

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 2167 P S HB	<b>Title:</b> Tax revenue T.O.
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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	133,200,000	133,200,000	205,600,000	205,600,000	219,100,000	219,100,000
<b>Total \$</b>	<b>133,200,000</b>	<b>133,200,000</b>	<b>205,600,000</b>	<b>205,600,000</b>	<b>219,100,000</b>	<b>219,100,000</b>

## Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Financial Institutions	Fiscal note not available								
Department of Revenue	.5	172,900	172,900	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.5</b>	<b>172,900</b>	<b>172,900</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Financial Institutions	Fiscal note not available								
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Breakout

NONE

<b>Prepared by:</b> Kathy Cody, OFM	<b>Phone:</b> (360) 902-9822	<b>Date Published:</b> Preliminary 4/27/2019
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# Department of Revenue Fiscal Note

<b>Bill Number:</b> 2167 P S HB	<b>Title:</b> Tax revenue T.O.	<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 01 - Taxes 05 - Bus and Occup Tax	36,600,000	96,600,000	133,200,000	205,600,000	219,100,000
<b>Total \$</b>	36,600,000	96,600,000	133,200,000	205,600,000	219,100,000

### Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	1.0		0.5		
<b>Account</b>					
GF-STATE-State 001-1	172,900		172,900		
<b>Total \$</b>	172,900		172,900		

### 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: Richelle Geiger	Phone: 360-786-7139	Date: 04/26/2019
Agency Preparation: Valerie Torres	Phone: 360-534-1521	Date: 04/27/2019
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 # 2167-1-1

## 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.*

#### CURRENT LAW:

- Washington's major business tax is the business and occupation (B&O) tax.
- A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted.
- Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere.
- The majority of the activities of a financial institution are taxed under the "service and other activities" classification at the rate of 1.5 percent.

#### PROPOSAL:

This bill imposes an additional 1.2 percent B&O tax on specified financial institutions.

A specified financial institution is a financial institution that is a member of a consolidated financial institution group that reported on its consolidated financial statement for the previous calendar year annual net income of at least one billion dollars, not including net income attributable to non-controlling interests, as the terms "net income" and "non-controlling interest" are used in the consolidated financial statement.

The 1.2 percent is in addition to a financial institution's existing B&O tax liability.

#### EFFECTIVE DATE:

January 1, 2020

### 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 mimics the growth in B&O taxable as forecasted by the Economic and Revenue Forecast Council. For years beyond the forecast, growth is 2.9 percent.
- Compliance will be as follows:
  - 90 percent compliance the first fiscal year.
  - 95 percent compliance for all fiscal years thereafter.
- This additional tax will be reported on the taxpayer's monthly or quarterly return.

#### DATA SOURCES

- Department of Revenue, tax return data
- Federal Financial Institutions Examination Council (FFIEC), consolidated reports of condition and income
- Economic and Revenue Forecast Council, November 2018 forecast

#### REVENUE ESTIMATES

This bill increases state revenues by an estimated \$133.2 million in the 2019-21 Biennium and by \$205.6 million in the 2021-23 Biennium.

#### TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 - \$ 36,600

FY 2021 - \$ 96,600

FY 2022 - \$ 100,700  
 FY 2023 - \$ 104,900  
 FY 2024 - \$ 108,000  
 FY 2025 - \$ 111,100

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 estimate affects approximately 20 taxpayers.

**FIRST YEAR COSTS:**

The Department will incur total costs of \$172,900 in Fiscal Year 2020. These costs include:

Labor Costs - Time and effort equates to 1.0 FTE.

- Set up, program and test computer systems for a new tax reporting line code, associated indicators, error and out of balance and issuances codes.
- Identify those accounts subject to this additional tax for future reporting periods.
- Answer phone calls and counter inquiries on tax questions and tax return preparation from businesses, individuals, and accountants/CPAs.
- Create new educational and informational materials, publications and online information.
- Respond to letter ruling requests and email inquiries.
- Resolve additional error and out of balance and amended returns, conduct account examinations, respond to secure messages and correspondence, answer telephone questions, monitor reports and assist taxpayers with reporting.
- Amend one administrative rule

Object Costs - \$73,400.

- Print and mail a special notice to financial institutions.
- Contract computer system programming.

**SECOND YEAR COSTS:**

The Department will not incur any costs in Fiscal Year 2021.

**ONGOING COSTS:**

There are no ongoing costs.

**Part III: Expenditure Detail**

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

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	1.0		0.5		
A-Salaries and Wages	62,500		62,500		
B-Employee Benefits	18,800		18,800		
C-Professional Service Contracts	70,400		70,400		
E-Goods and Other Services	14,600		14,600		
J-Capital Outlays	6,600		6,600		
<b>Total \$</b>	<b>\$172,900</b>		<b>\$172,900</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*

<b>Job Classification</b>	<b>Salary</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>2019-21</b>	<b>2021-23</b>	<b>2023-25</b>
EMS BAND 4	115,593	0.0		0.0		
EMS BAND 5	135,039	0.0		0.0		
EXCISE TAX EX 3	56,256	0.1		0.1		
EXCISE TAX EX 4	62,148	0.4		0.2		
IT SPEC 4	70,320	0.1		0.1		
MGMT ANALYST1	45,096	0.0		0.0		
MGMT ANALYST4	63,684	0.1		0.1		
TAX INFO SPEC 1	40,908	0.1		0.1		
TAX INFO SPEC 4	60,636	0.1		0.1		
TAX POLICY SP 2	68,580	0.0		0.0		
TAX POLICY SP 3	77,616	0.1		0.0		
TAX POLICY SP 4	83,556	0.0		0.0		
WMS BAND 3	98,308	0.0		0.0		
<b>Total FTEs</b>		1.0		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 of Revenue will use the standard process to amend WAC 458-20-146, titled: "National and state banks, mutual savings banks, savings and loan associations and other financial institutions".

Persons affected by this rule making would include financial institutions.