

Multiple Agency Fiscal Note Summary

Bill Number: 5422 P S SB	Title: Amateur sports/taxation
---------------------------------	---------------------------------------

Estimated Cash Receipts

Agency Name	2011-13		2013-15		2015-17	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(4,290,000)	(4,296,000)	(8,353,000)	(8,364,000)	(9,000,000)	(9,012,000)
Total \$	(4,290,000)	(4,296,000)	(8,353,000)	(8,364,000)	(9,000,000)	(9,012,000)

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	.1	13,600	13,600	.0	0	0	.0	0	0
Total	0.1	\$13,600	\$13,600	0.0	\$0	\$0	0.0	\$0	\$0

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

Estimated Capital Budget Impact

NONE

Prepared by: Heather Matthews, OFM	Phone: (360) 902-0543	Date Published: Final
---	---------------------------------	---------------------------------

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 29837

FNS029 Multi Agency rollup

Department of Revenue Fiscal Note

Bill Number: 5422 P S SB	Title: Amateur sports/taxation	Agency: 140-Department of Revenue
---------------------------------	---------------------------------------	--

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	(1,134,000)	(2,273,000)	(3,407,000)	(6,912,000)	(7,507,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(308,000)	(575,000)	(883,000)	(1,441,000)	(1,493,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	(2,000)	(4,000)	(6,000)	(11,000)	(12,000)
Total \$	(1,444,000)	(2,852,000)	(4,296,000)	(8,364,000)	(9,012,000)

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years		0.1	0.1		
Account					
GF-STATE-State 001-1		13,600	13,600		
Total \$		13,600	13,600		

Estimated Capital Budget Impact:

NONE

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: Dean Carlson	Phone: (360)786-7305	Date: 03/23/2011
Agency Preparation: Erin Valz	Phone: 360-534-1522	Date: 04/07/2011
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 04/07/2011
OFM Review: Heather Matthews	Phone: (360) 902-0543	Date: 04/08/2011

Request # 5422-2-1

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 fiscal note reflects language in PSSB 5422 (S-2209.1). The proposed substitute bill broadens the tax exemptions provided in the original bill to for-profit organizations and to persons conducting amateur sporting events in which individuals participate, such as cycling, running, and triathlon events.

This proposal makes charges to consumers for league fees and entry fees a retail sale of amusement and recreation services. League fees are amounts paid solely for the privilege of allowing a person or team to join a sports league. Entry fees are amounts paid solely for the privilege of allowing a person or team to enter a tournament or other type of competition. League fees and entry fees do not include amounts charged for participating in the underlying amusement and recreation activity, regardless of whether they are labeled as a league or entry fee. League and entry fees are currently subject to business and occupation (B&O) tax under the service and other activities classification and are not subject to sales tax.

In addition, this proposal makes charges for the use of facilities for amusement and recreation activities, such as fields, courts, rinks, gymnasiums, and swimming pools, a retail sale of amusement and recreation services unless the buyer charges others for amusement and recreation activities at the same facility.

This proposal would provide B&O, retail sales, and use tax exemptions for amounts charged for league fees, participation fees, and entry fees with respect to the operation of a competitive team sports league by government entities and private organizations, whether nonprofit or for-profit. In addition, nonprofit organizations and government entities would be exempt from B&O and retail sales taxes on charges to members of a competitive team sport league or association for the use of the taxpayer's facilities. A competitive team sport is an amateur sport in which teams of two or more players compete against one another. In addition, the collective effort of the teams' members determines the final score and the outcome of the competition.

In addition, this proposal creates B&O and retail sales tax exemptions for charges to participate in certain amateur sporting events held on an infrequent basis. Qualifying events are those in which individuals participate, such as cycling, running, and triathlon events. To qualify for this exemption, the events may not be held more than four times per year and are limited to two events per year at the same or substantially the same location.

This legislation would take effect August 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.

ASSUMPTIONS

These estimates reflect the November 2010 economic forecast.

It is assumed that expenditures for participation in sports will decrease by one percent each year. This is based on data collected by the Sporting Goods Manufacturers Association.

For-profit organizations organize 30 percent of sports leagues, government municipalities organize 46 percent of sports leagues, and nonprofit organizations organize 24 percent of sports leagues.

The estimates assume that there will be an increase in the number of organizations complying with the current tax laws.

The assumed levels of compliance are:

*For-profit entities: first year compliance is 13 percent, second year compliance is 26 percent, and third year compliance is 39 percent. Years four and thereafter are assumed to have a 52 percent compliance rate.

*Government entities: first year compliance is 50 percent, second year compliance is 75 percent, and year three and thereafter are assumed to have a 99 percent compliance rate.

*Nonprofit organizations: there will be a ten percent compliance rate for all fiscal years.

DATA SOURCES

*Consumer Expenditure Survey

*Department of Revenue tax collections and audit data

*2005 Study on Popular Sports and Recreation, Sporting Goods Manufacturers Association

REVENUE ESTIMATES

This estimate reflects 10 months of cash collections for Fiscal Year 2012 due to the August 1, 2011, effective date.

This proposal will decrease state revenues by an estimated \$4.3 million during the 2011-2013 Biennium, \$8.4 million in the 2013-2015 Biennium, and \$9.0 million in the 2015-2017 Biennium.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2012 -	\$ (1,444)
FY 2013 -	\$ (2,852)
FY 2014 -	\$ (3,873)
FY 2015 -	\$ (4,492)
FY 2016 -	\$ (4,501)
FY 2017 -	\$ (4,511)

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

FY 2012 -	\$ (422)
FY 2013 -	\$ (847)
FY 2014 -	\$ (1,183)
FY 2015 -	\$ (1,391)
FY 2016 -	\$ (1,395)
FY 2017 -	\$ (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

ASSUMPTIONS:

Expenditures assume 760 taxpayers will be affected by this proposal.

FIRST YEAR COSTS: Fiscal Year 2013

The Department will incur costs of \$13,600 in Fiscal Year 2013 for the amendment of two administrative rules.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years		0.1	0.1		
A-Salaries and Wages		8,400	8,400		
B-Employee Benefits		2,500	2,500		
E-Goods and Services		1,900	1,900		
J-Capital Outlays		800	800		
Total \$		\$13,600	\$13,600		

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
HEARINGS SCHEDULER	32,688		0.0	0.0		
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	252,618		0.1	0.1		

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 use the standard process to amend WAC 458-20-183, titled: "Amusement, recreation, and physical fitness services" and the expedited process to amend WAC 458-20-189, titled: "Sales to and by the state of Washington, counties, cities, towns, school districts, and fire districts." Persons affected by this rule-making would include private and governmental entities that provide amusement and recreation services, such as operating sports teams and leagues.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 5422 P S SB	Title: Amateur sports/taxation
---------------------------------	---------------------------------------

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☒ Cities: Loss of sales and use tax revenue; tax savings for jurisdictions collecting certain fees for amateur sports participation
- ☒ Counties: Same as above
- ☒ Special Districts: Same 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

Estimated expenditure impacts to:

Indeterminate Impact

Part III: Preparation and Approval

Fiscal Note Analyst: Cezanne Murphy-Levesque	Phone: 360/725-5036	Date: 04/08/2011
Leg. Committee Contact: Dean Carlson	Phone: (360)786-7305	Date: 03/23/2011
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 04/08/2011
OFM Review: Heather Matthews	Phone: (360) 902-0543	Date: 04/11/2011

Part IV: Analysis

A. SUMMARY OF BILL

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

THIS BILL VERSION COMPARED TO SB 5422:

This version would broaden the tax exemptions provided in the original bill to for-profit organizations and to persons conducting amateur sporting events in which individuals participate, such as cycling, running, and triathlon events.

SUMMARY OF CURRENT BILL (PSSB 5422):

This bill would make charges to consumers for league fees and entry fees a retail sale of amusement and recreation services. League fees are amounts paid solely for the privilege of allowing a person or team to join a sports league. Entry fees are amounts paid solely for the privilege of allowing a person or team to enter a tournament or other type of competition. League fees and entry fees do not include amounts charged for participating in the underlying amusement and recreation activity, regardless of whether they are labeled as a league or entry fee. League and entry fees are currently subject to business and occupation (B&O) tax under the service and other activities classification and are not subject to sales tax.

In addition, this proposal makes charges for the use of facilities for amusement and recreation activities, such as fields, courts, rinks, gymnasiums, and swimming pools, a retail sale of amusement and recreation services unless the buyer charges others for amusement and recreation activities at the same facility.

This proposal would provide B&O, retail sales, and use tax exemptions for amounts charged for league fees, participation fees, and entry fees with respect to the operation of a competitive team sports league by government entities and private organizations, whether nonprofit or for-profit. In addition, nonprofit organizations and government entities would be exempt from B&O and retail sales taxes on charges to members of a competitive team sport league or association for the use of the taxpayer's facilities. A competitive team sport is an amateur sport in which teams of two or more players compete against one another; the collective effort of the teams' members determines the final score and the outcome of the competition.

In addition, this proposal creates B&O and retail sales tax exemptions for charges to participate in certain amateur sporting events held on an infrequent basis. Qualifying events are those in which individuals participate, such as cycling, running, and triathlon events. To qualify for this exemption, the events may not be held more than four times per year and are limited to two events per year at the same or substantially the same location.

This legislation would take effect August 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.

This bill would result in reduced expenditures to local governments in cases where local governments are also the taxpayers -- that is, collect fees for competitive sports leagues. The amount of savings is indeterminate because it is not known how much fee revenue is collected by local governments that would become exempt from taxation as a result of this bill. However, the City of Puyallup estimates that it would save at least 30,000 annually.

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.

REVENUE IMPACTS COMPARED TO SB 5422:

This version would broaden the tax exemptions provided in the original bill; therefore the loss of local sales and use tax is greater than the original bill.

REVENUE IMPACTS OF CURRENT BILL:

The Department of Revenue (DOR) estimates the sales and use tax exemptions in this bill would decrease local sales and use tax revenues by \$422,000 in FY 2012 and approximately \$1 million in subsequent years. Additionally, cities that impose local B&O taxes may be impacted by changing league fees 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; therefore, these cities would collect decreased B&O tax revenues. However, there are no data available at this time to estimate the impact.

	County	City	Special District	
FY 2012	\$	(141,251)	\$ (138,035)	\$ (138,494)
FY 2013	\$	(283,507)	\$ (277,050)	\$ (277,973)
FY 2014	\$	(395,973)	\$ (386,955)	\$ (388,243)
FY 2015	\$	(465,594)	\$ (454,991)	\$ (456,505)
FY 2016	\$	(466,933)	\$ (456,299)	\$ (457,818)
FY 2017	\$	(468,607)	\$ (457,934)	\$ (459,459)

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