

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 5619 SB	<b>Title:</b> New business B&O tax credit	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 00 - 00 -	(2,400,000)	(10,400,000)	(12,800,000)	(41,400,000)	(47,200,000)
<b>Total \$</b>	(2,400,000)	(10,400,000)	(12,800,000)	(41,400,000)	(47,200,000)

### Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	4.4	6.6	5.5	8.6	8.0
Account					
GF-STATE-State 001-1	525,200	550,000	1,075,200	1,420,200	1,298,500
<b>Total \$</b>	525,200	550,000	1,075,200	1,420,200	1,298,500

### 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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## 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 provides a Business and Occupation (B&O) tax credit to new businesses.

For all new businesses during the first 12 months after being approved by the Department of Revenue (Department), the credit equals 100 percent of B&O tax due.

If the new business has less than 25 employment positions at the time it applies for the credit, during the first 24 months after being approved by the Department, the credit equals 100 percent of B&O tax due. During the next 12 months of operation of the business, a credit equal to 50 percent of B&O tax due is allowed.

"Employment position" is a full-time, permanent employee of the new business.

"New business" means a business that has not been operating in Washington longer than 12 months from the time the business applies for the credit. The date that a new business began operating in Washington is calculated from the date that a new business first engages in business in Washington or engages in any activity that generates gross income of the business from sources within this state regardless of physical presence.

"New business" does not include:

- A business that has been reincorporated, restructured, reorganized, or transferred, unless the majority of the activities to be conducted after the reincorporation, restructuring, reorganization, or transfer, calculated by relative gross income, are significantly different from the activities previously conducted.
- A new branch location or other facility, unless such new branch location or other facility is by an existing out-of-state entity first doing business in this state.
- A business that is substantially similar to a business currently operating, or operated within the past five years, when the majority of the beneficial ownership is the same.

This bill is effective July 1, 2019 and expires January 1, 2030.

The bill is exempt from the provisions of RCW 82.32.808 (Tax preferences-Performance statement requirement).

### 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

- The estimates in this fiscal note assume that of the new businesses that open an account with the Department each year with a B&O tax liability, 75 percent are truly "new" per the definition in this bill. Further, these businesses are those with the smallest average gross income.
- The revenue impact shown in this fiscal note does not include ineligible businesses that might fraudulently claim the tax credit.
- It is also assumed that of the truly new businesses, about 85 to 90 percent have less than 25 employees.

#### DATA SOURCES

- Department of Revenue excise tax return data;
- U.S. Census;
- U.S. Small Business Administration;

- Bureau of Labor Statistics; and
- Various business journals.

#### REVENUE ESTIMATES

It is estimated that this bill will reduce state revenue by \$2.4 million in Fiscal Year 2020 and \$10.4 million in Fiscal Year 2021.

The estimates have taken into account any small business credit that these businesses might already qualify for, and as such, they are the net impact of this bill.

#### TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 -	(\$ 2,400)
FY 2021 -	(\$ 10,400)
FY 2022 -	(\$ 17,800)
FY 2023 -	(\$ 23,600)
FY 2024 -	(\$ 23,600)
FY 2025 -	(\$ 23,600)

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

- This bill affects 18,000 new taxpayers in Fiscal Year 2020, 32,000 new taxpayers in Fiscal Year 2021, and 43,000 new taxpayers in Fiscal Year 2022 and beyond.
- New businesses will file electronically.
- The Department will rule on applications within 60 days.

#### FIRST YEAR COSTS:

The Department will incur total costs of \$525,200 in Fiscal Year 2020. These costs include:

Labor Costs – Time and effort equates to 4.4 FTEs.

- Additional staff to create one new rule,
- Test new system programming,
- Process additional returns,
- Respond to additional emails and telephone calls,
- Create a special notice for affected taxpayers, update publications and web pages, and
- Collection balances due generated by reporting errors.

Object Costs - \$133,000.

- Contracted programming for system updates, and
- Mailing collections notices.

#### SECOND YEAR COSTS:

The Department will incur total costs of \$550,000 in Fiscal Year 2021. These costs include:

Labor Costs – Time and effort equates to 6.6 FTEs.

- Additional staff to process additional returns,
- Respond to additional emails and telephone calls,
- Respond to letter ruling requests, and
- Collection balances due generated by reporting errors.

Object Costs - \$1,800.

- Mailing collections notices.

#### ONGOING COSTS:

Ongoing costs for the 2021-2023 Biennium equal \$1,420,200 and include similar activities described in the second year costs. Time and effort equates to 8.6 FTEs.

### Part III: Expenditure Detail

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

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	4.4	6.6	5.5	8.6	8.0
A-Salaries and Wages	240,100	346,400	586,500	914,000	843,100
B-Employee Benefits	72,100	103,900	176,000	274,100	253,000
C-Professional Service Contracts	132,000		132,000		
E-Goods and Other Services	51,800	72,500	124,300	183,200	166,500
G-Travel	300	500	800	1,900	2,600
J-Capital Outlays	28,900	26,700	55,600	47,000	33,300
<b>Total \$</b>	<b>\$525,200</b>	<b>\$550,000</b>	<b>\$1,075,200</b>	<b>\$1,420,200</b>	<b>\$1,298,500</b>

**III. B - Detail:** List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2020	FY 2021	2019-21	2021-23	2023-25
EMS BAND 4	115,593	0.0		0.0		
EMS BAND 5	135,039	0.0		0.0		
EXCISE TAX EX 2	51,000	1.9	3.5	2.7	4.8	4.3
EXCISE TAX EX 3	56,256	0.9	1.7	1.3	2.4	2.2
IT SPEC 4	70,320	0.1		0.1		
MGMT ANALYST1	45,096	0.0		0.0		
MGMT ANALYST4	63,684	0.3		0.2		
REVENUE AGENT 2	52,332	0.3	0.5	0.4	0.6	0.6
REVENUE AUDITOR 2	56,256				0.1	0.2
TAX INFO SPEC 1	40,908	0.4	0.6	0.5	0.4	0.4
TAX INFO SPEC 4	60,636	0.3	0.1	0.2	0.1	
TAX POLICY SP 2	68,580	0.0		0.0		
TAX POLICY SP 3	77,616	0.2	0.2	0.2	0.3	0.3
TAX POLICY SP 4	83,556	0.0		0.0		
WMS BAND 3	98,308	0.0		0.0		
<b>Total FTEs</b>		<b>4.4</b>	<b>6.6</b>	<b>5.6</b>	<b>8.6</b>	<b>8.0</b>

### 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 process to adopt a new rule under WACD 458-20, titled: " New Business B&O Credit". Persons affected by this rule-making would include new businesses in the state.

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