

# SENATE BILL REPORT

## ESHB 1462

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As Reported By Senate Committee On:  
Ways & Means, March 26, 2003

**Title:** An act relating to local government business and occupation tax on intellectual property.

**Brief Description:** Prohibiting local governments from imposing business and occupation tax on intellectual property.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Morris, Cairnes, Gombosky, Ruderman, Nixon, Ericksen, Miloscia, Anderson, Wallace, Benson, Newhouse, Tom, Chandler, Orcutt, Woods, McMahan, Talcott and Campbell).

**Brief History:**

**Committee Activity:** Ways & Means: 3/26/03 [DP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Fairley, Hale, Honeyford, Parlette, Poulsen, Roach, Sheahan and Winsley.

**Staff:** Catherine Suter (786-7442)

**Background:** Thirty-seven cities impose business and occupation (B&O) taxes. City B&O taxes are imposed on the gross receipts of activities conducted by businesses located within that city. Currently, cities, code-cities and towns have the ability impose a B&O tax on activities related to the creation of intellectual property.

Intellectual property is a form of intangible property in which the product represents the manifestation of creative activity, such as in the case of software, music, and product designs. The activity of creating intellectual property may involve research, thought development, and other sorts of inventive activity. The use of intellectual property is typically allowed through license and the creator of such property may receive royalties or other compensation for licensing the product.

**Summary of Bill:** Cities are prohibited from imposing a gross receipts tax on intellectual property creating activities unless a city imposed such a tax as of January 1, 2002, in which case the city is prohibited from imposing such a tax as of January 1, 2004.

Cities are not prohibited from imposing gross receipts taxes on royalty income or on gross income derived from manufacturing, sales, or services, even if the processes might have involved intellectual property creating activity. The taxes may only be imposed on taxpayers whose principal business location is within the city imposing the tax.

Intellectual property creating activity may not be considered a manufacturing activity. Definitions of other terms related to this act are brought into conformance with state definitions.

**Appropriation:** None.

**Fiscal Note:** Requested on March 20, 2003.

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

**Testimony For:** None.

**Testimony Against:** None.

**Testified:** No one.