

Department of Revenue Fiscal Note

Bill Number: 2397 HB	Title: Tax exemption restrictions	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	9,652,000	10,627,000	20,279,000	21,550,000	21,648,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	41,298,000	45,053,000	86,351,000	90,106,000	90,106,000
Performance Audit Account-State 01 - Taxes 01 - Retail Sales Tax	157,000	173,000	330,000	350,000	352,000
Total \$	51,107,000	55,853,000	106,960,000	112,006,000	112,106,000

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.2		0.1		
Fund					
GF-STATE-State 001-1	30,100		30,100		
Total \$	30,100		30,100		

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.

Section 2 amends RCW 82.04.4281 to eliminate the business and occupation tax deduction for:

- dividend or distribution amounts received by a parent from subsidiaries
- interest amounts on loans between related entities
- investment amounts received by corporations

Section 3 amends RCW 82.04.4282 to reduce the business and occupation tax deduction for initiation fees and dues. For initiation fees, the deduction is limited to \$999 per membership. For dues, the deduction is limited to the first \$199 per month.

Sections 4 and 5 amend RCW 82.08.037 and 82.12.037 to exclude from the deduction, bad debts sold or assigned to third parties, effectively superseding the 1994 Washington Supreme Court decision in Puget Sound National Bank v. Department of Revenue.

Section 6 provides that Sections 4 and 5 apply to claims for credit or refund made after June 30, 2007.

Section 7 provides that it is legislative intent to supersede the 1994 Washington Supreme Court decision.

Section 8 repeals the following business and occupation tax exemptions or credits:

- RCW 82.04.062 - sales of precious metals or monetized bullion
- RCW 82.04.315 - the gross receipts of an international banking facility
- RCW 82.04.317 - sales of motor vehicles to dealers at auto auctions by auto manufacturers or financing subsidiaries
- RCW 82.04.4292 - interest on investments or loans secured by first mortgages or deeds of trust
- RCW 82.04.44525 - \$3,000 credit for new employment positions created by persons providing international service activities in eligible areas.

Section 9 declares an emergency and sets an effective date of July 1, 2007.

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

Revenue estimates are from Tax Exemptions - 2004, A Study of Tax Exemptions, Exclusions, Deductions, Deferrals, Differential Rates and Credits for Major Washington State and Local Taxes.

REVENUE ESTIMATES

Section 2 amends RCW 82.04.4281 to eliminate the business and occupation tax deduction for:

- dividend or distribution amounts received by a parent from subsidiaries
- interest amounts on loans between related entities
- investment amounts received by corporations

This section will result in a gain in general fund revenue of \$562,000 in Fiscal Year 2008.

Section 3 amends RCW 82.04.4282 to reduce the business and occupation tax deduction for initiation fees and dues. For initiation fees, the deduction is limited to \$999 per membership. For dues, the deduction is limited to the first \$199 per month.

This section will result in a gain in general fund revenue of \$749,000 in Fiscal Year 2008.

Sections 4 and 5 amend RCW 82.08.037 and 82.12.037 to exclude from the deduction, bad debts sold or assigned to third parties, effectively superseding the 1994 Washington Supreme Court decision in Puget Sound National Bank v. Department of Revenue.

This section will result in a gain in general fund revenue of \$7.4 million in Fiscal Year 2008. The gain in local revenue is \$2.3 million.

Section 6 provides that Sections 4 and 5 apply to claims for credit or refund made after June 30, 2007.

Section 7 provides that it is legislative intent to supersede the 1994 Washington Supreme Court decision.

Section 8 repeals the following acts or parts of acts:

RCW 82.04.062 ("Sale at wholesale," "sale at retail" excludes sale of precious metal bullion and monetized bullion). This section will result in a gain in general fund revenue of \$2.3 million in Fiscal Year 2008. The gain in local revenue is \$700,000.

RCW 82.04.315 (Exemptions--International banking facilities).
This section will result in a gain in general fund revenue of \$206,000 in Fiscal Year 2008.

RCW 82.04.317 (Exemptions--Motor vehicle sales by manufacturers at wholesale auctions to dealers).
This section will result in a gain in general fund revenue of \$2.4 million in Fiscal Year 2008.

RCW 82.04.4292 (Deductions--Interest on investments or loans secured by mortgages or deeds of trust).
This section will result in a gain in general fund revenue of \$34.5 million in Fiscal Year 2008.

RCW 82.04.44525 (Credit--New employment for international service activities in eligible area). Due to confidentiality requirements, the impact of this exemption cannot be publicly stated because it is believed to affect fewer than three taxpayers.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2008 -	\$ 51,107
FY 2009 -	\$ 55,853
FY 2010 -	\$ 55,953
FY 2011 -	\$ 56,053
FY 2012 -	\$ 56,053
FY 2013 -	\$ 56,053

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

FY 2008 -	\$ 2,970
FY 2009 -	\$ 3,323
FY 2010 -	\$ 3,354
FY 2011 -	\$ 3,384
FY 2012 -	\$ 3,384

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 \$30,100 during Fiscal Year 2008. These are costs for the amendment of three rules.

Due to the July 1, 2007, effective date of this legislation, the Department will incur costs in Fiscal Year 2007 of approximately \$14,700 for programming to set up, test, and verify the computer systems and to create and mail special notices. Time and effort equates to 0.1 of an FTE. These costs are not reflected in this fiscal note.

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	0.2		0.1		
A-	12,700		12,700		
B-	3,200		3,200		
E-	12,900		12,900		
J-	1,300		1,300		
Total \$	\$30,100		\$30,100		

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
HEARINGS SCHEDULER	31,056	0.0		0.0		
RULES MANAGER	78,194	0.0		0.0		
RULES POLICY SPECIALIST	64,587	0.0		0.0		
TAX POLICY SPECIALIST 2	54,372	0.0		0.0		
TAX POLICY SPECIALIST 3	61,500	0.2		0.1		
Total FTE's		0.2		0.1		

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 will amend four existing rules. WAC 458-20-146, National and state banks, mutual savings banks, savings and loan associations and other financial institutions, WAC 458-20-196, Bad debts, and WAC 458-20-248, Sales of precious metal bullion and monetized bullion, will be amended by the standard process. WAC 458-20-183, Amusement, recreation, and physical fitness services, will also be revised. However, there is no cost associated with this rule since the Department is in the process of revising the existing rule. This legislation will be incorporated into that process.

Persons affected by this rule-making would include any incorporated business, banks and persons in other financial businesses, persons who buy or sell precious metal bullion, automobile manufacturers and dealers, and clubs or other persons who receive their income in the form of initiation fees and dues.