
SENATE BILL 6016

State of Washington

66th Legislature

2019 Regular Session

By Senators Lias, Rolfes, and Hunt

Read first time 04/17/19. Referred to Committee on Ways & Means.

1 AN ACT Relating to the taxation of international investment
2 management companies; amending RCW 82.04.290, 82.04.293, 82.08.207,
3 and 82.12.207; creating new sections; providing expiration dates;
4 providing an effective date; and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** In 1995, the legislature enacted a
7 business and occupation tax rate for persons providing international
8 investment management services. The legislature finds that the
9 original intent of this tax rate was to reduce a competitive
10 disadvantage for a limited number of firms providing international
11 investment management services. The fiscal note for the bill stated
12 that "only a very limited taxpayer group would benefit from the
13 reduced rate." The legislature further finds that as a result of the
14 adoption of economic nexus; a single factor, market-based
15 apportionment methodology; and significant ambiguity in the statute
16 governing the qualifications for the tax rate; a much larger number
17 of businesses are claiming the tax rate than was contemplated in
18 1995. Therefore, the legislature intends in sections 2 and 3 of this
19 act to clarify the scope of activities and persons eligible for the
20 tax rate to more closely align with the legislature's original
21 intent.

1 **Sec. 2.** RCW 82.04.290 and 2014 c 97 s 404 are each amended to
2 read as follows:

3 (1) Upon every person engaging within this state in the business
4 of providing qualifying international investment management services,
5 as to such persons, the amount of tax with respect to such business
6 is equal to the gross income or gross proceeds of sales of the
7 business multiplied by a rate of 0.275 percent.

8 (2)(a) Upon every person engaging within this state in any
9 business activity other than or in addition to an activity taxed
10 explicitly under another section in this chapter or subsection (1) or
11 (3) of this section; as to such persons the amount of tax on account
12 of such activities is equal to the gross income of the business
13 multiplied by the rate of 1.5 percent.

14 (b) This subsection (2) includes, among others, and without
15 limiting the scope hereof (whether or not title to materials used in
16 the performance of such business passes to another by accession,
17 confusion or other than by outright sale), persons engaged in the
18 business of rendering any type of service which does not constitute a
19 "sale at retail" or a "sale at wholesale." The value of advertising,
20 demonstration, and promotional supplies and materials furnished to an
21 agent by his or her principal or supplier to be used for
22 informational, educational, and promotional purposes is not
23 considered a part of the agent's remuneration or commission and is
24 not subject to taxation under this section.

25 (3)(a) Until July 1, 2040, upon every person engaging within this
26 state in the business of performing aerospace product development for
27 others, as to such persons, the amount of tax with respect to such
28 business is equal to the gross income of the business multiplied by a
29 rate of 0.9 percent.

30 (b) A person reporting under the tax rate provided in this
31 subsection (3) must file a complete annual report with the department
32 under RCW 82.32.534.

33 (c) "Aerospace product development" has the meaning as provided
34 in RCW 82.04.4461.

35 **Sec. 3.** RCW 82.04.293 and 1997 c 7 s 3 are each amended to read
36 as follows:

37 For purposes of RCW 82.04.290:

38 (1) A person is engaged in the business of providing qualifying
39 international investment management services, if:

1 (a) Such person is engaged primarily in the business of providing
2 investment management services; ~~((and))~~

3 (b) At least ten percent of the gross income of such person is
4 derived from providing investment management services to any of the
5 following:

6 (i) ~~((Persons or))~~ Collective investment funds ((residing))
7 commercially domiciled, as defined in RCW 82.56.010, outside the
8 United States; or

9 (ii) ~~((persons or))~~ Collective investment funds with at least ten
10 percent of their investments located outside the United States ((-

11 ~~(2) "Investment management services" means investment research,~~
12 ~~investment consulting, portfolio management, fund administration,~~
13 ~~fund distribution, investment transactions, or related investment~~
14 ~~services.~~

15 ~~(3) "Collective investment fund" includes:~~

16 ~~(a))~~;

17 (c) More than twenty-five percent of such person's employees are
18 located in this state; and

19 (d) Such person is a member of an affiliated group that
20 collectively has:

21 (i) Ten or more offices located in at least eight foreign
22 countries;

23 (ii) At least five hundred full-time employees worldwide;

24 (iii) Worldwide gross revenue of more than four hundred million
25 dollars during the entire current or immediately preceding calendar
26 year; and

27 (iv) Average assets under management of more than two hundred
28 billion dollars during the entire current or immediately preceding
29 calendar year.

30 (2) An affiliate of a person engaged in the business of providing
31 qualifying international investment management services is deemed to
32 also be engaged in the business of providing qualifying international
33 investment management services if the affiliate:

34 (a) Is primarily engaged in providing portfolio management, fund
35 administration, fund distribution, or transfer agent services, or any
36 combination of these activities, to, either directly or indirectly
37 through such affiliate's affiliated group, any of the following:

38 (i) Collective investment funds commercially domiciled, as
39 defined in RCW 82.56.010, outside the United States; or

1 (ii) Collective investment funds with at least ten percent of
2 their investments located outside the United States; and

3 (b) Satisfies the requirement under subsection (1)(c) of this
4 section.

5 (3) The definitions in this subsection apply throughout this
6 section unless the context clearly requires otherwise.

7 (a)(i) "Affiliate" and "affiliated" mean a person that directly
8 or indirectly, through one or more intermediaries, controls, is
9 controlled by, or is under common control with another person.

10 (ii) For purposes of this subsection (3)(a), "control" means the
11 possession, directly or indirectly, of more than fifty percent of the
12 power to direct or cause the direction of the management and policies
13 of a person, whether through the ownership of voting shares, by
14 contract, or otherwise.

15 (b) "Affiliated group" means any group of two or more persons
16 that are all affiliated with each other.

17 (c) "Collective investment fund" includes:

18 (i) A mutual fund or other regulated investment company, as
19 defined in section 851(a) of the internal revenue code of 1986, as
20 amended;

21 ~~((b))~~ (ii) An "investment company," as that term is used in
22 section 3(a) of the investment company act of 1940, as well as any
23 entity that would be an investment company for this purpose but for
24 the exemptions contained in section 3(c) (1) or (11);

25 ~~((e))~~ (iii) An "employee benefit plan," which includes any
26 plan, trust, commingled employee benefit trust, or custodial
27 arrangement that is subject to the employee retirement income
28 security act of 1974, as amended, 29 U.S.C. Sec. 1001 et seq., or
29 that is described in sections 125, 401, 403, 408, 457, and 501(c)(9)
30 and (17) through (23) of the internal revenue code of 1986, as
31 amended, or a similar plan maintained by a state or local government,
32 or a plan, trust, or custodial arrangement established to self-insure
33 benefits required by federal, state, or local law;

34 ~~((d))~~ (iv) A fund maintained by a tax-exempt organization, as
35 defined in section 501(c)(3) of the internal revenue code of 1986, as
36 amended, for operating, quasi-endowment, or endowment purposes;

37 ~~((e))~~ (v) Funds that are established for the benefit of such
38 tax-exempt organizations, such as charitable remainder trusts,
39 charitable lead trusts, charitable annuity trusts, or other similar
40 trusts; or

1 (~~(f)~~) (vi) Collective investment funds similar to those
2 described in (~~(a)~~) (c)(i) through (~~(e)~~) (v) of this subsection
3 (3) created under the laws of a foreign jurisdiction.

4 (d) "Investment management services" means managing the
5 collective assets of a collective investment fund by engaging, either
6 directly or indirectly through such person's affiliated group, in all
7 of the following activities: (i) Portfolio management; (ii) fund
8 administration; (iii) fund distribution; and (iv) transfer agent
9 services.

10 (4) Investments are located outside the United States if the
11 underlying assets in which the investment constitutes a beneficial
12 interest reside or are created, issued or held outside the United
13 States.

14 NEW SECTION. Sec. 4. (1) The legislature finds that a strong
15 financial cluster is critical to the economic health of Washington
16 state. The legislature further finds that anchor institutions are key
17 to growing a strong financial cluster, including international
18 investment management firms. Therefore, the legislature finds that
19 maintaining a competitive tax policy in Washington state enables the
20 state to maintain its anchor investment management firms.

21 (2) The legislature finds that standard financial information has
22 not historically been subject to sales tax. In 2007 the legislature
23 clarified that sales tax does not apply to electronically delivered
24 standard financial information purchased by investment management
25 companies or financial institutions. In 2013, the legislature
26 provided clarification by passing a sales and use tax exemption for
27 standard financial information purchased by investment management
28 companies.

29 (3) The legislature further finds that taxation of such standard
30 financial information would be uncompetitive and inconsistent with
31 the fundamental structure of sales tax as a tax on retail
32 transactions. Therefore, it is the legislature's intent to conform
33 with a previously determined policy objective of exempting certain
34 standard financial information purchased by investment management
35 companies from sales and use tax in order to improve industry
36 competitiveness.

37 NEW SECTION. Sec. 5. (1) This section is the tax preference
38 performance statement for the tax preferences contained in sections 6

1 and 7, chapter . . ., Laws of 2019 (sections 6 and 7 of this act).
2 This performance statement is only intended to be used for subsequent
3 evaluation of the tax preferences. It is not intended to create a
4 private right of action by any party or be used to determine
5 eligibility for preferential tax treatment.

6 (2) The legislature categorizes these tax preferences as ones
7 intended to improve industry competitiveness, as indicated in RCW
8 82.32.808(2)(b) and to reduce structural inefficiencies in the tax
9 structure as indicated in RCW 82.32.808(2)(d).

10 (3) It is the legislature's specific public policy objective to
11 maintain a viable financial cluster. It is the legislature's intent
12 to exempt sales and use taxes on sales of standard financial
13 information to qualifying international investment management
14 companies, in order to maintain the presence of at least one
15 international investment management services firm headquartered in
16 Washington state with at least two hundred billion dollars of assets
17 under management.

18 (4) If a review finds that there is at least one international
19 investment management services firm with at least two hundred billion
20 dollars of assets under management headquartered in Washington state,
21 then the legislature intends to extend the expiration date of the tax
22 preferences.

23 **Sec. 6.** RCW 82.08.207 and 2013 2nd sp.s. c 13 s 702 are each
24 amended to read as follows:

25 (1) The tax imposed by RCW 82.08.020 does not apply to sales of
26 standard financial information to qualifying international investment
27 management companies or persons affiliated with a qualifying
28 international investment management company. The exemption provided
29 in this section applies regardless of whether the standard financial
30 information is provided to the buyer in a tangible format or on a
31 tangible storage medium or as a digital product transferred
32 electronically.

33 (2) Sellers making tax-exempt sales under this section must
34 obtain an exemption certificate from the buyer in a form and manner
35 prescribed by the department. The seller must retain a copy of the
36 exemption certificate for the seller's files. In lieu of an exemption
37 certificate, a seller may capture the relevant data elements as
38 allowed under the streamlined sales and use tax agreement. For
39 sellers who electronically file their taxes, the department must

1 provide a separate tax reporting line for exemption amounts claimed
2 under this section.

3 (3) A buyer may not continue to claim the exemption under this
4 section once the buyer has purchased standard financial information
5 during the current calendar year with an aggregate total selling
6 price in excess of fifteen million dollars and an exemption has been
7 claimed under this section or RCW 82.12.207 for such standard
8 financial information. The fifteen million dollar limitation under
9 this subsection does not apply to any other exemption under this
10 chapter that applies to standard financial information. Sellers are
11 not responsible for ensuring a buyer's compliance with the fifteen
12 million dollar limitation under this subsection. Sellers may not be
13 assessed for uncollected sales tax on a sale to a buyer claiming an
14 exemption under this section after having exceeded the fifteen
15 million dollar limitation under this subsection, except as provided
16 in RCW 82.08.050 (4) and (5).

17 (4) The definitions in this subsection and RCW 82.04.293 apply
18 throughout this section unless the context clearly requires
19 otherwise.

20 (a) ~~((i))~~ "Qualifying international investment management
21 company" means a person ~~((~~

22 ~~(A) Who is primarily engaged in the business of providing
23 investment management services; and~~

24 ~~(B) Who has gross income that is at least ten percent derived
25 from providing investment management services to:~~

26 ~~(I) Persons or collective investment funds residing outside the
27 United States; or~~

28 ~~(II) Collective investment funds with at least ten percent of
29 their investments located outside the United States.~~

30 ~~(ii) The definitions in RCW 82.04.293 apply to this subsection~~
31 ~~(4)(a)) who is eligible for the tax rate in RCW 82.04.290(1).~~

32 (b) (i) "Standard financial information" means financial data,
33 facts, or information, or financial information services, not
34 generated, compiled, or developed only for a single customer.
35 Standard financial information includes, but is not limited to,
36 financial market data, bond ratings, credit ratings, and deposit,
37 loan, or mortgage reports.

38 (ii) For purposes of this subsection (4)(b), "financial market
39 data" means market pricing information, such as for securities,
40 commodities, and derivatives; corporate actions for publicly and

1 privately traded companies, such as dividend schedules and
2 reorganizations; corporate attributes, such as domicile, currencies
3 used, and exchanges where shares are traded; and currency
4 information.

5 (5) This section expires July 1, (~~2021~~) 2031.

6 **Sec. 7.** RCW 82.12.207 and 2013 2nd sp.s. c 13 s 703 are each
7 amended to read as follows:

8 (1) The tax imposed by RCW 82.12.020 does not apply to the use of
9 standard financial information by qualifying international investment
10 management companies or persons affiliated, as defined in RCW
11 82.04.293, with a qualifying international investment management
12 company. The exemption provided in this section applies regardless of
13 whether the standard financial information is in a tangible format or
14 resides on a tangible storage medium or is a digital product
15 transferred electronically to the qualifying international investment
16 management company.

17 (2) The definitions, conditions, and requirements in RCW
18 82.08.207 apply to this section.

19 (3) This section expires July 1, (~~2021~~) 2031.

20 NEW SECTION. **Sec. 8.** If any provision of this act or its
21 application to any person or circumstance is held invalid, the
22 remainder of the act or the application of the provision to other
23 persons or circumstances is not affected.

24 NEW SECTION. **Sec. 9.** The provisions of RCW 82.32.805 and
25 82.32.808 do not apply to sections 2 and 3 of this act.

26 NEW SECTION. **Sec. 10.** Sections 2 and 3 of this act are
27 necessary for the immediate preservation of the public peace, health,
28 or safety, or support of the state government and its existing public
29 institutions, and take effect July 1, 2019.

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