

Department of Revenue Fiscal Note

Bill Number: 5884 SB	Title: Interchange fees	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2008	FY 2009	2007-09	2009-11	2011-13
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	(1,000,800,000)	(1,258,000,000)	(2,258,800,000)	(2,698,000,000)	(2,960,500,000)
Performance Audit Account-State 01 - Taxes 01 - Retail Sales Tax	(1,580,000)	(2,000,000)	(3,580,000)	(4,300,000)	(4,700,000)
Total \$	(1,002,380,000)	(1,260,000,000)	(2,262,380,000)	(2,702,300,000)	(2,965,200,000)

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	6.6	3.2	4.9	3.2	3.2
Fund					
GF-STATE-State 001-1	398,100	169,400	567,500	339,000	339,200
Total \$	398,100	169,400	567,500	339,000	339,200

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.

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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.

SB 5884 provides a credit against the state retail sales tax collected by the retailer for the amount of interchange fees charged on retail sales by financial institutions. The credit against retail sales tax collections is for the same calendar year the tax is imposed.

The credit applies only to the state portion of the retail sales tax. Sellers are required to keep records necessary to enable the Department of Revenue to verify eligibility for this credit. Interchange fee is defined as the fee a merchant's financial institution pays to a cardholder's financial institution when a cardholder uses a credit or debit card as payment for a retail transaction.

This bill takes effect 90 days after adjournment of the session in which it is enacted.

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

- 1. Estimates of taxable retail sales are based on the November 2006 Revenue Forecast Council forecast.
- 2. Fifty two percent of all purchases are assumed to be made with debit and/or credit cards.
Source: The Association for Convenience & Petroleum Retailing:
<http://www.nationalpaymentcard.com/docs/creditcardfees.pdf>.
www.nacsonline.com.
- 3. The average interchange fee is assumed to be two percent of the retail transaction. (The interchange fee is a portion of the charge or "discount rate" made by the financial institution. The discount rate varies but generally equals two to three percent of the sale. The interchange fee is generally 70 to 90 percent of the discount rate.)
Source: Interchange Fees in Credit and Debit Card Markets: What Role for Public Authorities? A Summary of a Federal Reserve Bank of Kansas City Conference, Economic Review, 1st Quarter 2006.
- 4. Estimates of growth are based on: Statistical Abstract Table 1175. Credit Card - Holders, Number, Spending & Debt, 2000 and 2003, & Projections to 2008.

REVENUE ESTIMATES

The fiscal impact of this bill is an estimated revenue loss to the General Fund of \$1 billion in Fiscal Year 2008 and \$1.26 billion in Fiscal Year 2009 or \$2.3 billion in the 2008-09 biennium. It is estimated there will be a \$2.7 billion loss to the General Fund in the 2010-11 biennium.

Financial institutions charge interchange fees based on the total amount of the transaction, including sales tax collected from the cardholder. The bill's title describes the bill as creating a sales tax exemption (credit) for retail sellers for the state sales tax on interchange fees. Thus, the intent is to provide a sales tax credit for the amount of interchange fees charged to the retailer on the portion of the transaction representing the state sales tax. However, the bill as written provides a credit for the entire interchange fee. If the credit was limited to the state sales tax rate multiplied by the interchange fee, the estimated revenue loss would be \$78 million per year.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2008 - (\$1,002,380)
FY 2009 - (\$1,260,000)
FY 2010 - (\$1,319,800)
FY 2011 - (\$1,382,500)
FY 2012 - (\$1,448,600)
FY 2013 - (\$1,517,000)

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.

To implement this legislation the Department of Revenue (Department) will incur costs of approximately \$398,100 during Fiscal Year 2008. These are costs to modify the excise tax systems for the new credit; develop programs to setup, test, and verify the computer systems; process the credits, including out-of-balance returns; and print a reporting addendum.

Time and effort to modify the excise tax systems for programming support and to process the credits, including out-of-balance returns, equates to approximately 6.5 FTEs.

Costs to print a reporting addendum will be \$2,200 in Fiscal Year 2008.

The Department will incur costs of \$169,400 during Fiscal Year 2009. These costs are to process the credits, including out-of-balance returns, and to print a reporting addendum. This equates to approximately 3.2 FTEs.

The Department will incur ongoing costs of approximately \$339,000 during the 2009-2011 biennium and \$339,200 during the 2011-2013 biennium. These costs are to process the credits, including out-of-balance returns, and for the printing of a reporting addendum. This equates to approximately 3.2 FTEs each fiscal year.

Due to the August 1, 2007, effective date of this legislation, the Department will incur costs in Fiscal Year 2007 of approximately \$133,500 to redesign the Combined Excised Tax Return, modify and test the E-file system, and to create and mail a Special Notice. Labor costs equate to approximately 0.2 FTE.

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 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	6.6	3.2	4.9	3.2	3.2
A-	249,400	117,200	366,600	234,400	234,400
B-	62,300	29,300	91,600	58,600	58,600
E-	44,500	22,900	67,400	46,000	46,200
J-	41,900		41,900		
Total \$	\$398,100	\$169,400	\$567,500	\$339,000	\$339,200

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 2008	FY 2009	2007-09	2009-11	2011-13
EXCISE TAX EX 2	36,624	6.0	3.2	4.6	3.2	3.2
IT SPEC 4	54,372	0.6		0.3		
Total FTE's		6.6	3.2	4.9	3.2	3.2

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.

No rule-making required.