
Finance Committee

HB 2166

Brief Description: Extending the federal internet tax freedom act to Washington state by preserving the current treatment.

Sponsors: Representatives McCabe, Blake, Pettigrew, Wilcox, Takko, Buys, Kochmar, Hayes, Vick, Harmsworth, Haler, MacEwen, Wilson and Magendanz.

Brief Summary of Bill

- Establishes a permanent sales and use tax exemption for specified telecommunications services.
- Defines the terms "internet access," "internet access service," and "network telephone service."
- Provides a legislative intent section.

Hearing Date: 3/24/15

Staff: Richelle Geiger (786-7175).

Background:

Sales and use tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital product, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

Local telephone taxes and fees.

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.

A city or town may impose a gross receipts tax for the privilege of conducting a telephone business. The rate cannot exceed 6 percent unless approved by a majority of voter within the city or town.

The Internet Tax Freedom Act.

The Internet Tax Freedom Act (ITFA), passed by Congress in 1998, prohibits state and local governments from imposing taxes on Internet access and multiple or discriminatory taxes on electronic commerce.

Internet access is defined in the ITFA as service that enables users to connect to the Internet to access content, information, or other services offered over the Internet. Internet access includes telecommunications service purchased, used, or sold by a person that provides a service that enables user to connect to the internet to access content, information, or other services offered over the internet, to the extend such telecommunications service is purchased, used or sold to provide such service or to otherwise enable users to access content, information, or other services offered over the Internet (specified telecommunication services).

Multiple tax means any tax that is imposed by multiple States or political subdivisions on the same or essentially the same electronic commerce. Discriminatory tax means any tax imposed by a State or political subdivision on electric commerce that is not generally imposed and legally collectable on transactions involving similar property, goods, services or information accomplished through other means.

The ITFA does not exempt sales made on the Internet from taxation. The ITFA was enacted in 1998 and was originally set to expire in 2001. Congress has extended the ITFA multiple times and is scheduled to expire October 1, 2015.

Summary of Bill:

The legislative intent of this act is to provide a permanent exemption from retail sales tax, use tax and local telephone taxes and fees on specified telecommunication services.

Retail sales and use tax does not apply to the sales of specified telecommunication services.

"Internet access" and "internet access service" are both defined to have the same meaning as in RCW 82.04.297 and include specified telecommunication services.

"Network telephone service" is defined to have the same meaning as in RCW 82.16.010 and does not include specified telecommunication services.

Appropriation: None.

Fiscal Note: Requested on March 21, 2015.

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