

FINAL BILL REPORT

SB 5728

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Synopsis as Enacted

Brief Description: Modifying the business and occupation tax on international investment management companies.

Sponsors: Senators Gaspard, McDonald, Wojahn, Rinehart, Rasmussen and Winsley.

Senate Committee on Ways & Means

House Committee on Finance

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Although there are several different rates, the principal rates are:

Manufacturing, wholesaling, & extracting	0.506%
Retailing	0.471%
Services	
- Business Services	2.5%
- Financial Services	1.7%
- Other activities	2.09%

In 1993, the B&O tax rate on selected business services, financial services, and all other services was increased from 1.5 percent. Also in 1993, the B&O tax was extended to public and nonprofit hospitals at the rate of .75 percent through June 30, 1995, and 1.5 percent thereafter.

In addition to these permanent tax increases, in 1993 a surtax of 6.5 percent was imposed on all B&O tax classifications except selected business services, financial services, retailing, and public and nonprofit hospitals. The surtax was lowered to 4.5 percent on January 1, 1995. The surtax expires July 1, 1997.

The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business.

When a Washington business provides services to an out-of-state business, the Washington business is fully taxable on the income if the services are performed within Washington. Income from services that are performed in more than one state is apportioned to this state for the B&O tax purposes. The tax applies only to that portion of the income that is derived from services rendered within this state. If apportionment cannot accurately be made by separate accounting methods, the income apportioned to this state is that proportion of total income which the cost of doing business within the state bears to the total cost of doing business both within and without the state.

Summary: The B&O tax rate on the business of providing international investment management services is reduced from 1.7 percent to 0.287 percent, which consists of a base rate of 0.275 percent and a surtax, until July 1, 1997, of 0.012 percent.

Investment management services is defined as investment research, investment consulting, portfolio management, fund administration, fund distribution, investment transactions, and related investment services.

International investment management services are provided if at least 10 percent of the gross income is from providing investment management services: (1) to persons or collective investment funds residing outside the United States, or (2) to persons or collective investment funds with at least 10 percent of their investments located outside the United States.

Votes on Final Passage:

Senate	43	5
House	87	4

Effective: July 1, 1995