

# HOUSE BILL REPORT

## HB 2031

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to limiting the taxation of pay phone services.

**Brief Description:** Limiting the taxation of pay phone services.

**Sponsors:** Representatives Cairnes, Crouse, Poulsen, Morris, Reardon, Delvin and Barlean.

**Brief History:**

**Committee Activity:**

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

**Brief Summary of Substitute Bill**

- City business tax rates for pay phone services must not exceed the retailing rate.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill 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:**

Cities and towns may impose gross receipts 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 retailers cannot exceed 0.2 percent without voter approval. The rate of tax applicable to telephone services depends on whether the services are network telephone services or competitive telephone services. The higher utility tax rates apply to network telephone services. The lower retailer rates apply to competitive telephone services. Coin telephone services are expressly included in the statutory definition of network telephone service and are

therefore subject to utility tax rates.

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**Summary of Substitute Bill:**

If a city or town imposes gross receipts taxes on pay phone services, the tax must be at the same rate as applies to retailers. Pay phone service is defined as service provided on a fee-per-call basis, whether the telephone is coin-operated or is activated by calling collect or using a calling card.

**Substitute Bill Compared to Original Bill:**

The lower city B&O tax rate applies only to payphone businesses that do not own the telephone line and are not affiliated with the owner of the telephone line. Clarifies that "payphone" refers to an instrument that can only be used with coins, calling cards, or collect calls. Updates the effective date.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect July 1, 2002.

**Testimony For:** Since the breakup of Ma Bell, payphones are no longer exclusively owned and controlled by monopoly utility companies. Small businesses now own many payphones. As telephone services become competitive, it is no longer appropriate to charge the high excise tax rates that applied to utilities. It is time to lower the rate applied to payphones. This is a fairness issue. Payphone owners are not utilities. We cannot pass high taxes onto customers.

**Testimony Against:** Cities are concerned about the revenue loss and urge the committee to look carefully at the local fiscal note on this bill. Reducing city tax revenue without reducing city responsibilities for service is the same thing as an unfunded mandate. We ask that you not reduce tax revenue without reducing our responsibilities or providing alternative revenue sources.

**Testified:** (In support) Representative Cairnes, prime sponsor; and Todd Mielke, Northwest Public Communication Council.

(Opposed) Dick Little, city of Bellevue; Tom Parker, city of Spokane; and Ron Rosenbloom, Association of Washington Cities.