

HOUSE BILL REPORT

SB 6259

As Passed House:

March 3, 2004

Title: An act relating to the taxation of internet services.

Brief Description: Extending the restriction on local government taxation of internet services.

Sponsors: By Senators Schmidt, Poulsen, Esser, Prentice and Eide.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 2/24/04, 2/27/04 [DP];

Finance: 3/1/04 [DP].

Floor Activity:

Passed House: 3/3/04, 96-0.

Brief Summary of Bill

- Extends the moratorium on new taxation of Internet Service Providers (ISPs) by cities and towns from July 1, 2004, to July 1, 2006.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: Do pass. Signed by 16 members: Representatives Morris, Chair; Ruderman, Vice Chair; Sullivan, Vice Chair; Crouse, Ranking Minority Member; Nixon, Assistant Ranking Minority Member; Anderson, Blake, Bush, Delvin, Hudgins, Kirby, McMahan, Romero, Tom, Wallace and Wood.

Staff: Pam Madson (786-7166).

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 8 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris and Santos.

Staff: Bob Longman (786-7139).

Background:

Internet service providers, or ISPs, provide their customers access to the internet. ISPs generally charge their customers a subscription or usage fee.

The Business and Occupation (B&O) tax is Washington's major business tax. This tax is imposed on the gross receipts of business activities. Charges for internet service are subject to B&O tax at the general service rate of 1.5 percent.

Cities and towns may impose gross receipt taxes on businesses. Rates for utility businesses are generally higher than rates for other businesses, such as retailers. Utility rates may not exceed 6 percent without voter approval. Utility businesses include electrical and telephone. Rates for other businesses may not exceed 0.2 percent.

In 1997 the Legislature prohibited cities and towns from imposing any new taxes or fees specific to ISPs until July 1, 1999. The prohibition has been extended until July 1, 2004. Cities and towns may tax ISPs under generally applicable business taxes at a rate not to exceed the rate applied to a general service classification.

In 1998 Congress temporarily prohibited state and local governments from imposing any new taxes on Internet access or other multiple or discriminatory taxes on electronic commerce. The prohibition expired on November 1, 2003. Congress is considering a permanent prohibition.

Summary of Bill:

The prohibition on a city or town imposing any new taxes or fees on ISPs is extended to July 1, 2006.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: (Technology, Telecommunications & Energy) This bill extends the state-level ban on new local taxes on internet service providers for another couple of years while Congress works on a permanent ban. This does not impact e-commerce but merely addresses local government taxes on internet service providers.

Testimony For: (Finance) This bill just extends the existing ban on local taxes that specifically target internet service providers. Unlike the proposed federal ban, this bill cannot be interpreted as possibly exempting internet service providers from the ordinary business taxes that other businesses pay

Testimony Against: (Technology, Telecommunications & Energy) None.

Testimony Against: (Finance) None.

Persons Testifying: (Technology, Telecommunications & Energy) Gary Gardner, Washington Association of Internet Service Providers and Comcast.

Persons Testifying: (Finance) Gary Gardner, Comcast/Washington Association of Internet Service Providers.

Persons Signed In To Testify But Not Testifying: (Technology, Telecommunications & Energy) None.

Persons Signed In To Testify But Not Testifying: (Finance) None.