

SENATE BILL REPORT

SB 5728

As Passed Senate, March 14, 1995

Title: An act relating to business and occupation tax of international investment management companies.

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

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

Brief History:

Committee Activity: Ways & Means: 2/14/95, 3/6/95 [DP].
Passed Senate, 3/14/95, 43-5.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Bauer, Cantu, Drew, Finkbeiner, Gaspard, Hargrove, Hochstatter, Johnson, Long, McDonald, Moyer, Roach, Sheldon, Snyder, Strannigan, Sutherland, Winsley and Wojahn.

Staff: Terry Wilson (786-7715)

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.

Summary of Bill: 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 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 to persons or collective investment funds residing outside the United States or to persons or collective investment funds with at least 10 percent of their investments located outside the United States.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect July 1, 1995.

Testimony For: Frank Russell is one of the world's leading asset consulting and investment management firms in the global market. The global market is extremely competitive. This service can be provided from anywhere in the world. This bill levels the playing field and encourages expansion in Washington. Washington's tax policy discriminates against the service industry. Most of Frank Russell's gross revenues come from out of state. Because of the high B&O tax rate and low profit margins of this industry, there is no reason to locate in the state. No other state taxes this activity at such a high level.

Testimony Against: None.

Testified: James McDonald, Karl Ege, Frank Russell Co. (pro); Erling Mork, Tacoma-Pierce County E.D.B (pro).