
Finance Committee

HB 1266

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 Summary of Bill

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

Hearing Date: 1/31/19

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

Background:

Retail Sales and Use Tax.

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

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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 (SFI) to Qualifying International Investment Management Companies (QIIMC). SFI is defined as financial data, facts or information, or financial information services, that is developed for more than one single customer. SFI includes, but is not limited to, financial market data, bond ratings, credit ratings, and deposit, loan, or mortgage reports. A QIIMC 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 are limited to \$15 million per year.

The SFI 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 sale as authorized by the Streamlined Sales and Use Tax Agreement. This tax exemption expires July 1, 2021.

In 2017, the Joint Legislative Audit and Review Committee (JLARC) reviewed this tax exemption. The Legislative Auditor recommended that the Legislature clarify what is meant by "reasonably conform" and to require taxpayers to determine the preferences fiscal impact.

Summary of Bill:

The retail sales and use tax exemption for the sale of Standard Financial Information (SFI) to a Qualifying International Investment Management Companies (QIIMC) is extended until July 1, 2031. In addition, the tax exemption is expanded to include the sales of SFI for a QIIMC. The annual amount of deductible purchases for this exemption continues to be \$15 million.

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 at least one international investment management services firm headquartered in Washington with at least \$200 billion of assets under management.

Appropriation: None.

Fiscal Note: Available.

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