

# HOUSE BILL ANALYSIS

## HB 2081

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**Title:** An Act relating to extending the prohibition on taxes or fees specific to internet service providers.

**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.

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### HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

*Meeting Date:* February 24, 1999.

*Bill Analysis Prepared by:* Julia Harmzatz, (786-7135)

***Background:***

The rapid growth in sales of goods over the Internet raises hard questions about how states might fairly tax those transactions. In 1997 the Washington Legislature found that the business of providing Internet service benefits all levels of society. Further, this business is important to Washington's continued growth in the high technology sector of the economy and thus should not be burdened by new taxes that might not be appropriate for the type of service provided. As such, the legislature passed Substitute Senate Bill 5763 (Chapter 304, 1997). This law granted Internet service providers a moratorium on taxes specific to their businesses.

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.

***Summary:***

This bill extends the tax moratorium on Internet service providers from July 1, 1999 to July 1, 2002. 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.

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 If that section of law is repealed, then the provision of Internet services will be placed under the general service business and occupation tax classification.

***Appropriation:*** None.

***Fiscal Note:*** Note requested.

***Effective Date of Bill:*** Ninety days after adjournment of session in which bill is passed.