
**Technology, Telecommunications
& Energy Committee**

SB 6259

Brief Description: Extending the restriction on local government taxation of internet services.

Sponsors: Senators Schmidt, Poulsen, Esser, Prentice and Eide.

Brief Summary of Bill

- Extends the moratorium on taxation of Internet Service Providers (ISPs) by cities and towns from July 1, 2004, to July 1, 2006.

Hearing Date: 2/24/04

Staff: Pam Madson (786-7166).

Background:

Internet service providers, or ISPs, provide their customers access to the internet. ISPs generally charge their customers a subscription or usage fee.

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 higher than rates for other businesses, such as retailers. Utility rates may not exceed 6 percent without voter approval. Utility businesses include electrical and telephone. Rates for other businesses may not exceed 0.2 percent.

In 1997 the Legislature prohibited cities and towns from imposing any new taxes or fees specific to ISPs until July 1, 1999. The prohibition has been extended until July 1, 2004. 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 temporarily prohibited state and local governments from imposing any new taxes on Internet access or other multiple or discriminatory taxes on electronic commerce. The prohibition expired on November 1, 2003. Congress is considering a permanent prohibition.

Summary of Bill:

The prohibition on a city or town imposing any new taxes or fees on ISPs is extended to July 1, 2006.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.