

# FINAL BILL REPORT

## HB 2081

---

---

C 307 L 99

Synopsis as Enacted

**Brief Description:** Continuing a moratorium that prohibits a city or town from imposing a specific fee or tax on an internet service provider.

**Sponsors:** Representatives Ruderman, Crouse, Dunshee, Thomas, Kessler, Murray, O'Brien, Ogden, Rockefeller, Stensen, Constantine and Lantz; by request of Governor Locke.

**House Committee on Technology, Telecommunications & Energy**  
**Senate Committee on Energy, Technology & Telecommunications**

### **Background:**

The rapid growth in sales of goods over the Internet raises difficult questions about how states might fairly tax those transactions. In legislation enacted in 1997 the Legislature found that the business of providing Internet service benefits all levels of society and is important to Washington's continued growth in the high technology sector of the economy, and thus should not be burdened by new taxes. This law granted Internet service providers a moratorium until July 1, 1999, on taxes specific to their businesses.

Until that time, cities and towns may not impose any new taxes or fees specific to Internet service providers, but may tax Internet service providers under generally applicable business taxes at a rate not to exceed the rate applied to a general service classification.

On-line service providers and electronic commerce lobbying groups, of course, want to make cyberspace tax-free, arguing that taxation would choke off Internet growth. Tax policy should not discriminate against electronic sales, but neither should the Internet be protected from taxes that apply in other realms of commerce.

Internet services are classified as a selected business service activity for the purposes of applying the business and occupation tax. If that section of the law is repealed, then Internet services will be placed under the general service business and occupation tax classification.

### **Summary:**

The tax moratorium on Internet service providers is extended from July 1, 1999, to July 1, 2002.

**Votes on Final Passage:**

House 87 4

Senate 46 0

**Effective:** July 25, 1999