

HOUSE BILL REPORT

SB 6497

As Reported by House Committee On:

Finance

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: Senators T. Sheldon, Finkbeiner, B. Sheldon, Rossi and Poulsen.

Brief History:

Committee Activity:

Finance: 2/26/02, 3/4/02 [DP].

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:

Internet service providers, or ISPs, provide their customers access to the internet and usually charge subscription or usage fees. Charges for internet service are subject to gross receipts taxes by the state, cities, and towns. City and town tax rates for utility businesses are generally much higher than rates for other businesses. 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 utility tax rates or any new taxes or fees on 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.

In 1998 Congress prohibited state and local governments from imposing any new taxes on internet access or other multiple or discriminatory taxes on electronic commerce. The prohibition was originally set to expire in October 2001, but was recently extended to November 1, 2003.

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 on July 1, 2002.

Testimony For: (On identical HB 2639) 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: (On identical HB 2639) Representative Ruderman, prime sponsor; and Gary Gardner, Washington Association of Internet Service Providers.