

HOUSE BILL REPORT

HB 2001

As Reported by House Committee On:
Finance

Title: An act relating to taxes on in-state broadcasters.

Brief Description: Concerning taxes on in-state broadcasters.

Sponsors: Representative Nealey.

Brief History:

Committee Activity:

Finance: 2/17/17, 2/22/17 [DP].

Brief Summary of Bill

- Updates the method for calculating the income derived from network, national, and regional advertising for in-state broadcasters.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

Staff: Tracey O'Brien (786-7152).

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. 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's B&O tax is reduced by the income derived from network, national, and regional advertising, which is

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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 from network, national, and regional advertising. The FCC stopped publishing the information necessary to calculate the standard deduction in 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 a 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 method for the calculation of the standard deduction for radio and television broadcaster's revenue from network, national, and regional advertising is updated to allow the Department of Revenue (DOR) to use the national average of such advertising based on information from the United States Census Bureau's Economic Census, or another informational source. The DOR must publish the new amount by September 30, 2017, and the amount will be updated every fifth year.

In addition, updated signal strength contours are provided in order to determine the portion of local advertising income that represents the out-of-state audience.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The standard deduction has not been utilized since the early 1980s, making this clarification long overdue. There is not rate change or preference created, but a simple update reflecting current technology to aid in apportioning revenues.

(Opposed) None.

Persons Testifying: Representative Nealey, prime sponsor; Mark Allen and Keith Shipman, Washington State Association of Broadcasters; and Ron Bueing, PricewaterhouseCoopers.

Persons Signed In To Testify But Not Testifying: None.