

HOUSE BILL REPORT

SHB 2585

As Amended by the Senate

Title: An act relating to the business and occupation taxation of newspaper-labeled supplements.

Brief Description: Concerning the business and occupation taxation of newspaper-labeled supplements.

Sponsors: By House Committee on Finance (originally sponsored by Representatives McIntire and Kessler).

Brief History:

Committee Activity:

Finance: 1/22/08, 2/12/08 [DPS].

Floor Activity:

Passed House: 2/18/08, 89-5.

Senate Amended.

Passed Senate: 3/12/08, 48-1.

<h3>Brief Summary of Substitute Bill</h3>

- Allows reduced taxation of electronic versions of newspapers.

HOUSE COMMITTEE ON FINANCE

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

Minority Report: Do not pass. Signed by 1 member: Representative Orcutt, Ranking Minority Member.

Staff: Don Taylor (786-7388).

Background:

Printing and publishing is subject to the state business and occupation (B&O) tax at a rate of 0.484 percent. This includes printing or publishing of newspapers, magazines, books, music

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

and similar items. The tax applies to the gross receipts of the business, including subscription sales, newsstand sales, advertising income, and other income.

In recent years, newspapers have begun to post materials from their hard-copy editions on the Internet. The Department of Revenue considers any income derived from this activity to not constitute printing or publishing. Thus, advertising income received by newspapers for their web-based materials is subject to B&O tax under the service classification at a rate of 1.5 percent.

Summary of Substitute Bill:

The definition of newspaper for B&O tax purposes is amended to add "any newspaper-labeled supplement produced in any media." This would include material posted on the Internet. As a result, advertising income related to web-based newspaper material would become subject to the 0.484 percent printing and publishing tax rate, instead of the 1.5 percent service rate. The bill also stipulates that printed inserts or attachments to a newspaper are eligible for the preferential tax rate, but only if they are distributed in the same geographic areas as the newspaper.

EFFECT OF SENATE AMENDMENT(S):

The Senate Committee and Floor amendments limit the reduced B&O tax on electronic versions of newspapers until June 30, 2011. Thus, advertising revenues derived from on-line editions of newspapers will be taxable at 0.484 percent for three years - FY 2009, 2010, and 2011 - before the applicable tax rate returns to 1.5 percent. Also, the amendment stipulates an effective date of July 1, 2008.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The process of producing published materials and advertising by newspapers are very similar, whether for the hard copy of a newspaper or for the on-line version. Yet the tax rate that applies to advertising income for the latter is over three times the rate which applies to advertising income related to the hard copy of the same newspaper. Reference was made to a more comprehensive solution for all printing and publishing activities. Since this has not yet been adopted by the Legislature, a solution to the problem for the newspaper industry is necessary.

(Concerns) There are both policy and technical concerns with the bill. The bill lacks a substantive definition of the term "supplement" and there is no limitation to the term "any media." The bill would impact the tax treatment of hard-copy supplements distributed outside of a newspaper's normal geographic distribution area. A comprehensive approach to providing uniformity for all printing and publishing firms was attempted in 2007. There are other types of printing and publishing firms than newspapers, and there is concern about a "piece-meal" approach to addressing the tax problems of only one type of taxpayer.

(Opposed) None.

Persons Testifying: (In support) Rowland Tompson, Allied Daily Newspapers.

(Concerns) Gil Brewer, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.