

Multiple Agency Fiscal Note Summary

Bill Number: 5997 E S SB	Title: Tax preferences
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Estimated Cash Receipts

Agency Name	2019-21		2021-23		2023-25	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	53,837,000	53,924,000	58,922,000	59,017,000	62,411,000	62,511,000
Total \$	53,837,000	53,924,000	58,922,000	59,017,000	62,411,000	62,511,000

Local Gov. Courts	Fiscal note not available					
Loc School dist-SPI						
Local Gov. Other	Fiscal note not available					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Administrative Office of the Courts	Fiscal note not available								
Department of Revenue	10.6	1,964,400	1,964,400	8.0	1,327,800	1,327,800	8.0	1,327,800	1,327,800
Total \$	10.6	1,964,400	1,964,400	8.0	1,327,800	1,327,800	8.0	1,327,800	1,327,800

Local Gov. Courts	Fiscal note not available								
Loc School dist-SPI									
Local Gov. Other	Fiscal note not available								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Administrative Office of the Courts	Fiscal note not available								
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

NONE

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Department of Revenue Fiscal Note

Bill Number: 5997 E S SB	Title: Tax preferences	Agency: 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 01 - Taxes 01 - Retail Sales Tax	25,500,000	28,500,000	54,000,000	59,100,000	62,600,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(77,000)	(86,000)	(163,000)	(178,000)	(189,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	41,000	46,000	87,000	95,000	100,000
Total \$	25,464,000	28,460,000	53,924,000	59,017,000	62,511,000

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	13.1	8.1	10.6	8.0	8.0
Account					
GF-STATE-State 001-1	1,283,900	680,500	1,964,400	1,327,800	1,327,800
Total \$	1,283,900	680,500	1,964,400	1,327,800	1,327,800

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, 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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Agency Approval: Kim Davis	Phone: 360-534-1508	Date: 04/27/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 04/27/2019

Request # 5997-3-1

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 ESSB 5997, 2019 Legislative Session.

This fiscal note only addresses those sections of the bill that impact the Department of Revenue (Department).

PART I - NARROWING THE NONRESIDENT SALES AND USE TAX EXEMPTION

Currently, under RCW 82.08.0273, bona fide residents of any state, territory, or possession of the United States, or province or territory of Canada, that does not impose a sales tax or similar consumer tax of three percent or more, may purchase tangible personal property for use outside this state without paying Washington's retail sales tax.

The seller is not required to make a tax exempt sale to a nonresident, but if the seller does:

- The purchaser must provide acceptable proof of residency to the seller at the time of the sale; and
- The seller must retain a record of the proof.

Part I of this legislation would change the existing nonresident sales tax exemption to a refund program for only the state portion (6.5 percent) of the retail sales tax. This would require qualified nonresidents (both businesses and individuals) to apply for a refund of 6.5 percent state sales tax from the Department instead of receiving the exemption at the point of sale. As a result, the current sales tax exemption at the point of sale would cease.

In addition:

- A nonresident may apply for a state sales tax refund once in a calendar year for all purchases made during the prior calendar year (for 2019 purchases, only those made between July 1 and December 31 are eligible for the refund);
- Applications would be accepted by the Department only for refunds of \$25 or more;
- Applications would be accepted by the Department starting January 1, 2020; and
- Sales receipts, addresses of the places of purchase, and other documentation as required by the Department, will need to be submitted with the application.

Part I of this bill takes effect on July 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.

PART I - Narrowing the Nonresident Sales and Use Tax Exemption

ASSUMPTIONS:

The following methodology was used:

- To calculate the percent of sales that would be lost, counties were divided into border areas (areas bordering Oregon) and non-border areas. Within the analysis the calculations for border and non-border areas were calculated using different elasticities.
- Because there is an increase in total price on certain goods to non-residents (as a result of imposing sales tax), it is assumed there will be a small decrease in purchases. As a result, there will be a decrease in retailing business and occupation, and local sales taxes collected.
- To project the estimates for future years, growth rates were calculated using data from the Washington State Economic and Revenue Forecast Council and subtracting one percentage point.
- It is assumed that 40 percent of out of state buyers (or tourists) that visit counties that are not adjacent to Oregon State

are from Oregon State. This was calculated based on data collected from the Washington State Statewide Travel Impacts & Visitor Volume study (1991-2006).

- It is assumed that the percentage of non-resident buyers from Oregon applying for a refund would be equal to the rate of the general population's rate of rebate submissions. The rebate submission rate is equal to 21 percent, and is based on data collected from PMA Educational Foundation.

- It is assumed that the percentage of non-resident buyers from other states and countries applying for a refund would be equal to British Columbia's refund rate in the Visitor Rebate Program. The Visitor Rebate Program has a participation rate of 11 percent.

- It is assumed that 65 percent of Oregonians spend at least \$25 in Washington State sales tax on qualified non-resident exemption goods. It is assumed that 14.5 percent of non-Oregonians spend at least \$25 in Washington State sales tax on qualified non-resident exemption goods. This is based on data collected from Washington State Travel Impacts study (1991-2008).

Note: Boats, automobiles, and farm equipment are excluded from this analysis because nonresidents would not be required to pay sales tax for these items when taken outside Washington if this exemption was repealed.

DATA SOURCES:

- Economic and Revenue Forecast Council November 2018 forecast.
- County Travel Impacts study.
- Department excise tax return data.

REVENUE ESTIMATES

This part increases state revenues by an estimated \$53.9 million in the 2019-21 Biennium.

This part also increases local revenues by an estimated \$28.9 million in the 2019-21 Biennium.

TOTAL REVENUE IMPACT Part I:

State Government (cash basis, \$000):

FY 2020 -	\$ 25,464
FY 2021 -	\$ 28,460
FY 2022 -	\$ 29,159
FY 2023 -	\$ 29,858
FY 2024 -	\$ 30,756
FY 2025 -	\$ 31,755

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

FY 2020 -	\$ 13,663
FY 2021 -	\$ 15,265
FY 2022 -	\$ 15,626
FY 2023 -	\$ 15,997
FY 2024 -	\$ 16,480
FY 2025 -	\$ 17,002

PART II - CREATING A DEFERRED FINDING PROGRAM FOR NONPAYMENT OF LICENCE FEES AND TAXES FOR VEHICLES, VESSEL, AND AIRCRAFT REGISTRATION

PART II of this legislation does not impact the Department of Revenue.

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:

Part I - Narrowing the Nonresident Sales and Use Tax Exemption

- 100,000 people will make a refund claim each year under this part of the legislation.

FIRST YEAR COSTS:

The Department will incur total costs of \$1,283,900 in Fiscal Year 2020. These costs include:

Labor Costs – Time and effort equates to 13.1 FTEs.

Part I - Narrowing the Nonresident Sales and Use Tax Exemption

- Set up, program and test computer systems to support the issuances of a new refund type.
- Create and update website and other written materials.
- Create special notice.
- Establish new reports and procedures.
- Create new refund application forms.
- Answer phone calls and counter inquiries on tax questions and refund application preparation from businesses, individuals, and accountants/CPAs.
- Respond to letter ruling requests and email inquiries.
- Evaluate and respond to refund applications.
- Hear administrative reviews of refund denials.
- Amend two administrative rules and one Excise Tax Advisory (ETA).

Object Costs - \$250,400.

Part I - Narrowing the Nonresident Sales and Use Tax Exemption

- Contract computer system programming
- Printing and postage.
- Purchase two additional seat licenses for the Telephone Information Center.
- Mailing refund checks.
- Supplies and materials.

SECOND YEAR COSTS:

The Department will incur total costs of \$680,500 in Fiscal Year 2021. These costs include:

Labor Costs – Time and effort equates to 8.1 FTEs.

Part I - Narrowing the Nonresident Sales and Use Tax Exemption

- Continue testing of computer systems to support the issuances of a new refund type.
- Create and update website and other written materials.
- Answer phone calls and counter inquiries on tax questions and tax return preparation from businesses, individuals, and accountants/CPAs.
- Respond to letter ruling requests and email inquiries.
- Evaluate and respond to refund applications.
- Hear administrative reviews of refund denials.

Object Costs - \$76,900.

Part I - Narrowing the Nonresident Sales and Use Tax Exemption

- Printing and postage.
- Purchase two additional seat licenses for the Telephone Information Center
- Mailing refund checks.
- Supplies and materials.

ONGOING COSTS:

Ongoing costs for future biennia equal \$1,327,800 and include similar activities described in the second year costs. Time and effort equates to 8.0 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	13.1	8.1	10.6	8.0	8.0
A-Salaries and Wages	614,900	383,300	998,200	752,600	752,600
B-Employee Benefits	184,400	115,000	299,400	225,800	225,800
C-Professional Service Contracts	132,000		132,000		
E-Goods and Other Services	267,500	160,300	427,800	315,800	315,800
J-Capital Outlays	85,100	21,900	107,000	33,600	33,600
Total \$	\$1,283,900	\$680,500	\$1,964,400	\$1,327,800	\$1,327,800

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 2020	FY 2021	2019-21	2021-23	2023-25
COMMUNICATIONS CNSLT 4	60,636	0.1		0.1		
EMS BAND 4	115,593	0.0		0.0		
EMS BAND 5	135,039	0.0		0.0		
EXCISE TAX EX 1	40,908	4.0	4.0	4.0	4.0	4.0
EXCISE TAX EX 2	51,000	2.0	3.0	2.5	3.0	3.0
EXCISE TAX EX 3	56,256	1.1	0.5	0.8	0.5	0.5
IT SPEC 4	70,320		0.1	0.1		
MGMT ANALYST1	45,096	0.0		0.0		
MGMT ANALYST4	63,684	1.4	0.2	0.8	0.2	0.2
OFF ASST 3	33,132	0.1	0.1	0.1	0.1	0.1
TAX INFO SPEC 1	40,908	4.1		2.1		
TAX POLICY SP 2	68,580	0.0		0.0		
TAX POLICY SP 3	77,616	0.2	0.2	0.2	0.2	0.2
TAX POLICY SP 4	83,556	0.0		0.0		
WMS BAND 3	98,308	0.0		0.0		
Total FTEs		13.1	8.1	10.6	8.0	8.0

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.

Should this legislation become law, the Department will take the following rule actions:

Part I - Narrowing the Nonresident Sales and Use Tax Exemption

The Department will use the expedited process to amend WAC 458-20-177, titled: "Sales of motor vehicles, campers, and trailers to nonresident consumers", and WAC 458-20-238, titled "Sales of watercraft to nonresidents-Use of watercraft in Washington by nonresidents". In addition, the Department will amend ETA 3054, titled "Sales to residents of states or

possessions of the U.S., and territories or provinces of Canada, that do not impose a tax of a least 3%". Persons affected by this rule making would include any nonresident making a purchase in Washington, and all businesses that have nonresident customers.