

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1847 HB	<b>Title:</b> Tax preferences/basic health
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## Estimated Cash Receipts

Agency Name	2011-13		2013-15		2015-17	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	120,952,000	121,267,000	130,616,000	130,963,000	143,591,000	143,972,000
Department of Licensing	Non-zero but indeterminate cost. Please see discussion."					
Department of Transportation	(481,000)	(535,000)	(488,000)	(542,000)	(495,000)	(549,000)
<b>Total \$</b>	<b>120,471,000</b>	<b>120,732,000</b>	<b>130,128,000</b>	<b>130,421,000</b>	<b>143,096,000</b>	<b>143,423,000</b>

## Estimated Expenditures

Agency Name	2011-13			2013-15			2015-17		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.3	54,300	54,300	.0	0	0	.0	0	0
Department of Licensing	1.7	0	1,354,500	1.7	0	314,960	1.7	0	314,960
Department of Transportation	.0	0	0	.0	0	0	.0	0	0
<b>Total</b>	<b>2.0</b>	<b>\$54,300</b>	<b>\$1,408,800</b>	<b>1.7</b>	<b>\$0</b>	<b>\$314,960</b>	<b>1.7</b>	<b>\$0</b>	<b>\$314,960</b>

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

## Estimated Capital Budget Impact

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). Therefore, this fiscal analysis includes a projection showing the ten-year cost to tax or fee payers of the proposed taxes or fees.

<b>Prepared by:</b> Clint McCarthy, OFM	<b>Phone:</b> 360-902-0419	<b>Date Published:</b> Final
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\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

FNPID 28404

FNS029 Multi Agency rollup

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 1847 HB	<b>Title:</b> Tax preferences/basic health	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates



No Fiscal Impact

### Estimated Cash Receipts to:

Account	FY 2012	FY 2013	2011-13	2013-15	2015-17
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	16,186,000	16,771,000	32,957,000	35,631,000	38,622,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	41,359,000	46,636,000	87,995,000	94,985,000	104,969,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	154,000	161,000	315,000	347,000	381,000
<b>Total \$</b>	57,699,000	63,568,000	121,267,000	130,963,000	143,972,000

### Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.5		0.3		
<b>Account</b>					
GF-STATE-State 001-1	54,300		54,300		
<b>Total \$</b>	54,300		54,300		

### Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). Therefore, this fiscal analysis includes a projection showing the ten-year cost to tax or fee payers of the proposed taxes or fees.

*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: 02/04/2011
Agency Preparation: Erin Valz	Phone: 360-534-1522	Date: 02/09/2011
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 02/09/2011
OFM Review: Heather Matthews	Phone: (360) 902-0543	Date: 02/09/2011

Request # 1847-1-1

## 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.*

#### PART II - Modifying and Placing a Cap on the First Mortgage Deduction

Current law allows a deduction from business and occupation (B&O) tax on interest earned on loans and securities secured by first mortgages on non-transient residential property. The primary beneficiaries are financial institutions.

This proposal limits the deduction for interest income derived from first lien residential mortgages, so that businesses can deduct at most \$100 million in any calendar year.

This proposal is effective April 1, 2011.

#### PART III - Airplane Excise Tax

Part III of HB 1847 relates to changes in the Airplane Excise Tax statutes, chapter 82.48 RCW.

Section 301 of this bill amends RCW 82.48.010. It removes the terms and definitions of "Secretary", "Small multi engine fixed wing", and "Large multi-engine fixed wing" from statute and adds the definition of "Department" to mean the Department of Licensing.

Section 302 of this bill amends RCW 82.48.020. It creates a 0.5% annual excise tax, based on the value of the aircraft, for the privilege of using any aircraft in this state. It is to be collected by the Department of Licensing. The Department of Revenue, under chapter 82.32 RCW, may assess and collect unpaid tax imposed under this section, including penalties and interest provided in chapter 82.32 RCW. It requires any person required to register the aircraft under chapter 47.68 RCW and registers the aircraft in another state or foreign country to avoid the aircraft excise tax imposed under this section are liable for the unpaid tax.

Section 303 of this bill creates a new section in chapter 82.48 RCW. It establishes the Department of Revenue as the agency to establish taxable values. It provides definitions and methods of establishing the taxable value of an aircraft by the department. An aircraft owner may appeal a taxable value as provided under RCW 82.32.160 or RCW 82.32.170, as applicable. Once the taxable value has been established, it will be depreciated in subsequent years. The department must prepare a depreciation schedule and recommend it to the fiscal committees of the Senate and House of Representatives by December 31, 2011 for enactment into law during the 2012 legislative session for use in the determination of taxable value for taxes due under this chapter during calendar year 2013 and subsequent years.

Section 304 of this bill amends RCW 82.48.030. It replaces the current annual licensing fee with the new tax established in RCW 82.48.020 (Section 302 of this act). The methodology of imposing the tax for a partial year is provided.

Section 305 of this act amends RCW 82.48.070. It requires the Department of Licensing to issue a receipt to persons paying the tax under this chapter.

Section 306 of this act amends RCW 82.48.080. It requires that the tax collected under this chapter be deposited into the state general fund.

Section 307 of this act amends RCW 82.48.110. It exempts any aircraft to which the excise tax imposed by this chapter from ad valorem taxation.

Section 308 and 309 of this act amend RCW 47.68.230 and RCW 82.48.090, respectively. These changes transfer authority from the Department of Transportation to the Department of Licensing under these two statutes.

The effective date of this legislation is April 1, 2011.

#### PART IV - Imposing Sales and Use Tax on Cosmetic Surgery

Currently, cosmetic medical services are subject to the service and other activities classification of the business and occupation tax and are not subject to the retail sales and use tax. This bill imposes the retail sales and use tax on the sale of these services. The business and occupation tax on these sales are reduced from the 1.5 percent service tax to 0.471 percent retail tax.

Cosmetic medical services include any medical procedures performed on an individual by a person licensed or regulated in a health profession as described in RCW 18.120.020. The services must improve the individual's appearance and must not be medically necessary. Cosmetic medical services includes, but is not limited to, cosmetic surgery, hair transplants, cosmetic injections, cosmetic soft tissue fillers, dermabrasion and chemical peel, laser hair removal, laser skin resurfacing, laser treatment of leg veins, sclerotherapy, and cosmetic dentistry.

Any medical procedure performed on abnormal structures caused by or related to congenital defects, developmental abnormalities, trauma, infection, tumors, or disease, including procedures to improve function or give a more normal appearance, is medically necessary. Services covered by the individual's medical or dental insurance or that are deductible by the individual as medical expenses for purposes of federal income tax are presumed to be medically necessary services.

This proposal is effective April 1, 2011.

#### PART V - Repealing the Sales Tax Exemption for Coal Used at Coal-Fired Thermal Electric Generation Facilities.

The following acts or parts of acts are each repealed:

RCW 82.08.811 and RCW 82.12.811 (Exemptions--Coal used at coal-fired thermal electric generation facility--Application--Demonstration of progress in air pollution control--Notice of emissions violations--Reapplication-- Payments on cessation of operation) and 1997 c 368 s 4; and 1997 c 368 s 6.

The effective date is April 1, 2011.

#### 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.*

#### PART II - Modifying and Placing a Cap on the First Mortgage Deduction

##### ASSUMPTIONS

- It is assumed that this proposal would go into effect on April 1, 2011 so that there would be 2 months of impacted collections in Fiscal Year 2011.
- It is assumed that the growth rate in the deduction would follow the growth in home sales and prices in the November Global Insight forecast.

## DATA SOURCES

Estimates are based on:

- Department of Revenue tax reporting information,
- Information from financial institutions as reported in their Report of Condition and Income (Call Report) to federal agencies, and
- Forecasts of mortgage activity derived from data provided in the November Global Insight forecast.

## ESTIMATES

This proposal would increase general fund revenues by an estimated \$5.7 million in Fiscal Year 2011 and by an estimated \$42.5 million in Fiscal Year 2012, the first full fiscal year of impacted collections.

## PART III - Airplane Excise Tax

This legislation creates a new 0.5% annual excise tax on aircraft replacing the current annual registration fee schedule.

The tax is based on current value of the aircraft. This excise tax would be collected by the Department of Licensing. The Department of Revenue would continue to assess any unpaid tax, penalties, and interest as provided in RCW 82.48.020. The estimated compliance rate for this new tax is unknown. It is projected that state revenues would increase, but the amount collected by the Department of Revenue is indeterminate.

## PART IV - Imposing Sales and Use Tax on Cosmetic Surgery

## ASSUMPTIONS

There would be 2 months of cash collections for Fiscal Year 2011, and 12 months for all years thereafter.

## DATA SOURCES

- New Jersey's Division of Taxation Annual Reports.
- U.S. Census Two-Year-Average Median Household Income by State: 2005 to 2008
- U.S. Census Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2008

## ESTIMATES

This tax increase will increase state revenues by an estimated \$1.0 million in Fiscal Year 2011, \$12.7 million in the 2012-2013 Biennium, \$13.4 million in the 2014-2015 Biennium, and \$14.2 million in the 2016-2017 Biennium.

## PART V - Repealing the Sales Tax Exemption for Coal Used at Coal-Fired Thermal Electric Generation Facilities.

## ASSUMPTIONS/DATA SOURCES

- Department of Energy, Energy Information Administration.
- The effective date is July 1, 2011.

## REVENUE ESTIMATES

Using a three year average of coal use from 2008 to 2010 it is estimated that 5.2 million tons of coal was used. Using an assumed price of \$25.00 per ton for coal, this results in a taxable amount of \$136.5 million and a gain in general fund revenue of \$1.4 million in Fiscal Year 2011 and \$8.7 million in Fiscal Year 2012.

## REVENUE ESTIMATES (for entire bill):

The estimated state revenue gain resulting from this bill is \$8.2 million in Fiscal Year 2011. Local governments will gain \$750,000 in Fiscal Year 2011.

## TOTAL REVENUE IMPACT:

### State Government (cash basis, \$000):

FY 2010 -	\$ 57,699
FY 2011 -	\$ 63,568
FY 2012 -	\$ 63,575
FY 2013 -	\$ 67,388
FY 2014 -	\$ 69,759
FY 2015 -	\$ 74,213

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

FY 2010 -	\$ 4,649
FY 2011 -	\$ 4,799
FY 2012 -	\$ 4,983
FY 2013 -	\$ 5,174
FY 2014 -	\$ 5,374
FY 2015 -	\$ 5,582

## 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*

### ASSUMPTIONS:

- Expenditures assume there will be no additional costs associated with implementation of Part III, Airplane excise tax, and Part V, Repealing the sales tax exemption for coal used at coal-fired thermal electric generation facilities,
- Part II - Modifying and placing a cap on the first mortgage deduction - Expenditures assume 600 taxpayers could potentially be affected by this part of the proposal, and
- Part IV Cosmetic Surgery - Expenditures assume 19,500 taxpayers could potentially be affected by this part of the proposal.

### INITIAL COSTS:

The Department of Revenue will incur costs of \$71,900 in Fiscal Year 2011 that are not included in the six year expenditure impact for this fiscal note. These start-up costs include:

Labor Costs - Time and effort equates to 0.6 FTE.

- Part II - Programming to setup, test, and verify the computer systems for a new deduction code. This includes the new deduction code and associated return processing and system indicator codes, other system changes for notification that the deduction cap has been reached,

- Part II Amendment one administrative rule,
- Part IV - Answer additional phone calls at the Telephone Information Center, and
- Part IV - Amendment of three administrative rules.

Object Costs of \$10,200.

- Parts II and IV - Print and mail special notices to potentially affect businesses that do not file returns electronically.

#### FIRST YEAR COSTS:

The Department of Revenue will incur costs of \$54,300 in Fiscal Year 2013. These costs include:

Labor Costs - Time and effort equates to 0.5 FTE.

- Part II - Complete modifications to the computer systems as described in initial costs.
- Part IV - Answer additional phone calls at the Telephone Information Center.

### Part III: Expenditure Detail

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

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.5		0.3		
A-Salaries and Wages	33,000		33,000		
B-Employee Benefits	9,900		9,900		
E-Goods and Services	7,900		7,900		
J-Capital Outlays	3,500		3,500		
<b>Total \$</b>	<b>\$54,300</b>		<b>\$54,300</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 2012	FY 2013	2011-13	2013-15	2015-17
IT SPEC 4	63,195	0.1		0.1		
IT SPEC 5	69,756	0.3		0.2		
TAX INFO SPEC 1	36,757	0.1		0.1		
<b>Total FTE's</b>	<b>169,708</b>	<b>0.5</b>		<b>0.3</b>		

### Part IV: Capital Budget Impact

*Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods*

NONE

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 take the following rule actions:

#### Part II

The Department of Revenue will use the expedited process to amend WAC 458-20-146, titled: "National and state banks, mutual savings banks, savings and loan associations and other financial institutions". Persons affected by this rule-making include those businesses who receive interest from investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties.

#### Part IV

Request # 1847-1-1



The Department of Revenue will use the expedited process to amend WAC 458-20-138, titled: “Personal services rendered to others”, WAC 458-20-151, titled: “Dentists and other health care providers, dental laboratories, and dental technicians”, and WAC 458-20-168, titled: "Hospitals, nursing homes, boarding homes, adult family homes and similar health care facilities". Persons affected by this rule-making would include those who purchase cosmetic surgery and businesses that perform such services.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1847 HB	<b>Title:</b> Tax preferences/basic health	<b>Agency:</b> 240-Department of Licensing
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## Part I: Estimates

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No Fiscal Impact

### Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

### Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	1.7	1.7	1.7	1.7	1.7
<b>Account</b>					
Motor Vehicle Account-State 108 -1	1,197,020	157,480	1,354,500	314,960	314,960
<b>Total \$</b>	1,197,020	157,480	1,354,500	314,960	314,960

### Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). Therefore, this fiscal analysis includes a projection showing the ten-year cost to tax or fee payers of the proposed taxes or fees.

*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: 02/04/2011
Agency Preparation: Sally McVaugh	Phone: (360) 902-3642	Date: 02/11/2011
Agency Approval: Sam Knutson	Phone: (360) 902-3644	Date: 02/11/2011
OFM Review: Alyson Cummings	Phone: 360-902-0576	Date: 02/11/2011

Request # 1847 HB-2

## 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.

### 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.

Indeterminate---In calendar year 2010, there were 5,914 aircraft registered in Washington. However, due to the lack of information on the fair market value of aircraft registered in Washington and no depreciation schedule with which to determine taxable value, the revenue estimated from the collection of aircraft excise tax is indeterminate. While indeterminate, the revenue impact is anticipated to be greater than the current law revenue forecast for November 2010 of \$550,000 FY 2011-13

### 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.

## Part III: Expenditure Detail

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

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	1.7	1.7	1.7	1.7	1.7
A-Salaries and Wages	110,733	110,733	221,466	221,466	221,466
B-Employee Benefits	32,408	32,408	64,816	64,816	64,816
E-Goods and Services	1,048,479	14,339	1,062,818	28,678	28,678
J-Capital Outlays	5,400		5,400		
<b>Total:</b>	<b>\$1,197,020</b>	<b>\$157,480</b>	<b>\$1,354,500</b>	<b>\$314,960</b>	<b>\$314,960</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 2012	FY 2013	2011-13	2013-15	2015-17
Economic Analyst 3	69,756	0.3	0.3	0.3	0.3	0.3
Fiscal Tech 2	34,260	0.4	0.4	0.4	0.4	0.4
Info Tech Spec 5	78,900	1.0	1.0	1.0	1.0	1.0
<b>Total FTE's</b>	<b>182,916</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>

### III. C - Expenditures By Program (optional)

Program	FY 2012	FY 2013	2011-13	2013-15	2015-17
Mgmt & Support Services (100)	47,410	47,410	94,820	94,820	94,820
Information Services (200)	1,149,610	110,070	1,259,680	220,140	220,140
<b>Total \$</b>	<b>1,197,020</b>	<b>157,480</b>	<b>1,354,500</b>	<b>314,960</b>	<b>314,960</b>

## Part IV: Capital Budget Impact

NONE

Request # 1847 HB-2

**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.*

## Part II: Explanation

This bill directs the Department of Licensing (DOL) to collect an excise tax in the amount of five-tenths of one percent of the taxable value of the aircraft used in the state. This excise tax will be used to provide funding for maintaining basic health program enrollment.

The effective date of this bill is April 1, 2011. The Department of Licensing (DOL) cannot meet this date because the 2011 legislative session will still be active and there is not sufficient time for DOL to make the necessary programming changes to its computer systems and conduct testing. The recommended language is “effective with aircraft registrations which are due on or after May 1, 2012.”

### II. A – Brief Description of What the Measure Does that Has Fiscal Impact

Section 301 amends RCW 82.48.010 by defining “department” as DOL for purposes of excise tax assessment and collection required later in the bill and removes the Washington State Department of Transportation (WSDOT) from this function.

Section 302 establishes a five-tenths of one percent aircraft excise tax on the taxable value of aircraft and eliminates aircraft excise tax exemptions when aircraft ownership is transferred. It permits DOL to establish by rule a staggered collection system for the excise tax and permits the Department of Revenue (DOR) to collect unpaid aircraft excise tax including penalties and interest.

Section 303 creates a new section under RCW 82.48 that establishes taxable aircraft excise tax values based upon the most recent depreciated purchase price of the aircraft. It requires DOR to establish an aircraft excise tax depreciation schedule and to recommend a depreciation schedule to the legislature by December 31, 2011 to be adopted in law in the 20012 legislative session.

Section 304 amends RCW 82.48.030 by removing the flat-rate aircraft excise tax currently imposed.

Section 305 requires DOL to give a receipt to each person paying the aircraft excise tax.

Section 306 requires DOL to regularly pay aircraft excise taxes to the state treasurer for deposit in the general fund.

Section 307 exempts aircraft from personal property taxes if an aircraft excise tax has been assessed and requires assessment of personal property tax if the aircraft excise tax has not been assessed.

Section 308 amends RCW 47.68.230 by making it unlawful to operate an aircraft without a current registration certificate issued by DOL.

Section 309 amends RCW 82.48.090 by moving responsibility for refunds of aircraft excise tax from WSDOT to DOL.

Section 601 makes this act effective April 1, 2011.

### II. B – Cash Receipt Impact

The cash receipt impact is indeterminate. The bill imposes a five-tenths of one percent excise tax on aircraft based upon the most recent depreciated purchase price of the aircraft. In calendar year 2010, 5,914 aircraft were registered in Washington but there is no information on their fair market value because WSDOT registration data does not contain fair market value of aircraft. The DOR must develop a depreciation schedule for use in determining fair market value. Thus, until the fair market value of each aircraft is established and a depreciation schedule is established by DOR to estimate future values, DOL cannot determine how much excise tax to collect. While the revenue is indeterminate, the revenue impact is

anticipated to be greater than the current law Economic Revenue Forecast Council's November 2010 forecast of \$550,000 the 2011-2013 Biennium.

## **II. C – Expenditures**

This bill will require additional expenditures. The Information Services Division (ISD) will need to hire contract programmers in Fiscal Year 2012 to program systems necessary for the aircraft excise tax. The project is expected to last approximately eleven months and require 10,440 hours of contractor time. In addition to the contract programmers, current ISD staff will contribute 1,616 hours to the project. The estimated cost for contract programmers is \$1,033,560. The following shows the extent of the computer programming that will be needed:

### Create a database

DOL will design and build a new Aircraft database that will be populated with data provided by WSDOT and updated by DOR to include aircraft value.

### Create a web application

DOR will provide enhanced aircraft information via a new web application designed and built by DOL that will:

- Update the new Aircraft database with historical information from WSDOT
- Automate import of value/depreciation schedules
- Allow DOR to create a new record or update an existing record (name change or update value)
- Web application will generate a registration and renewal notice to be sent to the customer via State Printer or e-mail
- Allow the aircraft owner to change their address or report the sale of aircraft
- Allow customer to download DOR form for the excise tax due before they can renew and/or register the aircraft
- Provide on-line help screens

### Create batch processes

The aircraft owner will pay by check and mail to a lockbox with their payment coupon. DOL will create a batch process for the bank to transmit payment information to DOL and generate a receipt and registration to mail to the customer.

### Create new back office process “inquiry/modify” web application

- Include robust modify functions to support refunds
- Include robust internet functions to allow DOL staff to make address changes and/or update records as reported sold

### Create a web application to:

- Provide web access to law enforcement to verify evidence of registration.
- Make database transactions fully searchable and reportable

ISD will also require one additional ongoing Information Technology Specialist 5 (ITS5) (1.0 FTE) to support the new application and interfaces. The salary and benefits annually are \$100,709.

The Office of Budget and Economic Analysis will require 0.3 FTE to support production of new revenue forecasts associated with the excise tax established by this bill. The salaries and benefits for this Economic Analyst 3 position are \$22,415 per year. This position will develop and maintain reports as well as time series data for registration counts, by type of aircraft and average valuation by type. The EA3 will develop and maintain at least two different forecast models because of differences in fees and taxes. This position will participate in the quarterly forecast production and presentation, provide monthly forecast variance reports to the Economic and Revenue Forecast Council, and enter quarterly revenue allotments in Office of Financial Management systems. This position is ongoing.

The Finance and Administration Division will need Fiscal Technician 2 (0.4 FTE) ongoing to receive and process registration payments, process dishonored checks and refunds, record and reconcile revenue, and report excise tax to DOR. The annual cost for salary and benefits is \$19,868.

In addition to the cost of salary and benefits, other costs have been added which include workstations and furniture, personal computers (including software and licenses), facility rent/lease and utility costs, telephone equipment and line charges, desktop support, employee training and other standard goods and services associated with adding new staff.

### Part III: Expenditure Detail

#### III. A – Expenditures by Object or Purpose

	<b>FY 12</b>	<b>FY 13</b>	<b>11-13 Total</b>	<b>13-15 Total</b>	<b>15-17 Total</b>
FTE Staff Years	1.7	1.7	1.7	1.7	1.7
Salaries and Wages	110,733	110,733	221,466	221,466	221,466
Employee Benefits	32,408	32,408	64,816	64,816	64,816
Goods and Services	1,048,479	14,339	1,062,818	28,678	28,678
Equipment	5,400		5,400		
<b>TOTAL</b>	<b>1,197,020</b>	<b>157,480</b>	<b>1,354,500</b>	<b>314,960</b>	<b>314,960</b>

#### III. A (1) – Detail of Expenditures by Sub-Object for Goods & Services

<b>Object E Breakdown:</b>	<b>FY 12</b>	<b>FY 13</b>	<b>11-13 Total</b>	<b>13-15 Total</b>	<b>15-17 Total</b>
EA Office Supplies	1,238	1,238	2,476	2,476	2,476
EB Phone/Install/Usage	840	540	1,380	1,080	1,080
ED Facility/Lease Costs	9,872	9,872	19,744	19,744	19,744
EG Training	878	878	1,756	1,756	1,756
EH Rentals, Leases (incl. IT)	467	467	934	934	934
EL Interagency DP Svcs	574	574	1,148	1,148	1,148
EN Personnel Services	770	770	1,540	1,540	1,540
ER Application Programmers	1,033,560		1,033,560		
EY Software Maintenance	280		280		
<b>Total Goods &amp; Svcs</b>	<b>1,048,479</b>	<b>14,339</b>	<b>1,062,818</b>	<b>28,678</b>	<b>28,678</b>

#### III. A (2) – Detail of Expenditures by Fund

Additional information about assumptions and impacts is available directly from the Department of Licensing at 902-3644.

#### III. B – FTE Detail

#### EXPENDITURE DETAIL – STAFF

<b>Job Classification</b>	<b>Salary</b>	<b>FY 12</b>	<b>FY 13</b>	<b>11-13 Total</b>	<b>13-15 Total</b>	<b>15-17 Total</b>
Economic Analyst 3	69,756	0.3	0.3	0.3	0.3	0.3
Fiscal Tech 2	34,260	0.4	0.4	0.4	0.4	0.4
Info Tech Spec 5	78,900	1.0	1.0	1.0	1.0	1.0
<b>Total FTEs</b>		<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>

#### III. B – Expenditures by Program (optional)

<b>Program</b>	<b>FY 12</b>	<b>FY 13</b>	<b>11-13 Total</b>	<b>13-15 Total</b>	<b>15-17 Total</b>
100 - Mgmt & Support Services	47,410	47,410	94,820	94,820	94,820
200 - Information Services	1,149,610	110,070	1,259,680	220,140	220,140
300 - Customer Relations					
600 - Programs & Services					
700 - Business & Professions					
<i>Total</i>	1,197,020	157,480	1,354,500	314,960	314,960

#### **Part IV: Capital Budget Impact**

None

#### **Part V: New Rule Making Required**

Section 302 requires the aircraft tax to be collected annually or under a staggered collection schedule as required by DOL rule.



# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1847 HB	<b>Title:</b> Tax preferences/basic health	<b>Agency:</b> 405-Department of Transportation
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## Part I: Estimates

☐

No Fiscal Impact

### Estimated Cash Receipts to:

ACCOUNT	FY 2012	FY 2013	2011-13	2013-15	2015-17
General Fund-State 001-1	(240,000)	(241,000)	(481,000)	(488,000)	(495,000)
Aeronautics Account-State 039-1	(27,000)	(27,000)	(54,000)	(54,000)	(54,000)
<b>Total \$</b>	(267,000)	(268,000)	(535,000)	(542,000)	(549,000)

### Estimated Expenditures from:

NONE

### Estimated Capital Budget Impact:

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). Therefore, this fiscal analysis includes a projection showing the ten-year cost to tax or fee payers of the proposed taxes or fees.

*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: 02/04/2011
Agency Preparation: Krishan Aggarwal	Phone: 360-651-6309	Date: 02/10/2011
Agency Approval: Steve Reinmuth	Phone: 360-705-7022	Date: 02/10/2011
OFM Review: Clint McCarthy	Phone: 360-902-0419	Date: 02/14/2011

Request # 11-068-1

## 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.*

This legislation makes modification to several tax preferences, existing taxes and imposes new taxes. The intent of the legislation is to raise state revenue for the basic health plan.

Sections 301 through 309 amend Chapter 82.48 RCW and RCW 47.68.230 to change the structure, administration, and distribution of funds from the aircraft excise tax. The administration of the aircraft excise tax is moved from Washington State Department of Transportation (WSDOT) - Aviation to the Department of Licensing (DOL). The aircraft excise tax is changed from a flat fee to a tax of five-tenths of one percent of the value of the aircraft (section 302). Additionally, the ten percent of the excise tax that is currently being collected and deposited in the aeronautics account in the transportation fund will be deposited into the state general fund.

### 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.*

Sections 301 and 302 move the responsibility for the collection of the aircraft excise tax from the Department of Transportation to the Department of Licensing. WSDOT's fiscal note shows a reduction in GF-State and Aeronautics Account-State cash receipts to reflect this change in collection duties. Amounts shown are based on the November 2010 transportation revenue forecast.

The cash receipts to the GF-State from the modified excise tax would be included in the Department of Licensing fiscal note.

Section 306 moves the ten percent of the excise tax that is currently being deposited in the aeronautics account to the state general fund. Therefore, the distribution of the revenue from the new aircraft excise tax will go 100 percent to the state general fund. Because the revenues from the excise tax will no longer be allocated to the aeronautics account in the transportation fund, it is estimated that the aeronautics account will be reduced by approximately \$27,000 per year.

### 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 proposal directs the Department of Licensing (DOL) to be responsible for providing excise tax refunds to aircraft owners as necessary and for issuing the aircraft registration certificates. However, WSDOT will still be collecting the aircraft annual registration fee of \$15 per aircraft. There is no impact to WSDOT from the transfer of responsibilities to DOL.

However, the revenues collected from the excise tax will no longer be allocated to the aeronautics account in the transportation fund, so that account will be reduced by approximately \$27,000 per year. That account supports programs such as the Airport Aid program, which provides grants to local communities for safety, preservation and

improvement projects. Local communities can use these grants to leverage a 95% match in federal funding.

### **Part III: Expenditure Detail**

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

NONE

### **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.*

# LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

<b>Bill Number:</b> 1847 HB	<b>Title:</b> Tax preferences/basic health
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## Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

### Legislation Impacts:

☒ Cities: Increase of sales tax revenue (greater than \$500,000 annually)

☒ Counties: As above; possible decrease in local B&O revenues

☒ Special Districts: As above

☐ 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: Impact to local B&O revenues

### Estimated revenue impacts to:

Indeterminate Impact
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### Estimated expenditure impacts to:

Indeterminate Impact
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## Part III: Preparation and Approval

Fiscal Note Analyst: Cezanne Murphy-Levesque	Phone: 360/725-5036	Date: 02/11/2011
Leg. Committee Contact:	Phone:	Date: 02/04/2011
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 02/11/2011
OFM Review: Heather Matthews	Phone: (360) 902-0543	Date: 02/11/2011

## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

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

Part 1 – Findings and Intent

Part 2 – Modifying and placing a cap on the first mortgage deduction would change the state business and occupation (B&O) tax to limit the deduction for interest income derived from first lien residential mortgages, so that businesses could deduct at most \$100 million in any calendar year.

Part 3 – The airplane excise tax would create a 0.5 percent annual state excise tax, based on the value of the aircraft, for the privilege of using any aircraft in this state. The tax collected under this chapter would be deposited into the state general fund.

Part 4 – Imposes a retail sales and use tax on cosmetic surgery. The state B&O tax on these sales would be reduced from the current 1.5 percent service tax to a 0.471 percent retail tax. Cosmetic medical services include any medical procedures performed on an individual by a person licensed or regulated in a health profession. The services must improve the individual's appearance and must not be medically necessary.

Part 5 – Repeals the sales tax exemption for coal used at coal-fired thermal electric generation facilities under RCW 82.08.811 and RCW 82.12.811.

Part 6 – The act would become effective April 1, 2011.

#### **BACKGROUND ON LOCAL B&O:**

According to information compiled by the Association of Washington Cities, as of January 1, 2009, there were 38 cities that levy a B&O tax on businesses which is measured by a percentage of the firm's gross receipts.

The number of cities levying a gross receipts tax and the average rates for the four major business categories were as follows:

Service businesses -- 36 cities; 0.200 percent

Retail businesses -- 36 cities; 0.160 percent

Wholesale businesses -- 37 cities; 0.150 percent

Manufacturing businesses -- 37 cities; 0.148 percent

### **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.*

Cities that impose local B&O taxes would incur indeterminate costs to implement the changes to the B&O tax state in Part 4 of this bill because cities are required to use the state definition of retail sales. Costs could include changes to software systems, notification and outreach to affected tax payers, and responding to taxpayer's questions. No other expenditure impact is expected because administration of these sales and use taxes are handled at the taxpayer and state levels.

### **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.*

DOR estimates parts 4 and 5 of this bill would generate sales and use tax revenue of \$750,000 in FY 2011 and more than \$4.5 million in subsequent years for local governments. Cities that impose local B&O taxes may be impacted by changing cosmetic surgery from a service to a retail sale in the state B&O tax statutes. On average, cities levy a higher rate on the gross receipts of services businesses than on retail businesses and therefore these cities would collect reduced B&O tax revenues. However, there are no data available at this time to estimate the impact.

Part 2 -- Modifying and placing a cap on the first mortgage deduction would only affect the state B&O tax and would not impact B&O taxes remitted to cities.

Part 3 – The airplane excise tax would be a state tax and would have no impact on local revenues.

Part 4 -- Cities that impose local B&O taxes may be impacted by the change of cosmetic surgery from a service to a retail sale. Some jurisdictions, including Seattle, impose the B&O tax at a different rate for these two categories and would be affected by this change. However, there are no data available at this time to estimate the impact.

Imposing sales and use tax on cosmetic surgery would result in the following gain in tax revenue for local governments:

	Counties	Cities	Special Districts
FY 2012	\$916,461	\$895,589	\$898,571
FY 2013	\$934,535	\$913,252	\$916,293
FY 2014	\$962,652	\$940,728	\$943,860
FY 2015	\$991,438	\$968,858	\$972,084
FY 2016	\$1,021,228	\$997,970	\$1,001,292
FY 2017	\$1,052,022	\$1,028,063	\$1,031,485

Part 5 -- Repealing the sales tax exemption for coal used at coal-fired thermal electric generation facilities would result in the following gain in tax revenue for local governments:

	Counties	Cities	Special Districts
FY 2012	\$639,648	\$625,080	\$627,162
FY 2013	\$671,781	\$656,482	\$658,667
FY 2014	\$705,253	\$689,191	\$691,486
FY 2015	\$740,398	\$723,536	\$725,945
FY 2016	\$777,552	\$759,844	\$762,374
FY 2017	\$816,380	\$797,787	\$800,443

#### METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2010. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. This results in a distribution of 33.81 percent to counties, 33.04 percent to cities and 33.15 percent to special districts. The 1 percent DOR administrative fee has also been deducted.

#### SOURCES:

Department of Revenue Fiscal Note  
Department of Revenue Local Tax Distributions  
Association of Washington Cities  
City of Bellevue  
City of Seattle  
Department of Revenue Tax Reference Manual 2010