

Multiple Agency Fiscal Note Summary

Bill Number: 5220 SB	Title: Martial arts excise taxation
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Estimated Cash Receipts

Agency Name	2017-19		2019-21		2021-23	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(295,000)	(295,000)	(317,000)	(317,000)	(342,000)	(342,000)
Total \$	(295,000)	(295,000)	(317,000)	(317,000)	(342,000)	(342,000)

Local Gov. Courts *						
Loc School dist-SPI						
Local Gov. Other **		(133,000)		(143,999)		(155,001)
Local Gov. Total		(133,000)		(143,999)		(155,001)

Estimated Expenditures

Agency Name	2017-19			2019-21			2021-23		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.0	3,400	3,400	.0	0	0	.0	0	0
Total	0.0	\$3,400	\$3,400	0.0	\$0	\$0	0.0	\$0	\$0

Estimated Capital Budget Impact

NONE

Prepared by: Kathy Cody, OFM	Phone: (360) 902-9822	Date Published: Final 1/18/2017
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 44766

FNS029 Multi Agency rollup

Department of Revenue Fiscal Note

Bill Number: 5220 SB	Title: Martial arts excise taxation	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2018	FY 2019	2017-19	2019-21	2021-23
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	(171,000)	(179,000)	(350,000)	(377,000)	(407,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	27,000	28,000	55,000	60,000	65,000
Total \$	(144,000)	(151,000)	(295,000)	(317,000)	(342,000)

Estimated Expenditures from:

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	0.1		0.0		
Account					
GF-STATE-State 001-1	3,400		3,400		
Total \$	3,400		3,400		

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: Carrie Graf	Phone: 360-786-7708	Date: 01/17/2017
Agency Preparation: Erin Valz	Phone: 360-534-1522	Date: 01/17/2017
Agency Approval: Kim Davis	Phone: 360-534-1508	Date: 01/17/2017
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 01/17/2017

Request # 5220-1-1

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.

This bill removes martial arts classes, training, and events from the definition of retail sale except in certain circumstances. Fees to participate in martial arts held at a stand-alone martial arts facility or most other venues would:

- Not be subject to retail sales tax, and
- Would be subject to business and occupation (B&O) tax under the Service and Other Business Activities classification.

Retail sales tax and retailing B&O tax would still apply to fees charged by an athletic or fitness club to its members or guests to participate in martial arts at the club.

This bill also defines martial arts as any of the systems of training for physical combat or self-defense. This includes karate, kung fu, tae kwon do, Krav Maga, boxing, kickboxing, jujitsu, shootfighting, wrestling, aikido, judo, hapkido, Kendo, tai chi, and mixed martial arts.

This bill takes effect on April 1, 2017.

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

- Growth rates are based on data from the Economic and Revenue Forecast Council's September 2015 forecast.
- A 90 percent compliance factor has been applied to the final estimate. However, very little audit data is available to estimate compliance. There could be additional businesses currently remitting sales tax that are unknown to the Department resulting in greater negative revenue impact. Due to complexity in tax application, and the average size and number of impacted taxpayers, it is also believed that actual compliance could be lower than estimated resulting in less negative revenue impact. The level of enforcement activity has a direct effect on future revenue impacts. The impacts shown are a result of holding enforcement levels at their current state; no additional levels of enforcement are assumed.
- Impact for Fiscal Year 2017 reflects two months of cash collections due to the April 1, 2017 effective date. This fiscal note assumes passage of this legislation by March 1, 2017 to allow for one month of implementation.

DATA SOURCES

- Department of Revenue tax return data
- Department of Revenue audit data

REVENUE ESTIMATES

This proposal decreases state revenues by an estimated \$23,000 in the two months of impacted collections in Fiscal Year 2017 and by \$144,000 in Fiscal Year 2018, the first full year of impacted collections. This proposal also decreases local revenues by an estimated \$10,000 in the two months of impacted collections in Fiscal Year 2017 and by \$65,000 in Fiscal Year 2018, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2017 -	(\$ 23)
FY 2018 -	(\$ 144)
FY 2019 -	(\$ 151)
FY 2020 -	(\$ 156)

FY 2021 - (\$ 161)
FY 2022 - (\$ 168)
FY 2023 - (\$ 174)

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

FY 2017 - (\$ 10)
FY 2018 - (\$ 65)
FY 2019 - (\$ 68)
FY 2020 - (\$ 71)
FY 2021 - (\$ 73)
FY 2022 - (\$ 76)
FY 2023 - (\$ 79)

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.

ASSUMPTIONS:

- 520 taxpayers will be affected by this legislation.

FIRST YEAR COSTS:

The Department of Revenue will incur total costs of \$3,400 in Fiscal Year 2018. These costs include:

Labor Costs - Time and effort equates to 0.07 FTE.

- Amend one administrative rule.

Object Costs - \$400.

- Print and mail a special notice to affected taxpayers.

SECOND YEAR COSTS:

There are no second year costs.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years	0.1		0.0		
A-Salaries and Wages	2,000		2,000		
B-Employee Benefits	600		600		
E-Goods and Other Services	600		600		
J-Capital Outlays	200		200		
Total \$	\$3,400		\$3,400		

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 2018	FY 2019	2017-19	2019-21	2021-23
ADM ASST 5	49,308	0.0		0.0		
EMS BAND 4	108,926	0.0		0.0		
HEARINGS SCHEDULER	34,284	0.0		0.0		
TAX POLICY SP 2	64,620	0.0		0.0		
TAX POLICY SP 3	73,140	0.0		0.0		
TAX POLICY SP 4	78,732	0.0		0.0		
Total FTE's	409,010	0.1		0.1		

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department of Revenue will use the expedited process to amend WAC 458-20-183, titled: "Amusement, recreation and physical activity". Persons affected by this rule-making would include those businesses teaching martial arts including karate, kung fu, tae kwon do, Krav Maga, boxing, kickboxing, jujitsu, shoot fighting, wrestling, aikido, judo, aikido, Kendo, tai chi, and mixed martial arts.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5220 SB	Title: Martial arts excise taxation
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Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☒ Cities: Reduced sales-and-use tax revenue
- ☒ Counties: Reduced sales-and-use tax revenue
- ☒ Special Districts: Reduced sales-and-use tax revenue
- ☐ 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:

Estimated revenue impacts to:

Jurisdiction	FY 2018	FY 2019	2017-19	2019-21	2021-23
City	(21,281)	(22,263)	(43,544)	(47,145)	(50,747)
County	(22,120)	(23,140)	(45,260)	(49,003)	(52,747)
Special District	(21,600)	(22,596)	(44,196)	(47,851)	(51,507)
TOTAL \$	(65,001)	(67,999)	(133,000)	(143,999)	(155,001)
GRAND TOTAL \$	(432,000)				

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Renee Martine-Tebow	Phone: 360-725-5044	Date: 01/17/2017
Leg. Committee Contact: Carrie Graf	Phone: 360-786-7708	Date: 01/17/2017
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 01/17/2017
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 01/18/2017

Part IV: Analysis

A. SUMMARY OF BILL

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

The Legislature finds that the sales tax treatment of martial arts training and instruction changed as an unintended consequence of the passage of HB 1550 during the 2015 legislative session. HB 1550 (2015) did not include all martial arts classes, training, or events to the specific business and occupation (B&O) and retail sales tax exclusions which were provided to similar activities, such as yoga, tai chi, or chi gong. The intention is to return these activities to the previous tax treatment.

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 does not impact local government expenditures. Sales-and use-tax is administered at the state and taxpayer 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.

According to the Department of Revenue fiscal note, this bill would decrease local government revenues by \$65,000 in Fiscal Year 2018, the first full year of impacted collections.

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 2014. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. This results in a distribution of 34.03 percent to counties, 32.74 percent to cities, and 33.23 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