

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 5918 SB	<b>Title:</b> Employee training tax credit	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

FUND	FY 2006	FY 2007	2005-07	2007-09	2009-11
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(5,000,000)	(5,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
<b>Total \$</b>	(5,000,000)	(5,000,000)	(10,000,000)	(10,000,000)	(10,000,000)

### Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.6	0.0	0.3	0.0	0.0
<b>Fund</b>					
GF-STATE-State 001-1	52,000	500	52,500	1,000	1,000
<b>Total \$</b>	52,000	500	52,500	1,000	1,000

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: Michael Herman	Phone: 3607867409	Date: 02/14/2005
Agency Preparation: Skeets Johnson	Phone: 360-570-6075	Date: 02/15/2005
Agency Approval: Don Gutmann	Phone: 360-570-6073	Date: 02/15/2005
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 02/16/2005

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

#### Section 1.

(1) Authorizes a credit against business and occupation taxes, subject to limitations addressed below. Credit is only available to companies with 500 or fewer employees in the state.

(2)(a) Credit is equal to 60 percent of the amount of qualifying costs made in rural counties as defined in RCW 82.14.370 or 40 percent of the amount of qualifying costs made in nonrural counties. The credit is limited to \$5,000 for qualifying costs per employee per calendar year and no person shall receive total credits exceeding \$250,000 per calendar year. Credits are only available for amounts expended on job classes covered by the minimum wage provisions of the federal fair labor standards act.

(2)(b) Revenue approval requires (i) having entered into a training contract with a qualified training institution; and (ii) showing that the training costs during the year for which a credit is requested exceed the person's average annual training expenditures over the past three years for the job classes covered by the minimum wage provisions of the federal fair labor standards act.

(3) Requires that training contracts must be for the training of a minimum of five employees. It also allows an employer who does not have five employees to train to coordinate with other employers with identical training needs to create groups to meet the five employee threshold.

(4) Requires the person to file an application for the credit with the Department and the Department must approve or deny the application. No approval can be given for expenditures incurred prior to the effective date of this act.

(5) Credits are available on a first-come basis. The total credits granted under this section and section 2 shall not exceed \$10,000,000 per biennium. The Department will monitor this amount to ensure that it is not exceeded.

(6) No person can take a tax credit in an amount exceeding the amount of tax due under this chapter. The credit for any calendar year must be claimed by the due date of the last tax return for that calendar year. Credits cannot be carried over nor will refunds be granted.

(7) If a person uses a credit granted under this section against tax due under chapter 82.16 RCW, then the person may not use the same credit for tax due under this chapter.

(8) A person taking a credit under RCW 82.04.4333 may not take a credit under this section for the same training.

(9) Defines (a) employer the same as person; (b) qualifying costs as those employee training expenditures which exceed the employer's average annual employee training expenditures over the past three calendar years and are direct payments made under a contract with a qualified training institution. The definition does not include employee tuition reimbursements unless tuition reimbursement is specifically included in the contract required in (2)(b) above; (c) employee as a person working in a job class covered by the minimum wage provisions of the federal fair labor standards act; (d) qualified training institution as a public community or technical college or a private vocational school licensed by either the Work Force Training and Education Coordinating Board or the Higher Education Coordinating Board.

Section 2. Makes available the tax credit program of Section 1 to chapter 82.16 RCW. However, if a person takes the credit under chapter 82.04 RCW, it cannot claim the same credit for tax due under this chapter. Also, persons taking credits under RCW 82.04.4333 may not take a credit under this section for the same training.

Section 3. Provides an effective date of July 1, 2005.

## II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

### ASSUMPTIONS/DATA SOURCES

A review of 2001- 2003 employment history indicates that between 8,000 and 12,000 employers with less than 500 employees added employment that exceeded their three year average employment level (and therefore exceeded average training costs). The level of employment above the average was 66,000 to 100,000 employees per year. If it is assumed that training costs would be about \$1,000 per employee and average credit percent is 48 percent, then the total potential business and occupation credit would be four to seven times the level of the \$5 million annual program cap provided in the proposal.

**CURRENTLY REPORTING TAXPAYERS** (Impact for taxpayers who are known or estimated to be currently paying the tax in question)

Given the above assumptions, the business and occupation credit provided by the proposal would be at the maximum cap of \$5 million per year. Therefore, the 2005-2007 impact would be a revenue loss of \$10 million.

### TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2006 -	\$ (5,000)
FY 2007 -	\$ (5,000)
FY 2008 -	\$ (5,000)
FY 2009 -	\$ (5,000)
FY 2010 -	\$ (5,000)
FY 2011 -	\$ (5,000)

Local Government, if applicable (cash basis, \$000): None.

## II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

This legislation takes effect July 1, 2005

To implement this legislation, the Department will incur costs of approximately \$52,500 during the 2005-2007 Biennium. Fiscal year 2006 costs include:

1. 0.01 FTE at a Financial Analyst level (representing 12 hours) to update and review financial reports and accounting records.
2. 0.1 FTE (rounded) at an Excise Tax Examiner 2 level (representing 112 hours) to monitor credit and caps and test cap screen.
3. 0.01 FTE at an Office Assistant level (representing 5 hours) to key addendums.
4. 0.04 FTE at an Info Tech Sys Spec 4 level (representing 82 hours) to design, implement, and test new addendum.
5. 0.02 FTE at a WMS II level to assist in design and implementation of new addendum.
6. 0.1 FTE (rounded) at an Excise Tax Examiner 3 level (representing 100 hours) to test the e-file application.
7. 0.42 FTE at an Info Tech App Spec 4 level (representing 790 hours) to modify credit tracking systems and create reports.
8. \$6,200 related to consultant costs for the design of new addendum.

The Department will incur ongoing costs of approximately \$500 during fiscal year 2007 and \$1000 during the 2007-2009

and 2009-2011 Biennia. Ongoing costs relate to the Financial Analyst 5, Excise Tax Examiner 2, Office Assistant, and the Info Tech Sys Spec 4 discussed in 1-4 above.

Without an appropriation to cover the expenditure impact, the Department may not be fully able to implement the legislation.

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.6	0.0	0.3	0.0	0.0
A-	30.200	400	30,600	800	800
B-	7.600	100	7,700	200	200
C-	6.200		6,200		
E-	4.000		4,000		
J-	4.000		4,000		
<b>Total \$</b>	<b>\$52,000</b>	<b>\$500</b>	<b>\$52,500</b>	<b>\$1,000</b>	<b>\$1,000</b>

### III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2006	FY 2007	2005-07	2007-09	2009-11
EXCISE TAX EXAMINER 2	34,932	0.1	0.0	0.0	0.0	0.0
EXCISE TAX EXAMINER 3	41,520	0.1		0.0		
FINANCIAL ANALYST 5	49,380	0.0	0.0	0.0	0.0	0.0
INFO TECH APP SPEC 4	51,864	0.4		0.2		
INFO TECH SYS SPEC 4	51,864	0.0	0.0	0.0	0.0	0.0
OFFICE ASSISTANT	25,200	0.0	0.0	0.0	0.0	0.0
WMS II	61,600	0.0		0.0		
<b>Total FTE's</b>		<b>0.6</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>

## Part IV: Capital Budget Impact

NONE.

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

Should this legislation become law, the Department of Revenue will use the standard process to amend WAC 458-20-240-Manufacturer's new employee tax credits. The Department will not incur an additional cost because it is currently in the process of amending this rule and will incorporate this legislation as necessary.