

HOUSE BILL REPORT

SB 6449

As Reported By House Committee On:
Finance

Title: An act relating to the business and occupation taxation of income in the nature of royalties for the use of intangible rights.

Brief Description: Specifying a business and occupation tax rate for income in the nature of royalties for the use of intangible rights.

Sponsors: Senators West, Anderson, Kohl, T. Sheldon, Jacobsen, Goings and Winsley; by request of Governor Locke.

Brief History:

Committee Activity:

Finance: 2/25/98, 3/2/98 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler and Thompson.

Staff: Rick Peterson (786-7150).

Background: The business and occupation tax (B&O) is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities (except utility activities) conducted within the state.

Although there are several different rates, beginning July 1, 1998, the principal rates will be as follows:

Manufacturing/wholesaling	0.484	percent
Retailing	0.471	percent
Services	1.5	percent

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

Income received from royalties for the granting of such rights as copyrights, licenses, patents or franchise fees are currently taxed at the 1.5 percent services rate.

Summary of Bill: A new tax classification is created for businesses receiving income from royalties. Income received from royalties is taxed at 0.484 percent.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1998.

Testimony For: Computer software sold in a box is charged the 0.484 percent manufacturing rate but software that is licensed is taxed at 1.5 percent. The computer software industry has changed the way in which it sells software and the tax system has not kept up. Washington taxes royalty income at the corporation's commercial domicile. For businesses headquartered in Washington this means they pay tax at 1.5 percent on royalty income earned all over the county. This put Washington at a competitive disadvantage. A business can locate its licensing operation outside of Washington and avoid the tax.

Testimony Against: None.

Testified: Les Jaster, Washington Software Association (pro); Claire Hesselholt, Department of Revenue (pro); Ian MacGowan, American Electronics Association (pro); and Enid Layes, Washington Biotech. Association (pro).