

# Special Notice

*Intended audience: businesses reporting under the IIMS B&O tax classification, or taking the sales tax exemption for standard financial information*

**June 12, 2019**

## Taxation of international investment management companies

A recent law changed how international investment management services (IIMS) are taxed by:

- limiting the persons that are eligible to receive the preferential business and occupation (B&O) tax rate
- changing the definition of “investment management services”
- expanding the scope of eligible persons to include affiliates that provide services in furtherance of IIMS
- extending the expiration date on the sales and use tax exemption for the purchase of standard financial information by qualifying international investment management companies

The B&O tax changes are effective July 1, 2019 and the sales/use tax changes are effective July 28, 2019 ([Engrossed Senate Bill \(ESB\) 6016](#), Chapter 426, Laws of 2019).

### Who qualifies for the B&O preference?

A person is eligible for the preferential B&O tax rate if all of the following are true:

- they are engaged primarily in providing investment management services
- at least 10% of their gross income comes from investment management services to any of the following:
  - collective investment funds commercially domiciled outside the United States
  - collective investment funds with at least 10% of their investments located outside the United States
- more than 25% of their employees are located in Washington

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- they are a member of an affiliated group with all of the following:
  - ten or more offices located in at least eight foreign countries
  - at least 500 full-time employees worldwide
  - worldwide gross revenue of more than \$400 million during the current or preceding calendar year
  - average assets of more than \$200 billion during the current or prior calendar year

## Affiliates

Affiliates of a qualified person also qualify if more than 25% of their employees are located in Washington, and they are primarily engaged in providing portfolio management services, fund administration services, fund distribution services, or transfer agent services to any of the following:

- collective investment funds commercially domiciled outside the United States
- collective investment funds with at least 10% of their investments located outside the United States

## How is the related sales and use tax exemption impacted?

The law limits the sales and use tax exemption to the purchase and use of standard financial information made by qualifying international investment companies and their affiliates. To qualify for the sales and use tax exemption, a business must also qualify for the B&O tax preference.

In addition, the law extends the exemption through July 1, 2031. It was set to expire on July 1, 2021.

## Definitions

**Investment management services** means managing all assets of a collective investment fund by engaging—either directly or indirectly through the affiliate’s affiliated group—in all of the following activities:

- portfolio management
- fund administration
- fund distribution
- transfer agent services

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