**Washington State**
**House of Representatives**
**Office of Program Research**

# BILL ANALYSIS

# Finance Committee

# HB 1689

**Brief Description**: Concerning taxes on in-state broadcasters.

**Sponsors**: Representatives Reykdal and Nealey.

**Brief Summary of Bill**

- Updates and clarifies provisions related to radio and television broadcasters.

**Hearing Date**: 2/6/15

**Staff**: Jeffrey Mitchell (786-7139).

**Background**:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

Radio and television broadcasters are subject to a tax rate of 0.484 percent on advertising income. However, the amount of advertising income subject to Washington state B&O tax is reduced by the income derived from network, national, and regional advertising, which is essentially defined as advertising income from sponsors who sell goods or services in two or more states. Also, the portion of local advertising income that represents the out-of-state audience is excluded from the B&O tax.

Radio and television broadcasters calculate the income derived from network, national, and regional advertising in one of two ways: using a standard deduction based on the national average of network, national, and regional advertising reported by the federal communications commission (FCC) or the broadcaster itemizes the portion of revenue derived network, national,

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and regional advertising.  The FCC stopped publishing the information necessary to calculate the standard deduction circa 1981.   The portion of local advertising income that represents the out-of-state audience is determined by looking at the signal strength contour and the portion of it that falls outside the state.

While not specifically addressed in statute, gross income derived from distribution or retransmission rights to radio or television programming by broadcasters is considered royalty income and subject to a tax rate of 0.484 percent.

**Summary of Bill**:

The information used as the basis for determining the standard deduction, which represents income derived from network, national, and regional advertising, is updated by allowing The Department of Revenue (Department) to use information provided by the United States census bureau's economic census or some other informational source.  The Department must update the standard deduction by September 30, 2015, and every five years thereafter.

Updated signal strength contours are provided for determining the portion of of local advertising income that represents the out-of-state audience.

It is clarified that income derived from licensing or granting distribution or retransmission rights of radio or television programming by broadcasters is considered royalty income and subject to tax at a rate of 0.484 percent.

**Appropriation**:  None.

**Fiscal Note**:  Available.

**Effective Date**:  The bill takes effect 90 days after adjournment of the session in which the bill is passed, except section 2, relating to B&O tax rates, which is contingently effective upon the siting and operation of a significant semiconductor microchip fabrication facility in Washington.