

SENATE BILL REPORT

SSB 5763

As Passed Senate, March 11, 1997

Title: An act relating to prohibiting the taxation of internet service providers as network telephone services providers.

Brief Description: Prohibiting the taxation of internet service providers as network telephone service providers.

Sponsors: Senate Committee on Energy & Utilities (originally sponsored by Senators Finkbeiner, Brown, Rossi, McAuliffe, Roach, Kohl, Jacobsen, Hochstatter, Haugen, Goings and West).

Brief History:

Committee Activity: Energy & Utilities: 2/17/97, 2/25/97 [DPS].
Passed Senate, 3/11/97, 49-0.

SENATE COMMITTEE ON ENERGY & UTILITIES

Majority Report: That Substitute Senate Bill No. 5763 be substituted therefor, and the substitute bill do pass.

Signed by Senators Finkbeiner, Chair; Hochstatter, Vice Chair; Brown, Jacobsen, Rossi, Strannigan and Swanson.

Staff: Phil Moeller (786-7445)

Background: The Internet— is the term used to describe the worldwide network of connected computer networks. Usage of the Internet continues to experience rapid growth.

Some companies provide access to the Internet as a specific line of business or as their main business product. There is some speculation that because these companies connect customers to the more extensive computer network through telephone lines, it could be interpreted that they provide network telephone service.— In the context of being considered a utility, network telephone service is subject to city privilege taxes.

Summary of Bill: Until July 1, 1999, cities and towns using a gross receipts tax may only tax Internet service providers under the service classification of the business and occupations tax.

It is clarified that Internet service provision does not constitute network telephone service. It is also clarified that for the purposes of the business and operations tax, Internet service provision is considered to be included within information services— under the category of selected business services.—

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: This bill gives an emerging industry a window of time to be properly defined before new taxes are applied.

Testimony Against: The bill is premature, as no local government presently imposes taxes that are specific to Internet service provision.

Testified: Matt Lamp, Mel McDonald, City of Seattle; Gary Gardner, Washington Association of Internet Service Providers (pro); Victoria Lincoln, Association of Cities (con); Steve Duncan, WSDMA (pro); Barry Murphy, Microsoft (pro); Ron Main, Washington State Cable Communications Association (pro).

House Amendment(s): It is clarified that the provision of Internet service is a selected business service activity in tax statutes, but if those statutes are repealed, Internet service provision will be taxable under the general service business and occupation tax classification.

Definitions in the bill are placed in a new section.

It is clarified that cities may impose generally applicable business taxes or fees on Internet service providers.