Multiple Agency Fiscal Note Summary

Bill Number: 2762 S HB H-4611.1	Title: Tax expenditure reform

Estimated Cash Receipts

NONE

Estimated Expenditures

Agency Name	2011-13			2013-15			2015-17		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Office of the Secretary of State	.0	256,000	256,000	.0	0	0	.0	0	0
Office of Financial Management	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	1.1	209,700	209,700	.3	51,400	51,400	6.8	1,576,800	1,576,800
Total	**1.1**	**$465,700**	**$465,700**	**0.3**	**$51,400**	**$51,400**	**6.8**	**$1,576,800**	**$1,576,800**

Estimated Capital Budget Impact

NONE

Prepared by: Cherie Berthon, OFM	Phone: 360-902-0659	Date Published: Final 3/16/2012

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

** See local government fiscal note

FNPID 32530

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 2762 S HB H-4611.1	**Title:** Tax expenditure reform	**Agency:** 014-Joint Leg. Audit & Review Committee

Part I: Estimates

☒ **No Fiscal Impact**

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:	Rick Peterson	Phone: 360-786-7150	Date: 03/03/2012
Agency Preparation:	John Woolley	Phone: 360 786-5184	Date: 03/09/2012
Agency Approval:	Keenan Konopaski	Phone: 360-786-5187	Date: 03/09/2012
OFM Review:	Jeffrey Showman	Phone: (360) 902-7536	Date: 03/14/2012

Request # -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.

A legislative finding states that the legislature must allow all non-constitutionally required tax expenditures to periodically expire and that the state must take proactive measures to continue preferences that prove beneficial to the state according to objective, rigorous, financially based standards to ensure job creation and economic growth.

Legislative intent is stated that legislation that renews an expiring tax preference, expands a tax preference, or creates a new tax preference must include a statement of legislative intent. The intent must state the policy goals and related metrics that provide context or data for use in reviewing the tax preference.

A schedule is established to repeal tax preferences for state and local retail sales and use taxes and the state business and occupation (B&O) tax.

The tax preference repeal process will take place over five stages.

- The first group of tax preferences is repealed on July 1, 2017.
- The second group is repealed July 1, 2019.
- The third group is repealed on July 1, 2021.
- The fourth group of tax preferences is scheduled for repeal on July 1, 2023.
- The fifth and final group of tax preferences is repealed on July 1, 2025.

The Governor's budget proposal and supporting documents must include a list of tax preferences expiring in budget documents. The Department of Revenue tax preferences report is to be produced every two years and is to be included in the supporting documents for the Governor's biennial budget.

The two types of annual accountability reports are consolidated into a single annual survey. All taxpayers currently filing an annual report will begin filing an annual survey beginning in 2013. Taxpayers with tax savings less than $10,000 are not required to file the annual survey. The amount of tax savings will be publically available but the economic information contained in the survey will be confidential. Taxpayers claiming the state sales and use tax exemption for warehouses and grain elevators are required to submit an annual survey.

The measure is referred to the voters for their approval at the next general election.

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.

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.

JLARC currently analyzes tax preferences as a component of its work with the Citizen Commission on the Performance Measurement of tax preferences. This work is directed by Chapter 43.136 RCW, "Termination of Tax Preferences."

JLARC's current capacity is to review approximately 22 preferences in-depth each year. The Citizens Commission establishes a schedule each year to identify which 22 preferences are reviewed that year. For the purposes of this fiscal note, JLARC assumes that we will continue to review 22 preferences, in-depth, each year. Therefore, there is no additional fiscal impact assumed for this bill.

The bill may have an impact on how the Citizen's Commission establishes the review schedule for JLARC. For preferences that are reviewed in depth by JLARC, the Citizen's Commission currently attempts to schedule these reviews two years before their expiration date. If the Legislature expects that preferences scheduled for repeal as part of this bill receive priority for JLARC review, the Citizen's Commission may need to focus a larger portion of its work plan on those preferences.

The bill does not explicitly require that all preferences scheduled for repeal in the bill shall be subject to a detailed review by JLARC. If the Legislature expected that all preferences scheduled for repeal in the bill are to be reviewed by JLARC before their expiration date, this would require that JLARC review more than 22 preferences each year. Reviewing more than 22 preferences each year would require additional resources. However, since it is not clear that this is an expectation of the bill, this fiscal note assumes that JLARC's workload remains at 22 studies per year.

Part III: Expenditure Detail

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.

Individual State Agency Fiscal Note

Bill Number:	2762 S HB H-4611.1	Title:	Tax expenditure reform	Agency:	085-Office of the Secretary of State

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2012	FY 2013	2011-13	2013-15	2015-17
Account						
General Fund-State	001-1	0	256,000	256,000	0	0
	Total $	0	256,000	256,000	0	0

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,

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:	Rick Peterson	Phone: 360-786-7150	Date: 03/03/2012
Agency Preparation:	Dalene Conant	Phone: 360-236-5046	Date: 03/06/2012
Agency Approval:	Dan Speigle	Phone: 360-236-5050	Date: 03/06/2012
OFM Review:	Cherie Berthon	Phone: 360-902-0659	Date: 03/06/2012

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 803 requires the Office of the Secretary of State (OSOS) to publish this act at the next general election. Submission of this bill for a vote of the people results in expenses to OSOS for including it in the voters' pamphlet.

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.

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.

Based on the costs of producing the 2010 general election voters' pamphlet, inclusion of the ballot title with explanatory statement, pro/con arguments and one page of text in the 2012 general election voters' pamphlet are estimated to cost $15,000 per page (including postage) or $120,000 total cost (8 page minimum). The content of the act would require 32 pages for a total cost of $256,000.

This fiscal note reflects only those costs related to the submission of this measure to a vote of the people and not any general changes in revenue or expenditures by the state as a consequence of the substance of the measure. The costs identified in this fiscal note would be incurred regardless of whether or not the measure is approved by the voters.

The 2011-13 operating budget includes funding for the publication of a voters pamphlet containing information on three state measures (two initiatives and one constitutional amendment) in each fiscal year of the biennium. If the passage of this measure results in more than three measures appearing on the 2012 state general election ballot in fiscal year 2013 a supplemental appropriation for the voters pamphlet may be required.

The 2011-13 operating budget includes funding for the publication of notices in every legal newspaper in the state four times prior to the general election. This fiscal note does not assume additional cost to publish this measure because the notices would be customized to remain within the authorized budget for legal advertising.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services		256,000	256,000		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$256,000	$256,000	$0	$0

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.

Individual State Agency Fiscal Note

Bill Number: 2762 S HB H-4611.1	Title: Tax expenditure reform	Agency: 105-Office of Financial Management

Part I: Estimates

[X] **No Fiscal Impact**

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:

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[ ] 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:	Rick Peterson	Phone: 360-786-7150	Date: 03/03/2012
Agency Preparation:	Stephanie Lidren	Phone: 360-902-3056	Date: 03/07/2012
Agency Approval:	Aaron Butcher	Phone: 360-902-0406	Date: 03/07/2012
OFM Review:	David Dula	Phone: (360) 902-0543	Date: 03/07/2012

Request # 083-1

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.

Section 401 requires the omnibus operating appropriations bills proposed by the Governor and enacted by the Legislature must include a tax expenditure report listing all state tax expenditures scheduled to expire during the current or next biennium, and a total estimated revenue impact statement detailing all state tax expenditures scheduled to expire during the current or next biennium.

Section 403(2)(b) adds the requirement to include the new report and statement in section 401 to the budget documents.

These changes do not have a fiscal impact to OFM.

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.

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

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.

Department of Revenue Fiscal Note

Bill Number:	2762 S HB H-4611.1	Title:	Tax expenditure reform	Agency:	140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.1	2.1	1.1	0.3	6.8
Account					
GF-STATE-State 001-1	11,100	198,600	209,700	51,400	1,576,800
Total $	11,100	198,600	209,700	51,400	1,576,800

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,

Check applicable boxes and follow corresponding instructions:

[X] 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:	Rick Peterson	Phone: 360-786-7150	Date: 03/03/2012
Agency Preparation:	Diana Tibbetts	Phone: 360-534-1520	Date: 03/14/2012
Agency Approval:	Don Gutmann	Phone: 360-534-1510	Date: 03/14/2012
OFM Review:	Cherie Berthon	Phone: 360-902-0659	Date: 03/16/2012

Request # 2762-2-1

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

Note: This fiscal note reflects language in SHB 2762.

This legislation repeals or modifies a large number of sales and use tax exemptions and business and occupation (B&O) tax exemptions, credits, deductions, and differential rates.

Part I - REPEALING JOINT LEGISLATIVE AUDIT AND REVIEW COMMITTEE (JLARC) TAX PREFERENCES

Effective July 1, 2017:

B&O tax exemptions are repealed for certain sales of agricultural products; boxing, sparring or wrestling matches; certain fraternal and beneficiary organizations; credit unions; hatching eggs and poultry; and compensation for patient services or attendant sales of drugs dispensed pursuant to prescription by certain nonprofit organizations.

B&O tax deductions are repealed for motor vehicle fuel and special fuel taxes; compensation for receiving, washing etc. horticultural products for farmers; interest on investments or loans secured primarily by first mortgage or deeds of trust on nontransient real property; interest on obligations of the state, its political subdivisions, and municipal corporations; municipal sewer service fees or charges; tuition fees of foreign degree-granting institutions; investments, dividends, interest on loans; and tuition fees.

Sales and use tax exemptions are repealed for sales and distribution of newspapers; auction sales of personal property used in farming; livestock; poultry for producing poultry and poultry products for sale; and sales of and labor and service charges for mining, sorting, crushing, etc., of sand, gravel, and rock from a county or city quarry for public road purposes; operating property of a public utility acquired by the state or political subdivision.

Sales tax exemptions are repealed for sales of motor vehicles, trailers, or campers to nonresidents for use outside the state; tangible personal property that becomes a component of property owned by a nonresident by installing or repairing, including the associated labor and services; sales of watercraft to nonresidents for use outside the state; sales of watercraft or vessels to residents of foreign countries; farming machinery, implements, and related parts and repair services to nonresidents for use outside the state; and sales to nonresidents of tangible personal property, digital goods, and digital codes for use outside the state.

Use tax exemptions are repealed for use of fuel by the extractor or manufacturer of the fuel; tangible personal property consumed in research, development, and other activities by a bailee; motor vehicles and trailers of residents acquired and used while members of the armed services and stationed outside the state; and personal property used in single trade shows.

Effective July 1, 2019:

B&O tax deductions are repealed for initiation fees; dues; contributions; donations; charges made by a nonprofit trade or professional organization for attending or occupying space at a trade show, convention, or educational seminar sponsored by the nonprofit trade or professional organization, which trade show, convention, or educational seminar is not open to the general public; charges made for operation of privately operated kindergartens; and endowment funds.

This part also makes slight modifications to the tax preference review process by adding the sales and use tax exemption

for machinery and equipment for manufacturing, research and development, or testing and the small business B&O tax credit to the list of tax preferences to be reviewed by JLARC.
Part II - REPEALING SALES AND USE TAX EXEMPTIONS

Effective July 1, 2017:

The definition of "retail sale" is amended so that the following products or activities are considered retail sales:
- Laundry services to nonprofit health facilities;
- Janitorial services;
- Road construction labor and services for roads owned by municipal corporations or political subdivisions of the state; and
- Chemical sprays or washes for post-harvest treatment of fruits and vegetables, and feed, seed, seedlings, fertilizer, agents for enhanced pollination and spray materials to farmers and certain other persons.

Effective July 1, 2019:

Sales and use tax exemptions are repealed for trail grooming services; sale or use of copied public records by state and local agencies; sales and distribution of magazines or periodicals by subscription for fund-raising; sales or use of tangible personal property related to a building or structure that is an integral part of a laser interferometer gravitational wave observatory; tangible personal property, labor and services on watershed protection and flood prevention contracts; tangible personal property acquired or used by political subdivisions through annexations or incorporations; passenger motor vehicles used as ride-sharing vehicles; amusement and recreation services or personal services provided by a nonprofit youth organization, local government physical fitness classes; certain objects acquired for exhibition or presentation by artistic or cultural organizations; items sold at a camp or conference center by nonprofit organizations; sales/leasebacks by regional transit authorities; motorcycles for training programs; joint municipal utility services authorities; certain limited purpose public corporations, commissions, and authorities; and certain machinery and equipment of public research institutions.

Sales tax exemptions are repealed for nonprofit fundraising sales and vehicle parking charges at a stadium and exhibition center.

Use tax exemptions are repealed for ferry vessels sold to or used by the state or local governmental units; the use of personal property and certain services donated to nonprofit organizations or governmental entities; dual-controlled motor vehicles by schools for driver training; and computers or computer components, accessories, software, digital goods, or digital codes donated to schools or colleges.

The definition of "retail sale" is amended so that construction and improvements to real property of county or city housing authorities and certain sales to regional transit authorities are considered retail sales.

Effective July 1, 2021:

Sales and use tax exemptions are repealed for audio or video programming; digital goods and services purchased for business purposes; machinery and equipment used for manufacturing, research and development or in a testing operation; tangible personal property incorporated in prototype for parts, auxiliary equipment, and aircraft modification; carbon and similar substances that become an ingredient or component of anodes or cathodes used in producing aluminum for sale; poultry for producing poultry and poultry products for sale; semen for artificial insemination of livestock; form lumber used in constructing or repairing structures for consumers; labor, services, and tangible personal property related to agricultural employee housing; leases of certain irrigation equipment; feed for raising fish for sale; feed consumed by livestock at a public livestock market; diesel fuel used in commercial deep sea fishing or commercial passenger fishing outside of Washington; materials and supplies used in packing horticultural products; production services and the rental of production equipment for motion picture or video production businesses; core deposits or credits on returnable products such as batteries, starters, brakes, and other products for the purpose of recycling or remanufacturing; computer equipment for printers or publishers; direct mail delivery charges; air pollution control facilities at a thermal electric generation facility; material-handling and racking equipment and construction of warehouses, distribution centers, and grain elevators; replacement parts for farm machinery and equipment; diesel, biodiesel, and aircraft fuel for farm fuel users; animal pharmaceuticals; livestock nutrient management equipment and facilities; anaerobic digesters; propane or natural gas to heat chicken structures; chicken bedding materials; goods in import and export commerce; conifer seed; and vessels sold to nonresidents.

Sales tax exemptions are repealed for sales for use in states, territories, and possessions of the United States that are not contiguous to any other state; sales of returnable containers for beverages and foods; and renting or leasing of motor vehicles and trailers to a nonresident for use in the transportation of people or property across state boundaries.

Use tax exemptions are repealed for use of pollen; vessels and their trailers by manufacturers and dealers, vessels held in inventory by a dealer or manufacturer; property and services acquired from a federal credit union; digital goods of a noncommercial nature or created solely for an internal audience or created solely for the business needs of the creator; and machinery, equipment, vehicles, and services related to biodiesel blend or E85 motor fuel.

The definition of “retail sale” is amended to include:
- Sales of tangible personal property to be consumed in producing ferrosilicon which is subsequently used in producing magnesium for sale, where the primary purpose of such property is to create a chemical reaction directly through contact with an ingredient of ferrosilicon;
- Services rendered in respect to live animals, birds and insects;
- Horticultural services provided to farmers;
- Pruning, trimming, repairing, removing, and clearing trees near electric lines when performed at the direction of an electric utility;
- Sales of custom software or the customization of prewritten software.

Sales of precious metal bullion and monetized bullion will be treated as either a retail or wholesale sale depending on whether the purchaser is a consumer or will resell the bullion.

The value of trade-in property may not be deducted from the selling price for purposes of the sales tax.

When a business located outside of this state brings tangible personal property into this state temporarily for business purposes in this state (no more than 180 days in any period of 365 consecutive days), use tax will no longer be based on a reasonable rental value of the property. Instead, use tax will be based on the full value of the property.

The Department may not accept applications for a tax deferral for any new thoroughbred race tracks.

Effective July 1, 2023:

Sales and use tax exemptions are repealed for academic transcripts; gun safes; waste vegetable oil to be used in the production of biofuel for personal use; employee meals; and digital products or services made available for free.

The sales tax exemption is repealed for coin-operated and local telephone services.

The definition of "retail sale" is amended so that charges made for the use of self-service laundry facilities are considered retail sales.

Effective July 1, 2025:

Sales and use tax exemptions are repealed for the sale to or use by federal corporations providing aid and relief; free hospitals; qualifying blood, tissue, or blood and tissue banks; organ procurement organizations; and health or social welfare organizations for alternative housing for youth in crisis.

Sales and use tax exemptions are repealed for the sale or use of human blood, tissue, organs, bodies, or body parts for medical research and quality control testing; prescription drugs; certain medical items; nebulizers; ostomic items; medical supplies, chemicals, or materials for comprehensive cancer centers; dietary supplements; disposable devices used to deliver prescription drugs for human use; over-the-counter drugs for human use; kidney dialysis devices; and tangible personal property that becomes a component of a residence during the weatherization of the residence.

Sales tax exemptions are repealed for charges made for emergency lodging for homeless persons and temporary medical housing.

Part III - REPEALING BUSINESS AND OCCUPATION TAX EXEMPTIONS, CREDITS, DEDUCTIONS, AND PREFERENTIAL TAX RATES

Effective July 1, 2017:

The preferential B&O tax rates are eliminated for the following:
- Manufacturing wheat into flour, barley into pearl barley, soybeans into soybean oil, canola into canola oil, canola meal, or canola by-products, or sunflower seeds into sunflower oil. This results in a tax rate increase from 0.138 percent to 0.484 percent.
- Processing of seafood. This results in a tax rate increase from 0.138 percent to 0.484 percent.
- Processing of dairy products. This results in a tax rate increase from 0.138 percent to 0.484 percent.
- Processing of fresh fruits or vegetables. This results in a tax rate increase from 0.138 percent to 0.484 percent.
- Manufacturing of wood biomass fuel. This results in a tax rate increase from 0.138 percent to 0.484 percent.
- Slaughtering, breaking, or processing perishable meat products or selling such products at wholesale. This results in a tax rate increase from 0.138 percent to 0.484 percent.
- Radio and television broadcasting. This results in a tax rate increase from 0.484 percent to 1.5 percent.

The Department may not accept applications for the main street tax credit program.

Effective July 1, 2019:

B&O tax exemptions are repealed for day care provided by churches; childcare resource and referral services by nonprofit organizations; items sold at camp and conference centers; amounts received by nonprofit organizations for fund-raising activities; nonprofit organizations that are guarantee agencies, issue debt, or provide guarantees for student loans; nonprofit organizations that provide credit and debt services; certain corporations furnishing aid and relief; operation of sheltered workshops; certain materials printed in school district and educational service district printing facilities; certain materials printed in county, city, or town printing facilities; sales of academic transcripts; housing finance commission; sand, gravel, and rock taken from county or city pits or quarries, processing and handling costs; grants by United States government to municipal corporations or political subdivisions; county, city, town, school district or fire district activity; sales/leasebacks by regional transit authorities; convention and tourism promotion; materials printed in county, city, town, school district, educational service district, library or library district printing facilities; certain limited purpose public corporations, commissions, and authorities; agricultural fairs; hop commodity commission or hop commodity board business; certain assessments received by the Washington Vaccine Association; and joint municipal utility services authorities.

B&O tax deductions are repealed for compensation received by a political subdivision from another subdivision for services taxable under RCW 82.04.290; compensation received by artistic or cultural organizations from the federal, state, or local government for artistic or cultural exhibitions, performances, or programs; the value of articles manufactured by an artistic or cultural organization and used in displaying art objects or presenting artistic or cultural exhibitions, performances, or programs; amounts received by artistic or cultural organizations for tuition charges for attending artistic or cultural education programs; income from business activities of artistic and cultural organizations; membership fees and certain service fees by nonprofit youth organization; child welfare services; and personnel performing on-site functions for nonprofit property management companies.

The B&O tax credit for nonprofit corporations organized for the purpose of setting standards and testing for public safety is repealed.

The preferential B&O tax rate for nonprofit corporations and associations engaging in research and development is eliminated. This results in a tax rate increase from 0.484 percent to 1.5 percent.

Effective July 1, 2021:

B&O tax exemptions are repealed for international banking facilities; motor vehicle sales by manufacturers at wholesale auctions to dealers; wholesale sales to farmers of seed for planting and conditioning seed for planting owned by others; buying and selling at wholesale unprocessed milk, wheat, oats, dry peas, dry beans, lentils, triticale, canola, corn, rye, and barley; up to $100,000 in gross receipts or value of products for small harvesters; certain sales of standing timber; processing hops to be shipped outside the state; amounts received by mortgage brokers from trust accounts for the payment of third-party costs; the operation of state route No. 16 corridor transportation systems and facilities; out-of-state membership sales in qualifying discount programs; certain wholesale sales of motor vehicles by dealers; accommodation sales; research and development funds received under the federal small business innovation research program; research and development funds received under the federal small business technology transfer program; the operation of parking and business improvement areas by a chamber of commerce or other similar business association; amounts received by cigarette sellers for affixing cigarette tax stamps; certain in-state activities; amounts financial institutions receive from certain affiliated persons; investment conduits and securitization entities; restaurant employee meals; and commercial airplane parts.

B&O tax deductions are repealed for qualified grocery distribution cooperatives; interest on loans to farmers and ranchers, producers or harvesters of aquatic products, or their cooperatives; manufacturing activities completed outside the United States; reimbursement for accommodation expenditures by funeral homes; sales of fuel for consumption outside United States waters by vessels in foreign commerce; grants to support salmon restoration; direct mail delivery charges; commercial aircraft loan interest and fees; and wages, salaries, benefits, workers' compensation, payroll taxes, withholding, or other assessments paid to or on behalf of a covered employee by professional employer organizations.

B&O tax credits are repealed for job training services; small businesses; natural or manufactured gas purchased by direct service industrial customers; sales of electricity, natural gas, or manufactured gas made to an aluminum smelter; and syrup taxes paid by the buyer.

Producers of aluminum master alloys are defined as manufacturers rather than processors for hire.
The definition of "to manufacture" is amended so that the specific language applicable to certain activities of a wastewater treatment plant is no longer operative. This change is unlikely to have any material effect.

The Department may not accept applications for the rural county new employee B&O tax credit program.

The following preferential B&O tax rates are eliminated:
- Retail sales. This results in a tax rate increase from 0.471 percent to 0.484 percent.
- Splitting and processing dried peas. This results in a tax rate increase from 0.138 percent to 0.484 percent.
- Travel agent and tour operator services. This results in a tax rate increase from 0.275 percent to 1.5 percent.
- Services provided by international steamship agents, international customs house brokers, international freight forwarders, vessel and/or cargo charter brokers in foreign commerce, and/or international air cargo agents. This results in a tax increase from 0.275 percent to 1.5 percent.
- Stevedoring and associated activities. This results in a tax rate increase from 0.275 percent to 1.5 percent.
- Services provided by insurance producers and title insurance agents. This results in a tax rate increase from 0.484 percent to 1.5 percent.
- Inspecting, testing, labeling, and storing canned salmon. This results in a tax rate increase from 0.484 percent to 1.5 percent.
- Printing or publishing a newspaper. This results in a tax rate increase from 0.2904 percent to 1.5 percent for advertising income, to 0.484 percent for the printing activity, to 0.484 percent for wholesale sales of newspapers, and to 0.484 percent for retail sales of newspapers.
- Printing materials other than newspapers or the publishing of periodicals or magazines. This results in a tax rate increase from 0.484 percent to 1.5 percent for advertising income. The tax rate will stay the same on the printing of periodicals, magazines, and other printed materials except newspapers. The tax rate will also stay the same on retail and wholesale sales of such products.
- Receiving royalties for the use of intangible property. This results in a tax rate increase from 0.484 percent to 1.5 percent.
- Fish cleaning. This results in fish cleaning activity being taxable at 0.484 percent.
- Businesses involved in international investment management services. This results in a tax rate increase from 0.275 percent to 1.5 percent.
- Income received for cleaning up radioactive waste and other by-products of weapons production and nuclear research and development. This results in a tax rate increase from 0.471 percent up to 1.5 percent depending on the activity.

Effective July 1, 2023:

The preferential B&O tax rate for child care providers is repealed. This results in a tax rate increase from 0.484 percent to 1.5 percent.

Effective July 1, 2025:

B&O tax exemptions are repealed for qualifying blood, tissue, or blood and tissue banks; qualified organ procurement organizations; adult family homes; ride sharing; income received by the life sciences discovery fund authority; nonprofit boarding homes-room and domiciliary care; comprehensive cancer centers; certain prescription drugs; and nonprofits providing legal services to low-income persons.

B&O tax deductions are repealed for compensation from public entities for health or social welfare services; compensation received under the federal Medicare program by certain hospitals or health centers; and certain amounts received by boarding homes.

The preferential B&O tax rates are repealed for the following activities:
- Warehousing and reselling prescription drugs. This results in a tax rate increase from 0.138 percent to 1.5 percent for warehousing drugs and to 0.484 percent for wholesale and retail sales of prescription drugs.
- Certain chemical dependency services. This results in a tax rate increase from 0.484 percent to 1.5 percent.
- Providing room and domiciliary care to licensed boarding home residents. This results in a tax rate increase from 0.275 percent to 1.5 percent.

Part IV - INCORPORATING EXPIRING STATE TAX PREFERENCES INTO THE STATE BUDGET PROCESS

Expiring tax expenditures must be included in state budget documents. Production of the Tax Exemption Study by the Department of Revenue is changed from every four years to every two years.

Part V - CONSOLIDATING THE ANNUAL ACCOUNTABILITY REPORTS

Annual accountability surveys and reports are consolidated into a single document, and taxpayers that claim less than $10,000 in tax savings are exempted from the annual survey.

Part VI - STATEMENT OF LEGISLATIVE INTENT FOR TAX PREFERENCE LEGISLATION

Any new, extended or expanded tax preferences must contain a statement of legislative intent.

Part VII - ANNUAL ACCOUNTABIILITY SURVEYS FOR THE WAREHOUSING AND DISTRIBUTION CENTER SALES AND USE TAX EXEMPTION

Taxpayers claiming the state sales and use tax exemption for warehouses and grain elevators are required to submit an annual survey beginning in 2012.

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

DATA SOURCES
- 2012 Exemption Study

- Other Department of Revenue data

ASSUMPTIONS

Some of the tax preferences repealed by this bill are unlikely to cause an increase in revenue due to the nature of tax preference. If the 2012 Exemption Study indicates that repealing a tax preference would either not increase revenues or would be unlikely to increase revenue, the fiscal note estimates assume there is no revenue change due to the elimination of those preferences by this bill.

Repeals of tax deferrals or credits are assumed to have no effect on deferrals or credits approved prior to the repeal date. For those deferrals being paid back to the Department, this estimate assumes those payments would continue.

The changes to tax preferences effective July 1, 2017, will impact 11 months of tax collections in Fiscal Year 2018.
The changes to tax preferences effective July 1, 2019, will impact 11 months of tax collections in Fiscal Year 2020.
The changes to tax preferences effective July 1, 2021, will impact 11 months of tax collections in Fiscal Year 2022.
The changes to tax preferences effective July 1, 2023, will impact 11 months of tax collections in Fiscal Year 2024.
The changes to tax preferences effective July 1, 2025, will impact 11 months of tax collections in Fiscal Year 2026.

REVENUE ESTIMATES

Revenue impacts are beyond the scope of this fiscal note. New revenue collections will begin in Fiscal Year 2018.

Part I - Repealing Joint Legislative Audit and Review Committee (JLARC) Tax Preferences

The repeals of sales and use tax exemptions will increase state general fund revenues by an estimated $106.5 million in the 11 months of impacted collections in Fiscal Year 2018 and $119.7 million in Fiscal Year 2019, the first full year of impacted collections.

Local government revenues are expected to rise by $37 million in the 11 months of impacted collections in Fiscal Year 2018 and $41.5 million in Fiscal Year 2019, the first full year of impacted collections.

The changes to the B&O tax statutes will increase state general fund revenues by an estimated $557 million in the 11 months of impacted collections in Fiscal Year 2018 and $626 million in Fiscal Year 2019, the first full year of impacted collections. There is no local impact from the changes to the B&O tax statutes.

Part II - Repealing Sales and Use Tax Exemptions

The repeals of sales and use tax exemptions will increase state general fund revenues by an estimated $91.6 million in the 11 months of impacted collections in Fiscal Year 2018 and $103 million in Fiscal Year 2019, the first full year of impacted collections.

Local government revenues are expected to rise by $12 million in the 11 months of impacted collections in Fiscal Year 2018 and $13.4 million in Fiscal Year 2019, the first full year of impacted collections.

Part III - Repealing Business and Occupation Tax Exemptions, Credits, Deductions, and Preferential Tax Rates

The changes to the B&O tax statutes will increase state general fund revenues by an estimated $39.5 million in the 11 months of impacted collections in Fiscal Year 2018 and by $44 million in Fiscal Year 2019, the first full year of impacted collections. There is no local impact from the changes to the B&O tax statutes.

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:
- This bill will affect the Department in three separate ways.
  1) In Fiscal Years 2012 and 2013 the Department will create a new annual survey for recipients of the Warehousing and Distribution Center Sales and Use Tax Exemption. Annual reports for various tax expenditures will become annual surveys.
  2) In Fiscal Years 2013, 2015 and 2017 the Department will be required to complete a study of the fiscal impacts to state and local governments of all tax expenditures (exemption study). The exemption study is already scheduled for FY 2015; therefore, additional costs are lower than in 2013 and 2017 and are based on the compressed timeline.
  3) Beginning in Fiscal Year 2017 the first group of taxpayers with expiring tax expenditures will need to be notified.

- In order for the results of the exemption study to be available to the Governor in time to be used in the biennial budget proposal the results must be provided to the Governor's Office by the end of July in Calendar Years 2013, 2015, and 2017.
- Tax expenditures will be repealed with phased-in effective dates of July 1, 2017; July 1, 2019; July 1, 2021; July 1, 2023 and July 1, 2025.
- Approximately 800,000 taxpayers will require notification of these proposed changes, and 300,000 taxpayers will be directly affected by these changes.
- 131,000 new taxpayers will have tax filing requirements.
- A total of 52 Washington Administrative Code (WAC) sections (rules) will be amended or created; however, due to efficiencies realized in such a large number of amendments the Department's expenditures reflect costs for three standard amendments with other rule amendment/creation activity taking place outside the scope of this fiscal note.
- Future savings due to reduced error rates and audit activity resulting from simplified reporting is expected in fiscal years beyond the years included in this fiscal note.

FIRST YEAR COSTS: (Fiscal Year 2012).
The Department will incur total costs of $11,100. These costs include:
Labor Costs - Time and effort equates to 0.1 FTEs.
- Program system changes related to Warehousing and Distribution Center Sales and Use Tax Exemption annual survey.

SECOND YEAR COSTS: (Fiscal Year 2013).
The Department will incur total costs of $198,600. These costs include:
Labor Costs - Time and effort equates to 2.1 FTEs.
- Create new annual surveys for all tax expenditures currently using an annual report.
- Evaluate Warehousing and Distribution Center annual surveys.
- Complete exemption study before July 2013 deadline.

Object Costs - $300.
- Print and mail Warehousing and Distribution Center annual surveys.

THIRD YEAR COSTS: (Fiscal Year 2014).
The Department will total incur total costs of $300. These costs include:
Object Costs - $300.
- Print and mail Warehousing and Distribution Center annual surveys.

FOURTH YEAR COSTS: (Fiscal Year 2015).
The Department will incur total costs of $51,100. These costs include:
Labor Costs - Time and effort equates to 0.5 FTEs.

- Complete exemption study before July 2015 deadline.

Object Costs - $300.

- Print and mail Warehousing and Distribution Center annual surveys.

FIFTH YEAR COSTS: (Fiscal Year 2016).

The Department will total incur total costs of $300. These costs include:

Object Costs - $300.

- Print and mail Warehousing and Distribution Center annual surveys.

SIXTH YEAR COSTS: (Fiscal Year 2017).

The Department will total incur total costs of $1,576,500. These costs include:

Labor Costs - Time and effort equates to 13.5 FTEs.

- Amend multiple WACs.
- Create special notices.
- Update excise tax returns and instructional forms.
- Respond to taxpayer inquiries.
- Complete exemption study before July 2017 deadline.

Object Costs - $520,300.

- Print and mail special notices
- Print and mail Warehousing and Distribution Center annual surveys.

ONGOING COSTS:

The Department will incur ongoing administrative costs that fall outside of projection period for this fiscal note.

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	2.1	1.1	0.3	6.8
A-Salaries and Wages	6,800	117,800	124,600	33,800	597,600
B-Employee Benefits	2,000	35,400	37,400	10,200	179,200
E-Goods and Services	1,600	31,700	33,300	6,900	718,200
J-Capital Outlays	700	13,700	14,400	500	81,800
Total $	$11,100	$198,600	$209,700	$51,400	$1,576,800

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
COMMUNICATIONS CNSLT 3	45,600					0.5
EXCISE TAX EX 2	41,316		0.5	0.3		
EXCISE TAX EX 3	49,056		0.6	0.3		0.1
EXCISE TAX EX 4	54,156					0.1
FORMS AND RECORDS ANALYST 3	41,316					0.5
HEARINGS SCHEDULER	31,704					0.0
IT SPEC 5	67,668	0.1		0.1		
OFF ASST 3	29,784					0.2
TAX INFO SPEC 1	35,652					3.0
TAX INFO SPEC 3	46,728					0.3
TAX INFO SPEC 4	52,872					1.5
TAX POLICY SP 2	59,784					0.0
TAX POLICY SP 3	67,668		1.0	0.5	0.3	0.6
WMS BAND 3	84,691					0.0
Total FTE's	707,995	0.1	2.1	1.1	0.3	6.8

Part IV: Capital Budget Impact

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and dexcribe 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 458-20-126, titled: "Sales of motor vehicle fuel, special fuels, and nonpollutant fuel"; WAC 458-20-129, titled: "Gasoline service stations"; WAC 458-20-136, titled: "Manufacturing, processing for hire, fabricating"; WAC 458-20-141, titled: "Duplicating activities and mailing bureaus"; WAC 458-20-143, titled: "Printers and publishers of newspapers, magazines, and periodicals"; WAC 458-20-146, titled: "National and state banks, mutual savings banks, savings and loan associations and other financial institutions"; WAC 458-20-15501, titled: "Computer hardware, computer software, information service, and computer services"; WAC 458-20-165, titled: "Laundry, dry cleaning, linen and uniform supply, and self-service and coin-operated laundry services"; WAC 458-20-169, titled: "Nonprofit organizations"; WAC 458-20-171, titled: "Building, repairing or improving streets, roads, etc., which are owned by a municipal corporation or political subdivision of the state or by the United States and which are used primarily for foot or vehicular traffic"; WAC 458-20-177, titled: "Sales of motor vehicles, campers, and trailers to nonresident consumers"; WAC 458-20-178, titled: "Use tax"; WAC 458-20-183, titled: "Amusement, recreation, and physical fitness services"; WAC 458-20-210, titled: "Sales of tangible personal property for farming - Sales of agricultural products by farmers"; WAC 458-20-238, titled: "Sales of watercraft to nonresidents - Use of watercraft in Washington by nonresidents"; WAC 458-20-239, titled: "Sales to nonresidents of farm machinery or implements, and related services"; WAC 458-20-249, titled: "Artistic or cultural organizations"; WAC 458-20-267, titled: "Annual reports for certain tax adjustments"; and WAC 458-20-268, titled: "Annual surveys for certain tax adjustments."