

# HOUSE BILL REPORT

## HB 2033

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

**Title:** An act relating to the allocation of printing and publishing income for municipal business and occupation taxes.

**Brief Description:** Modifying municipal business and occupation taxation.

**Sponsors:** Representatives McIntire, Orcutt, Conway, Hunter, Chase and Santos.

**Brief History:**

**Committee Activity:**

Finance: 3/1/05, 3/7/05 [DPS].

**Brief Summary of Substitute Bill**

- Modifies the apportionment requirements with respect to gross income earned from printing and publishing activities for cities that impose business and occupation taxes as of 2008.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Conway, Ericksen, Hasegawa and Santos.

**Staff:** Mark Matteson (786-7145).

**Background:**

*Municipal business and occupation taxes.* Thirty-seven cities impose business and occupation (B&O) taxes on the gross receipts of activities conducted by businesses without any deduction for the costs of doing business. The Legislature limited city B&O taxes to a maximum rate of 0.2 percent in 1982, but higher rates are allowed if approved by the voters in the city, or if a higher rate was in effect prior to January 1, 1982. Cities imposing a B&O tax for the first time after April 22, 1983, and cities increasing tax rates, must provide for a referendum procedure to apply to the ordinance imposing or increasing the tax.

In 2003, legislation was enacted that requires the Association of Washington Cities (AWC) to adopt a model ordinance that provides a more uniform system of municipal B&O taxes. Cities imposing B&O taxes after 2004 must adopt the provisions of the ordinance.

The model ordinance that AWC adopted pursuant to the 2003 legislation includes several business activity classifications for the purpose of applying the tax, including: extracting; manufacturing; wholesaling; retailing of goods; retailing of services; printing or publishing; processing or extracting for hire; or other (service) activities.

In addition to the model ordinance requirement, the 2003 legislation requires that all cities that impose gross receipts B&O taxes must allow for the apportionment of business income by January 1, 2008. For activities other than services or income from royalties, income is allocated based on location of the activity. For sales of tangible personal property, the location is based on the location of delivery to the buyer. With respect to income from royalties, income is allocated to the commercial domicile of the taxpayer. Under the Department of Revenue's rules and tax law in general, the commercial domicile is the principal place from which the trade or business of the taxpayer is directed or managed and is not limited to locations within Washington.

*Printing and publishing.* Many publishers receive income from readers' subscriptions. Under subscription agreements, the newspaper or periodical is generally delivered to the reader at a location specified by the reader, often the residence or place of business of the reader.

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**Summary of Substitute Bill:**

Requires cities that impose B&O taxes after 2007 to allow businesses to allocate income from the activities of printing or publishing to the principal place in this state from which the business is directed or managed for the purposes of city B&O taxation.

**Substitute Bill Compared to Original Bill:**

Provides that apportionment of income from printing or publishing allow for the allocation to the principal place of business within the state as opposed to the commercial domicile of the business.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on January 1, 2008.

**Testimony For:** After the model city business and occupation tax requirements were enacted by the Legislature in 2003, we realized that we have a tremendous amount of exposure across the state because of the number of locations our members deliver to. This bill would just allow us to continue current practice, which is based on where our commercial domicile is. We would prefer amending the bill to clarify that the definition of commercial domicile is consistent with the multistate tax compact provisions. We understand that there is a concern that the use of this language may inadvertently exempt the *New York Times* and other

deliveries, but we believe that since these are under contract that the contract payment amounts would not be affected.

**Testimony Against:** None.

**Persons Testifying:** Rowland Thompson, Allied Daily Newspaper.

**Persons Signed In To Testify But Not Testifying:** None.