Department of Revenue Fiscal Note

Bill Number: 2992 S HB	Title: Rural manuf., etc./B&O tax	Agency: 140-Department of Revenue

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 05 - Bus and Occup Tax		(1,300,000)	(1,300,000)	(14,600,000)	(27,800,000)
Total $		(1,300,000)	(1,300,000)	(14,600,000)	(27,800,000)

Estimated Expenditures from:

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years		1.1	0.6	0.7	0.6
Account					
GF-STATE-State 001-1		215,500	215,500	233,400	223,600
Total $		215,500	215,500	233,400	223,600

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.

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Request # 2992-2-1

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.

Note: This fiscal note reflects language in SHB 2992, 2018 Legislative Session.

CURRENT LAW:

Manufacturing B&O

- General manufacturing rate (manufacturing and processing for hire) is 0.484%.
- When a business performs more than one taxable activity related to the production and sale of the same product, it reports each activity under the proper classification. However, the business receives the multiple activities tax credit (MATC) so the business and occupation (B&O) tax is not paid more than once on the same amount. For instance, a business that both manufactures and sells a product at wholesale in Washington does not pay both manufacturing and wholesaling B&O tax. A credit is allowed so that B&O tax is paid only once.
- This also applies to a business that has paid a gross receipt tax to another state.
- In-state manufacturers, who sell their manufactured goods in Washington, pay B&O tax for retailing (0.471%) and wholesaling activities (0.484%).

Timber products B&O:

- Timber and wood product manufacturers, extractors, and wholesalers pay a preferential rate of 0.2904 percent with a surcharge of 0.052 percent, a total B&O rate of 0.342 percent, until July 1, 2024, and the rate reverts back to 0.484 percent July 1, 2024.
- The surtax is deposited to the Forest and Fish Support Account, and the surtax turns off when either:
  (1) Fund balance reaches to $8 million per fiscal year, or
  (2) Federal appropriation of at least $2 million is received.

PROPOSAL:

Manufacturing B&O rates:

- For eligible manufacturers engaging in manufacturing within an eligible area, a 40% general manufacturing rate reduction is phased in equally over six years, beginning January 1, 2019, to 0.2904%.
- Retailing and wholesaling B&O tax rates for the in-state wholesale and retail sales of products manufactured by the seller will also be reduced to 0.2904% in the same manner.
- At the end of the phase-in period, the rates will be 0.2904%.

The rates will be phased in as follows:
- Until December 31, 2018, current rates apply--0.484 percent for manufacturing and wholesaling and 0.471percent for retailing;
- 0.4517 percent beginning January 1, 2019, through December 31, 2019;
- 0.4195 percent beginning January 1, 2020, through December 31, 2020;
- 0.3872 percent beginning January 1, 2021, through December 31, 2021;
- 0.3549 percent beginning January 1, 2022, through December 31, 2022;
- 0.3227 percent beginning January 1, 2023, through December 31, 2023;
- 0.2904 percent beginning January 1, 2024, and thereafter.

- "Eligible area" means a county or a statistically equivalent entity, as defined by the United States Census Bureau, located within or without the state, that:

(a) Has a population density of less than one hundred persons per square mile; or

(b) Is smaller than two hundred twenty-five square miles and has a population not exceeding one hundred thousand.

- For all manufacturers that are not engaged in manufacturing within an eligible area, the general manufacturing rate will stay at the current rate of 0.484% and the retailing and wholesaling B&O rates will also stay at the current rates of 0.471% (retailing) and 0.484% (wholesaling).

- Petroleum refiners are excluded from the definition of eligible manufacturer and do not receive the rate reduction.

Timber products B&O rates:

- This bill eliminates the mechanism to reduce the timber product B&O surcharge if the federal government appropriates at least $2 million to the Forest and Fish Support Account.

EXPIRATION DATE:
- The timber B&O rate of 0.342 percent expiration date will be extended to July 1, 2029, and the rate reverts back to 0.484 percent.
- All other B&O preferential rates expire January 1, 2029.

EFFECTIVE DATE:
January 1, 2019

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:

Manufacturing B&O
- Washington's manufacturing, processing for hire, retailing and wholesaling activities will mirror respective B&O activities forecasted by the Economic and Revenue Forecast Council (ERFC).
- Taxpayers in "eligible areas" were identified by their registration address.
- "Eligible area" was assumed to be defined as counties with a population density less than 100 persons per square mile or counties smaller than two hundred twenty-five square miles with population not exceeding 100,000.
- Proportion of out-of-state manufacturers, who are located in eligible areas and are retailing and/or wholesaling in WA, would mirror the retailing and/or wholesaling activities among manufacturers in Washington.
- No out-of-state retailers selling in WA are manufacturers that would qualify for the reduced rates under the proposal.
- Thirty-four percent of wholesale sales in WA are assumed to be made by out-of-state manufacturers, of which twenty-one percent are out-of-state manufacturers in eligible areas in their states; thus, they are qualifying to take the proposed reduced rates (i.e., 7.14% of wholesale sales in WA are by out-of-state manufactures in eligible areas).
- This proposal assumes that taxpayers' activities would continue based on FY 2017 reporting.
- Effective date of January 1, 2019, reflects 5 months cash collection for FY 2019.

Timber and wood products B&O:
- No federal appropriation of at least $2 million occurs to the Forest and Fish Support Account.

DATA SOURCES:
- ERFC November 2017 Forecast
- Department of Revenue tax return data for Fiscal Year 2017
- Office of Financial Management-Rural County data (April 1, 2017)
- Department of Natural Resource

TOTAL REVENUE IMPACT:
State revenues will decrease by $1.3 million in Fiscal Year 2019 and by $5.8 million in Fiscal Year 2021.

State Government (cash basis, $000):

FY 2018 -	$ 0
FY 2019 -	($ 1,300)
FY 2020 -	($ 5,800)
FY 2021 -	($ 8,800)
FY 2022 -	($ 12,100)
FY 2023 -	($ 15,700)

LOCAL GOVERNMENT IMPACT: 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.

ASSUMPTIONS:
3,500 taxpayers will be affected by this legislation.

FIRST YEAR COSTS:
The Department of Revenue (Department) will not incur any costs in Fiscal Year 2018.

SECOND YEAR COSTS:
The Department will incur total costs of $215,500 in Fiscal Year 2019. These costs include:

Labor Costs - Time and effort equates to 1.1 FTEs.
- Set up, program and test computer system changes for four new tax reporting line codes with deductions. Create a new Multiple Activities Tax Credit form with accompanying worksheet.
- Create a special notice and update or create publications and information on the Department's website.
- Respond to letter ruling requests and email inquiries.
- Revise the paper return and create an additional page to be printed and mailed to all taxpayers who do not file electronically.
- Resolve additional error and out of balance and amended returns, respond to secure messages and correspondence, answer telephone questions, monitor reports and assist taxpayers with reporting.
- Additional time required for audits of manufacturing or processing for hire taxpayers located in rural counties or having facilities both within and without rural counties.
- Amend one administrative rule.

Object Costs - $108,100.
- Contract computer system programming.
- Print and mail a special notice to taxpayers who do not file returns electronically.
- Print and mail an additional tax return page to taxpayers who do not file electronically.

THIRD YEAR COSTS:
The Department will incur total costs of $121,600 in Fiscal Year 2020. These costs include:

Labor Costs - Time and effort equates to 0.7 FTE.
- Update and test computer systems for a change in tax rates for the four new reporting classifications.
- Resolve additional error and out of balance and amended returns, respond to secure messages and correspondence, answer telephone questions, monitor reports and assist taxpayers with reporting.

- Additional time required for audits of manufacturing or processing for hire taxpayers located in rural counties or having facilities both within and without rural counties.

Object Costs - $59,700.
- Contract computer system programming.
- Print and mail an additional tax return page to taxpayers who do not file electronically.

FOURTH YEAR COSTS:
The Department will incur total costs of $111,800 in Fiscal Year 2021. These costs include:

Labor Costs - Time and effort equates to 0.6 FTE.
- Update and test computer systems for a change in tax rates for the four new reporting classifications.
- Additional time required for audits of manufacturing or processing for hire taxpayers located in rural counties or having facilities both within and without rural counties.

Object Costs - $59,700.
- Contract computer system programming.
- Print and mail an additional tax return page to taxpayers who do not file electronically.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2018	FY 2019	2017-19	2019-21	2021-23
FTE Staff Years		1.1	0.6	0.7	0.6
A-Salaries and Wages		66,500	66,500	70,900	66,000
B-Employee Benefits		19,900	19,900	21,300	19,800
C-Professional Service Contracts		105,600	105,600	26,400	26,400
E-Goods and Other Services		15,200	15,200	106,700	105,200
G-Travel		700	700	3,600	3,600
J-Capital Outlays		7,600	7,600	4,500	2,600
Total $		$215,500	$215,500	$233,400	$223,600

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 2018	FY 2019	2017-19	2019-21	2021-23
ADM ASST 5	50,292		0.0	0.0		
EMS BAND 4	111,105		0.0	0.0		
EMS BAND 5	129,795		0.0	0.0		
EXCISE TAX EX 2	49,020		0.1	0.1	0.1	
EXCISE TAX EX 4	59,724		0.4	0.2	0.1	0.1
HEARINGS SCHEDULER	34,968		0.0	0.0		
IT SPEC 4	67,584		0.2	0.1		
REVENUE AUDITOR 2	54,072		0.2	0.1	0.5	0.5
TAX INFO SPEC 4	58,284		0.1	0.1		
TAX POLICY SP 2	65,916		0.0	0.0		
TAX POLICY SP 3	74,604		0.1	0.0		
TAX POLICY SP 4	80,304		0.0	0.0		
Total FTEs			1.1	0.6	0.7	0.6

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

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

Should this legislation become law, the Department will use the standard rule-making process to amend WAC 458-20-136, titled: “Manufacturing, processing for hire, fabricating”. Persons affected by this rule making would include taxpayer who perform manufacturing or processing for hire in rural counties.