

HOUSE BILL REPORT

HB 2639

As Passed Legislature

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: By Representatives Ruderman, Crouse, Bush, Nixon, Casada, Carrell, Anderson, Hunt, Van Luven, Talcott, Benson, Murray, Miloscia and Esser.

Brief History:

Committee Activity:

Finance: 2/5/02, 2/11/02 [DP].

Floor Activity:

Passed House: 2/17/02, 94-0.

Passed Senate: 3/7/02, 48-0.

Passed Legislature.

Brief Summary of Bill

- Extends moratorium on taxation of Internet Service Providers from July 1, 2002, to July, 1, 2004.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, Santos, Van Luven and Veloria.

Staff: Bob Longman (786-7139).

Background:

The Internet is an international network of computer networks that interconnect computers ranging from simple personal computers to sophisticated mainframes. Internet users can access or provide a wide variety of information, purchase goods and services, and communicate with other users electronically. Internet access and on-line service

providers generally charge their customers subscription or usage fees.

The Business and Occupation (B & O) tax is Washington's major business tax. This tax is imposed on the gross receipts of business activities. Charges for Internet service are subject to B&O tax at the general service rate of 1.5 percent.

Cities and towns may impose gross receipt taxes on businesses. Rates for utility businesses are generally much higher than rates for other businesses, such as retailers. Utility rates cannot exceed 6 percent without voter approval. Rates for other businesses cannot exceed 0.2 percent without voter approval. Some higher rates that were in effect before 1982 are still allowed.

In 1997 the Legislature prohibited cities and towns from imposing any new taxes or fees specific to Internet Service Providers (ISPs) until July 1, 1999. In 1999 the Legislature extended this prohibition until July 1, 2002. Cities and towns may tax ISPs under generally applicable business taxes at a rate not to exceed the rate applied to a general service classification.

Summary of Bill:

The prohibition on new taxes and fees specific to ISPs is extended from July 1, 2002, to July 1, 2004.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 2002.

Testimony For: This bill is consistent with a federal ban on Internet taxes that expires in September 2003. It provides more time to work out a long range solution. It does not repeal any existing tax. It prevents imposition of a new tax. It does not preclude cities from imposing general business taxes.

Testimony Against: None.

Testified: Representative Ruderman, prime sponsor; and Gary Gardner, Washington Association of Internet Service Providers.