

# HOUSE BILL REPORT

## HB 1662

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### As Passed House:

March 8, 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:** Representatives B. Thomas, Foreman, Ebersole, Carrell, Dyer, Campbell, Conway, Pelesky, R. Fisher, Talcott, McMahan, Huff, Casada, Smith, Mielke, Schoesler, Van Luven, Beeksma, Johnson, D. Schmidt, Thompson, Brumsickle, Cooke, Horn and Kessler.

### Brief History:

#### Committee Activity:

Finance: 2/16/95, 2/22/95 [DP].

#### Floor Activity:

Passed House: 3/8/95, 90-7.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 9 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Hymes; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; and Mason.

**Staff:** Rick Peterson (786-7150).

**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%

Financial services include banking, loan, security, investment management, investment advisory, or other financial business.

In 1993, the B&O tax rate on financial businesses was increased from 1.5 percent to 1.7 percent, the rate on selected business services was increased from 1.5 percent to 2.5 percent, and the rate on all other services was increased from 1.5 percent to 2.0 percent.

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 surtax is calculated by multiplying each permanent rate to which it applies by 1.045. For example, the 2 percent service rate becomes 2.09 percent during the time the 4.5 percent surtax is in effect.

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. Service businesses who maintain a place of business both inside and outside this state which contribute to the performance of a service, pay tax on that portion of gross income derived from services performed in this state. Where it is not practical to apportion by separate accounting methods, the taxpayer apportions based on the cost of doing business within Washington relative to the total cost of doing business.

**Summary of Bill:** The B&O tax rate for international investment management businesses as it applies to international investment managers is reduced from 1.7 percent to 0.275 percent. This rate is subject to the 4.5 percent surtax and so will be equal to 0.287 percent until July 1, 1997.

Investment management services include investment research, consulting, portfolio management, fund administration, fund distribution, investment transactions or related investment services.

A person is an international investment manager if: (a) the person is primarily providing investment management services; and (b) at least 10 percent of the person's income is from management services provided to (i) persons or collective investments

residing outside the United States or (ii) persons or collective investments 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 on July 1, 1995.

**Testimony For:** This state's effective tax rate on investment and fund management services is presently four times that of other state's rates. The Washington B&O tax discriminates against service businesses that provide services internationally. The bill provides tax parity with other states with regard to taxation of investment management services. International investment management companies pay a family wage and provide good benefits. It is important to retain these businesses and attract new firms to Washington.

**Testimony Against:** None.

**Testified:** Representative Brian Thomas, prime sponsor; James M. McDonald and Karl J. Ege, Frank Russell Company; and Erling Mork, Tacoma-Pierce County Economic Development Board.