buyer or maintain relevant data of sales as authorized by the Streamlined Sales and Use Tax Agreement. This tax exemption expires July 1, 2021.

In 2017 the JLARC reviewed this tax exemption. The Legislative Auditor recommended that the Legislature clarify what is meant by "reasonably conform" and require taxpayers to determine the preference's fiscal impact.

Summary of Substitute Bill:

The retail sales and use tax exemption for the sale of standard financial information to a qualifying international investment management company (QIIMC) is extended until July 1, 2031. In addition, the tax exemption is expanded to include the sales of standard financial information to a person affiliated with a QIIMC. The annual amount of deductible purchases for this exemption continues to be \$15 million.

"Affiliated" is defined as a person that has an ownership interest of more than 20 percent, whether direct or indirect, in the related person. It also includes a person that is related to another person because the other person has an ownership interest of more than 20 percent in the related person or a third person, or group of third persons, holds an ownership interest more than 20 percent in the related person.

"Indirect ownership interest" means an ownership interest in a person by virtue of an ownership interest in an entity that has an indirect ownership in the person. "Ownership interest" means the possession of equity in the capital, stock, or profits of the other person.

The tax preference performance statement states that this tax preference is designed to improve industry competitiveness and reduce structural inefficiencies. The Legislature's specific public policy objective is to maintain a viable financial cluster. The Legislature intends to extend the expiration date of the tax preference if there is at least one international investment management services firm headquartered in Washington with at least \$200 billion of assets under management.

Substitute Bill Compared to Original Bill:

The sales and use tax exemption is limited to purchases of standard financial information by a qualifying international investment management company (QIIMC) or a person affiliated with a QIIMC. Definitions for "affiliated," "indirect ownership interest," and "ownership interest" are provided.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Standard financial information has not historically been subject to sales or use taxes. Standard financial information was inadvertently subject to sales and use taxes with changes to the laws related to digital products. As a result, a specific exemption was enacted in 2013 with an eight-year sunset expiring in 2021. This exemption helps Russell Investments by helping it remain a competitive global asset management firm based in Washington. It also helps keep Washington competitive in an environment where other states

do not impose sales and use taxes on digital goods. The loss of this exemption could result in increased costs to thousands of Washington public and private pension holders.

(Opposed) None.

Persons Testifying: Representative Springer, prime sponsor; Erik Strom and Leanne Webber, Russell Investments.

Persons Signed In To Testify But Not Testifying: None.