

SENATE BILL REPORT

HB 2031

As Reported By Senate Committee On:
Economic Development & Telecommunications, March 28, 2001
Ways & Means

Title: An act relating to limiting the taxation of pay phone services.

Brief Description: Limiting the taxation of pay phone services.

Sponsors: By Representatives Cairnes, Crouse, Poulsen, Morris, Reardon, Delvin and Barlean.

Brief History:

Committee Activity: Economic Development & Telecommunications: 3/26/01,
3/28/01[DP-WM].
Ways & Means: 4/2/01.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TELECOMMUNICATIONS

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators T. Sheldon, Chair; B. Sheldon, Vice Chair; Finkbeiner, Haugen, McCaslin, Rossi and Stevens.

Staff: William Bridges (786-7424)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

Background: Cities and towns may impose gross receipts taxes on retailers and utilities. The tax rate for retailers cannot exceed 0.2 percent without voter approval. The tax rate for utilities cannot exceed 6 percent without voter approval.

A telecommunications service that is not regulated by the Washington Utilities and Transportation Commission is generally taxed at the retail rate. A regulated telecommunications service is generally taxed at the utility rate. Pay phones are also taxed at the utility rate.

Summary of Bill: If a city or town imposes a gross receipts tax on pay phone services, the services must be taxed at the same rate as retailers.

Pay phone service is defined as service provided on a fee-per-call basis, whether the telephone is coin-operated or is activated by calling collect or using a calling card.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on August 1, 2001.

Testimony For (Economic Development & Telecommunications): The utility tax on pay phones is a legacy of the old Bell Telephone System. Pay phone service was deregulated when the Bell System was broken up, but the old tax has remained. The pay phone industry is now highly competitive and the high utility tax is a burden on small pay phone companies. Unlike utilities, small pay phone companies cannot pass on the tax to their customers.

Testimony Against (Economic Development & Telecommunications): The definition of pay phone service— is very broad and may apply to services made from phones that are not traditionally considered pay phones; the broad definition may also apply to services such as long distance calls. Under this broad definition, the city of Bellingham estimates it could lose \$2 million in revenue a year. In addition, the definition would apply to all pay phones, not just pay phones owned by small companies. The fiscal note underestimates the impact on local government revenue because it does not include the tax revenue generated from pay phones owned by the incumbent carriers like Qwest. The current fiscal climate is not the time to cut revenues to local governments.

Testified (Economic Development & Telecommunications): Dick Little, City of Bellingham (con); Todd Mielke, Chuck Truman, N.W. Public Communication Council (pro); Ron Rosenbloom, Association of Washington Cities (con).

Testimony For (Ways & Means): This is just a cleanup bill and reflects a change in the industry. Before the Bell breakup, pay phones were regulated monopolies. Private entities now provide these services on a competitive basis.

Testimony Against (Ways & Means): This bill applies not only to private businesses but also pay phone services of telephone businesses. Of the 206 cities with a utility tax on pay phones, only 36 have a B&O tax. This bill eliminates the tax in all but those 36 cities and reduces it in all others. This is an important revenue source for cities. History and tradition have treated them as utilities. This would set a precedent for removing other utilities from the utility tax.

Testified (Ways & Means): Todd Mielke, NW Dayphone Assn. (pro); Ron Rosenblum, AWC (con).