SENATE BILL REPORT
SHB 2001

As Reported by Senate Committee On:
Ways & Means, February 26, 2018

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

Brief Description: Concerning taxes on in-state broadcasters.

Sponsors: House Committee on Finance (originally sponsored by Representative Nealey).

Brief History: Passed House: 2/12/18, 98-0.
Committee Activity: Ways & Means: 2/24/18, 2/26/18 [DP, w/oRec].

Brief Summary of Bill

- Allows the Department of Revenue (DOR) to use an additional method for calculating the income derived from network, national, and regional advertising for in-state broadcasters.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators Frockt, Vice Chair; Honeyford, Assistant Ranking Member; Bailey, Becker, Billig, Brown, Carlyle, Conway, Darneille, Fain, Hunt, Keiser, Mullet, Palumbo, Pedersen, Ranker, Rivers, Schoesler, Van De Wege, Wagoner and Warnick.

Minority Report: That it be referred without recommendation.
Signed by Senator Hasegawa.

Staff: Alia Kennedy (786-7405)

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.

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.

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 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: (1) using a standard deduction based on the national average of network, national, and regional advertising reported by the federal communications commission; or (2) 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 DOR to use the national average of such advertising based on information from the United States Census Bureau's Economic Census. DOR must publish the new amount by September 30, 2018, 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.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: Current statute requires use of data from the Federal Communications Commission that is no longer available. When the Citizens Commission and Joint Legislative Audit and Review Committee reviewed this tax preference, they identified the United States Economic Census data as a sufficient alternative. Since the use of Federal Communications Commission data is required in statute, legislation is necessary in order to align the law with these recommendations. As for incomes from out of state audiences, a lot has changed in terms of media and broadcasting, and this legislation is intended to bring that engineering criteria up to more current standards.

Persons Testifying: PRO: Mark Allen, Washington State Association of Broadcasters.

Persons Signed In To Testify But Not Testifying: No one.