

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 6061 SB	<b>Title:</b> Controlling interest
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## Estimated Cash Receipts

Agency Name	2005-07		2007-09		2009-11	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	5,538,000	6,000,000	5,538,000	6,000,000	5,538,000	6,000,000
<b>Total \$</b>	5,538,000	6,000,000	5,538,000	6,000,000	5,538,000	6,000,000

Local Gov. Courts *						
Local Gov. Other **	Fiscal note not available					
Local Gov. Total						

## Estimated Expenditures

Agency Name	2005-07			2007-09			2009-11		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the Secretary of State	.0	29,500	59,000	.0	0	0	.0	0	0
Department of Revenue	1.8	205,300	205,300	1.7	188,200	188,200	1.8	191,700	191,700
<b>Total</b>	1.8	\$234,800	\$264,300	1.7	\$188,200	\$188,200	1.8	\$191,700	\$191,700

Local Gov. Courts *									
Local Gov. Other **	Fiscal note not available								
Local Gov. Total									

See revised Department of Revenue fiscal note.

<b>Prepared by:</b> Tristan Wise, OFM	<b>Phone:</b> 360-902-0546	<b>Date Published:</b> Revised 3/15/2005
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\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

FNPID: 11546

# Individual State Agency Fiscal Note

Revised

<b>Bill Number:</b> 6061 SB	<b>Title:</b> Controlling interest	<b>Agency:</b> 085-Office of the Secretary of State
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

<b>FUND</b>					
<b>Total \$</b>					

### Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
<b>Fund</b>					
General Fund-State 001-1	29,500	0	29,500	0	0
Secretary of State's Revolving Account-Non-Appropriated 407-6	29,500	0	29,500	0	0
<b>Total \$</b>	59,000	0	59,000	0	0

*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:	Phone:	Date: 03/01/2005
Agency Preparation: Dalene Conant	Phone: 360-586-4553	Date: 03/02/2005
Agency Approval: Dan Speigle	Phone: 360-570-5580	Date: 03/03/2005
OFM Review: Tristan Wise	Phone: 360-902-0546	Date: 03/03/2005

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 of the bill requires the Office of the Secretary of State (OSOS) to adopt regulations requiring business and non profit entities to report changes in “controlling interest”, and ownership of real property. OSOS must provide this information to the Department of Revenue (DOR) on request.

Currently, the Department of Licensing (DOL) processes the majority of annual reports for profit entities organized under titles 23B, and 25 RCW. OSOS processes supplemental annual reports for profit entities as well as all annual reports for non profit entities. Approximate 250,000 entities are required to submit reports through DOL. About 45,000 entities are required to submit reports to OSOS. This fiscal note reflects only cost estimates to OSOS. DOL is preparing its own estimates of the impact of this bill on their processes.

The fiscal impact depends on which way the bill would be implemented. The following two different ways could be used:

- 1: The transfer of images of the annual reports to DOR without data entry by the Office of the Secretary of State.

Transfer of Images – No OSOS data entry: The required questions would be added to the annual report form. No data would be entered in the OSOS automated system. DOR staff investigating an entity could request images of the annual report from OSOS, and gather the data from the copy of the report. The costs associated with a non automated process are likely to be small enough to be absorbed within existing resources.

- 2: The transfer of data that has been entered into the OSOS database by Corporation Division employees.

Automated Data Transfer: This option would involve additional expense and are considerably more complex. Those costs could not be absorbed by OSOS and are reflected in this fiscal note. In order to automate the provision of the required data to Department of Revenue, OSOS would need to add two fields to the workflow data entry form. In addition, fields would be added to the data base to retain this data for each entity, for each report filed, as well as to the data exchange with our primary partner, DOL.

OSOS staff would enter data from the reports into our automated system. DOR staff would have access to this information through database queries or reports.

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.

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.

Automated implementation requires programming to modify a customized software application, a separate database, and data transfer protocols. The costs listed reflect programming to add additional data fields necessary to identify accounts and transfer data to DOR. Programming services would be purchased from a private vendor estimated in a range of potential costs from \$29,000 to \$59,000.

The workload estimate for data entry at OSOS is 5% of an FTE. This impact could be absorbed by OSOS within current resources, but could be accompanied by delays in processing annual reports. Costs associated with both the automated and non automated implementation vary considerably, but some base costs, related to the factors listed below, are common to both approaches. These following common costs are either impossible to predict or small enough to be absorbed within current resources and are not included in this fiscal note:

- rule adoption process.
- revision of eight automatically generated paper forms.
- additional customer contact as a result of the additional information requested on the annual report.
- providing information to DOR.

## Part III: Expenditure Detail

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

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services	59,000		59,000		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
<b>Total:</b>	\$59,000	\$0	\$59,000	\$0	\$0

## Part IV: Capital Budget Impact

## 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.*

Section 1 requires the adoption of rules that would impose a requirement on business to disclose a transfer of a controlling interest in a corporate entity at the time of filing an annual report. The rule would also require disclosure of ownership of real property.

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 6061 SB	<b>Title:</b> Controlling interest	<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 57 - Real Estate Excise	2,769,000	2,769,000	5,538,000	5,538,000	5,538,000
PubWorks Assist-State 01 - Taxes 57 - Real Estate Excise	231,000	231,000	462,000	462,000	462,000
<b>Total \$</b>	3,000,000	3,000,000	6,000,000	6,000,000	6,000,000

### Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	1.8	1.7	1.8	1.8	1.8
<b>Fund</b>					
GF-STATE-State 001-1	112,700	92,600	205,300	188,200	191,700
<b>Total \$</b>	112,700	92,600	205,300	188,200	191,700

*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:	Phone:	Date: 03/01/2005
Agency Preparation: Diana Tibbetts	Phone: 360-570-6085	Date: 03/11/2005
Agency Approval: Kim Davis	Phone: 360-570-6087	Date: 03/11/2005
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 03/11/2005

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.

Note: This fiscal note corrects the revenue impact. It supercedes fiscal note number 6061-1.

Section 1 adds a new section to the Secretary of State statute, RCW 43.07. Any entity required to file an annual report with the Secretary of State must disclose any transfer in the controlling interest of the entity and any interest in real property. The information will be available to the Department of Revenue for purposes of determining when the real estate excise tax is due.

Section 2 amends the real estate excise tax statute, RCW 82.45. Any organization failing to report a transfer and found to be subject to the real estate excise tax is subject to the real estate tax collection provisions including the possibility of tax evasion penalty.

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

This legislation creates a more effective way for the Department of Revenue to track controlling interest transfers. Controlling interest transfers are included in the definition of sale ( RCW 82.45.010(2)) and are subject to real estate excise tax (REET). There are two main factors that make a controlling interest transfer taxable:

- 1. There has to be a transfer of controlling interest in an entity (50 percent or more of the ownership interest) and,
- 2. The entity has to have an interest in real property in the state of Washington.

Normal exemptions from REET are allowed on controlling interest transfers.

Controlling interest transfers that are not properly reported to the Department may be due to at least two reasons:

- 1. The taxpayer qualified for REET exemption(s) and did not owe any tax, or
- 2. Out-of-state entities may choose not to comply or they may not know that REET is due.

Historically, approximately 25 percent of the entities are located out of state. This legislation does not capture the out-of-state entities that are not required to register with the Secretary of State.

The Secretary of State receives an estimated 25,000 controlling interest transfer reports per month. The Department estimates that 50 to 250 transfers will be taxable. The Department assumes REET collected per taxable transfer will be in the \$20,000-\$30,000 range. It is estimated that \$3 million will be collected per year due to this legislation.

Of the net real estate excise tax proceeds to the state, 7.7 percent is deposited in the public works assistance account.

TAXPAYERS NOT CURRENTLY REPORTING (Although some taxpayers may not now be paying the tax in question, some of them will become aware of their liability in the future, as a result of normal enforcement activities or education programs by the Department. The impact for such taxpayers is based on the Department's studies of average tax compliance.)

From this legislation, it is estimated that the state will gain an estimated \$3 million a year in real estate excise tax. Local government will gain an estimated \$1.14 million a year.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2006 - \$ 3,000  
FY 2007 - \$ 3,000  
FY 2008 - \$ 3,000  
FY 2009 - \$ 3,000  
FY 2010 - \$ 3,000  
FY 2011 - \$ 3,000

Local Government, if applicable (cash basis, \$000):

FY 2006 - \$ 1,400  
FY 2007 - \$ 1,400  
FY 2008 - \$ 1,400  
FY 2009 - \$ 1,400  
FY 2010 - \$ 1,400  
FY 2011 - \$ 1,400

## 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.*

Should this legislation pass, the Department anticipates having access to an estimated 25,000 reports filed each month with the Secretary of State's office. The Department would review and investigate approximately 0.25 percent.

To implement this legislation, the Department will incur costs of approximately \$205,300 during the 2005-2007 Biennium. Fiscal Year 2006 costs of \$112,700 include:

- 1) 0.12 FTEs at the Info Tech App Spec 4 level (representing 220 hrs) for a one-time effort to develop and implement a download process from the Secretary of State and application to access data.
- 2) 1.0 FTEs at the Misc Tax Spec 2 level to review response letters, initiate investigations, issue tax assessments, and follow up on collection activity.
- 3) 0.02 FTEs at the Revenue Agent 3 level (representing 40 hrs) to follow up on collections and issue tax warrants.
- 4) 0.70 FTEs at the Tax Serv Rep 1 level to sort, select, and investigate information for potential real estate excise tax liability and send educational letters.
- 5) \$900 for general correspondence, educational mailings, and assessments issuance.
- 6) \$1,000 for recording and documentation fees for filing of liens.

The Department will incur ongoing costs of approximately \$188,200 during the 2007-09 Biennium and \$191,700 during the 2009-11 Biennium. Ongoing costs relate to FTEs discussed in 2-4 above and costs in 5-6 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	1.8	1.7	1.8	1.8	1.8
A-	69,300	63,600	132,900	128,600	130,400
B-	17,300	15,900	33,200	32,100	32,600
E-	13,600	13,100	26,700	27,500	28,700
J-	12,500		12,500		
<b>Total \$</b>	<b>\$112,700</b>	<b>\$92,600</b>	<b>\$205,300</b>	<b>\$188,200</b>	<b>\$191,700</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*

<b>Job Classification</b>	<b>Salary</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>2005-07</b>	<b>2007-09</b>	<b>2009-11</b>
INFO TECH APP SPEC 4	51,864	0.1		0.1		
MISC TAX SPEC 2	41,520	1.0	1.0	1.0	1.0	1.0
REVENUE AGENT 3	42,588	0.0	0.0	0.0	0.1	0.1
TAX SERVICE REP 1	29,626	0.7	0.7	0.7	0.7	0.7
<b>Total FTE's</b>		1.8	1.7	1.8	1.8	1.8

**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.*

The Department is currently revising chapter 458-61 WAC and would incorporate this legislation as necessary. Persons affected include business organizations making transfers of controlling interests.