

Multiple Agency Fiscal Note Summary

Bill Number: 5737 SB	Title: Sales, use, and B & O taxes
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Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(4,400,000)	(4,400,000)	(100,000)	(100,000)	0	0
Total \$	(4,400,000)	(4,400,000)	(100,000)	(100,000)	0	0

Local Gov. Courts *						
Local Gov. Other **	Non-zero but indeterminate cost. Please see discussion.					
Local Gov. Total						

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.3	46,000	46,000	.1	16,100	16,100	.0	0	0
Total	0.3	\$46,000	\$46,000	0.1	\$16,100	\$16,100	0.0	\$0	\$0

Local Gov. Courts *									
Local Gov. Other **	Non-zero but indeterminate cost. Please see discussion.								
Local Gov. Total									

Prepared by: Ryan Black, OFM	Phone: 360-902-0417	Date Published: Final
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 22156

FNS029 Multi Agency rollup

Department of Revenue Fiscal Note

Bill Number: 5737 SB	Title: Sales, use, and B & O taxes	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2010	FY 2011	2009-11	2011-13	2013-15
GF-State-State 01 - Taxes 01 - Retail Sales Tax	(3,100,000)	(1,300,000)	(4,400,000)	(100,000)	
Total \$	(3,100,000)	(1,300,000)	(4,400,000)	(100,000)	

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.4	0.2	0.3	0.1	
Fund					
GF-STATE-State 001-1	35,100	10,900	46,000	16,100	
Total \$	35,100	10,900	46,000	16,100	

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

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: Dean Carlson	Phone: (360)786-7305	Date: 01/29/2009
Agency Preparation: Don Gutmann	Phone: 360-570-6073	Date: 02/10/2009
Agency Approval: Kim Davis	Phone: 360-570-6087	Date: 02/10/2009
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 02/10/2009

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

The bill would prohibit cities and towns from imposing a licensing requirement or a business and occupation tax on businesses if the business' only activity in the city or town is delivering tangible personal property, either by common carrier or by the business' own vehicle, sold by the business. Under current law, cities and towns may impose such requirements if the business delivers the products in its own vehicle.

The bill would provide a waiver of interest and penalties for errors in reporting local sales and use tax arising out of changes in local sales and use tax reporting that were required when Washington adopted destination sourcing. Destination sourcing is necessary to comply with the Streamlined Sales and Use Tax Agreement. This waiver would not apply with respect to transactions occurring after December 31, 2012.

The bill would expand the taxpayer assistance programs provided by the Department of Revenue (Department) for persons impacted by the destination sales tax sourcing rules that became effective July 1, 2008. The assistance would provide free use of a certified service provider between the effective date of the bill and July 1, 2011, or a credit against the state sales tax or state business and occupation tax of up to \$1,000 for the costs of complying with the sourcing changes that were incurred through June 30, 2009. The expanded program is for taxpayers who make deliveries outside of their jurisdiction and who had gross income during calendar year 2008 of between \$500,000 and \$3,000,000. The current assistance program, for taxpayers with gross income less than \$500,000 in calendar year 2008, would not be changed by this bill.

The bill would also restrict the frequency of local sales tax rate and boundary changes to twice a year on January 1st and July 1st. Under current law, such changes may take effect on the first day of any quarter.

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

ASSUMPTIONS/DATA SOURCES

The impact to local governments from the other provisions of the bill is unknown.

The revenue impact regarding this bill involves only the taxpayer assistance programs. Department tax return data and the survey data from the Streamlined Sourcing Study were used to estimate the number and taxable retail sales of eligible firms. The probability of the firms choosing to use a certified service provider is based on data provided by a certified service provider. Other impacted taxpayers were assumed to take the credit of up to \$1,000.

REVENUE ESTIMATES

For Fiscal Year 2010, the state will lose \$2 million from use of the credit allowance of up to \$1,000. It is assumed that the firms that take the credit will have sufficient taxable retail sales to use the full \$1,000 credit in the first year.

The assistance provides free use of a certified service provider between the effective date of the bill and July 1, 2011. For Fiscal Year 2010, the state will have a revenue loss of \$1.1 million from firms choosing the certified service provider service. For Fiscal Year 2011, the revenue loss will be \$1.3 million. Since there is a one month lag in collections, there is one month of revenue loss from businesses using the certified service provider service in Fiscal Year 2012.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2010 - (\$3,100)
FY 2011 - (\$1,300)
FY 2012 - (\$100)
FY 2013 - \$ 0
FY 2014 - \$ 0
FY 2015 - \$ 0

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

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

Implementing this legislation would cost \$35,100 in Fiscal Year 2010. These costs are for programming to set up, test, and verify the computer systems, increase staff to handle additional telephone calls concerning penalties and interest waivers, credit analysis and verification, report verification, and assessment of credit taken in error. The Department would amend one administrative rule. Time and effort equates to approximately 0.4 FTE.

The Department would incur costs of \$10,900 in Fiscal Year 2011. These costs are for additional telephone calls concerning penalty and interest waivers, credit analysis and verification, report verification, and assessment of credit taken in error. Time and effort equates to approximately 0.2 FTE.

The Department would incur ongoing costs of \$16,100 during the 2011-2013 Biennium. These costs are for telephone calls concerning penalty and interest waivers, credit analysis and verification, report verification, and assessment of credit taken in error. Time and effort equates to approximately 0.1 FTE.

The Department would incur costs of \$59,400 in Fiscal Year 2009. These costs are for changes in the excise tax and e-file systems due to changes in the taxpayer assistance program. This would include the creation of new identification, error, and out-of-balance codes, a new credit program and verification report, testing new system logic, and programming to set up, test, and verify the computer systems. Time and effort equates to approximately 0.6 FTE. Because these costs will occur in the current year, they are not reflected in this fiscal note.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.4	0.2	0.3	0.1	
A-Salaries and Wages	20,700	6,800	27,500	10,300	
B-Employee Benefits	5,200	1,700	6,900	2,500	
E-Goods and Services	6,600	2,200	8,800	3,100	
J-Capital Outlays	2,600	200	2,800	200	
Total \$	\$35,100	\$10,900	\$46,000	\$16,100	

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 2010	FY 2011	2009-11	2011-13	2013-15
EXCISE TAX EX 2	42,583	0.2	0.2	0.2	0.1	
HEARINGS SCHEDULER	32,688	0.0		0.0		
IT SPEC 4	63,195	0.1		0.1		
TAX POLICY SP 2	61,628	0.0		0.0		
TAX POLICY SP 3	69,756	0.1		0.0		
WMS BAND 3	88,546	0.0		0.0		
Total FTE's		0.4	0.2	0.3	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 use the standard process to amend WAC 458-20-277, Certified service providers - Compensation. Persons affected by this rule-making would include those businesses impacted by the destination sourcing of sales tax.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 5737 SB	Title: Sales, use, and B & O taxes
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Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☒ Cities: Significant (greater than \$1 million annually) revenue loss
- ☒ Counties: Potential delays of up to three months in local sales tax implementation
- ☒ Special Districts: Potential delays of up to three months in local sales tax implementation
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☐ Legislation provides local option:
- ☒ Key variables cannot be estimated with certainty at this time: Number of cases statewide where local B&O taxes and local licenses would no longer be required

Estimated revenue impacts to:

Indeterminate Impact

Estimated expenditure impacts to:

Indeterminate Impact

Part III: Preparation and Approval

Fiscal Note Analyst: Darleen Muhly	Phone: (360) 725 5030	Date: 02/10/2009
Leg. Committee Contact: Dean Carlson	Phone: (360)786-7305	Date: 01/29/2009
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 02/10/2009
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 02/10/2009

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

The bill would prohibit cities and towns from imposing a licensing requirement or a business and occupation (B&O) tax on businesses whose only activity in the city or town is delivering, either by common carrier or by the businesses' own vehicles, tangible personal property sold by the business.

The bill would provide a waiver of interest and penalties for errors in reporting local sales and use tax arising out of changes in local sales and use tax reporting that were required when Washington adopted destination sourcing. Destination sourcing is necessary to comply with the Streamlined Sales and Use Tax Agreement. This waiver would not apply with respect to transactions occurring after December 31, 2012.

The bill would also restrict the frequency of local sales tax rate and boundary changes to twice a year on January 1st and July 1st. Under current law, such changes may take effect on the first day of any quarter.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

This bill would create indeterminate expenditure impact for cities that collect B&O taxes or issue business licenses. According to the Association of Washington Cities, 38 cities imposed local B&O tax in 2008.

Although this bill would reduce the number of taxpayers filing B&O taxes and applying for local licenses, it would also create additional staff work relating to auditing and tracking who should be reporting taxes. There would also be additional one time costs associated with informing taxpayers and license holders of the change and answering questions.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

Local government fiscal note staff are not able to determine the specific impacts of this legislation but estimates that it would reduce revenue to cities by at least \$3 million annually.

B&O TAX AND LICENSE FEE REVENUE:

The bill would prohibit cities and towns from imposing a licensing requirement or a business and occupation (B&O) tax on businesses whose only activity in the city or town is delivering, either by common carrier or by the businesses' own vehicles, tangible personal property sold by the business. These rules already apply to delivery by common carriers. However, based on current sourcing rules, this would result in a loss of revenue in all such cases where a business's own vehicle is used, rather than in a shift of revenue to other jurisdictions.

This estimate is based on data received from Seattle, Bellevue, and Tacoma. According to AWC, the local B&O tax revenue in these three cities represents approximately 79 percent of city B&O tax revenue in the state.

The City of Tacoma estimates that this bill would reduce their annual revenue by approximately \$1 million, with 90 percent of the loss resulting from lost tax revenue and 10 percent resulting from lost license revenue. These figures are based on a query of all taxpayers located outside the city paying retail, excluding construction businesses.

Bellevue estimates B&O tax revenue loss of between \$0.5 million and \$1 million. Bellevue is not able to determine the additional loss in license revenue. Bellevue collects \$30 per license with approximately 4500 licenses issued per year. For illustrative purposes, if this bill reduced the number of licenses by 25 percent, license revenue loss would result in an additional \$33,750 annual loss to Bellevue.

The City of Seattle is not able to determine the full revenue loss to Seattle, because they do not collect data to determine which businesses delivery in their own trucks. However, based on data from business audits and taxpayer questions, Seattle assumes that a conservative estimate would be at least \$1 million annually.

SALES AND USE TAX REVENUE:

The bill would also restrict the frequency of local sales tax rate and boundary changes to twice a year on January 1st and July 1st. Under

current law, such changes may take effect on the first day of any quarter. This provision could potentially delay revenue collection of new local sales and use taxes by up to three months. The bill would also provide a waiver of interest and penalties for errors in reporting local sales and use tax arising out of changes in local sales and use tax reporting that were required when Washington adopted destination sourcing. LGFN is not able to determine how much, if any, potential local government revenue loss would result from either of these provisions.

SOURCES:

Department of Revenue fiscal note

City of Bellevue Tax Division

City of Seattle Revenue and Consumer Affairs Division

City of Tacoma Finance Tax and License Division

Association of Washington Cities