

Department of Revenue Fiscal Note

Bill Number: 5998 S SB PL	Title: Grad. real estate excise tax	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 57 - Real Estate Excise	6,700,000	16,300,000	23,000,000	32,500,000	30,000,000
Public Works Assistance Account-State 01 - Taxes 57 - Real Estate Excise		100,000	100,000	200,000	800,000
Education Legacy Trust Account-State 01 - Taxes 57 - Real Estate Excise	63,600,000	156,900,000	220,500,000	322,300,000	336,100,000
City County Assistance Account-State 01 - Taxes 57 - Real Estate Excise	300,000	600,000	900,000	1,200,000	1,100,000
Total \$	70,600,000	173,900,000	244,500,000	356,200,000	368,000,000

Estimated Expenditures from:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	2.8	1.9	2.4	1.5	1.4
GF-STATE-State 001-1	323,500	178,000	501,500	249,500	240,800
Total \$	323,500	178,000	501,500	249,500	240,800

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.

Legislative Contact:	Phone:	Date: 04/30/2019
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Request # 5998-4-1

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 5998 as passed in the 2019 Legislative Session.

This bill creates marginal state real estate excise tax (REET) rates and makes percentage changes to the distributions of the tax.

Under current law REET is imposed on each sale of real property, including transfers of ownership and transfers of controlling interests in entities that own property in the state. Real property includes any interest in land or anything affixed to land. The state tax rate is 1.28%. Additional local rates are allowed. The combined state and local rate in most areas is 1.78%. Transfers of controlling interest occurring within 12 months are considered all part of the same sale.

The revenues from state REET are distributed as follows:

- 2 percent is deposited in the public works assistance account through June 30, 2023. After that date, 6.1 percent is deposited into the public works assistance account.
- 4.1 percent is deposited in the education legacy trust account through June 30, 2023. After that date, no proceeds are deposited into the education legacy trust account.
- 1.6 percent is deposited in the city-county assistance account.
- The remainder is deposited in the general fund

This proposal keeps the state REET rate at 1.28 percent for following land uses, regardless of selling price:

- Timberland (including sales of standing timber), or
- Agricultural land.

For other types of property, this proposal creates the following marginal rates:

- 1.10 percent for the portion of the selling price less than or equal to \$500,000;
- 1.28 percent for the portion of the selling price greater than \$500,000 and less than or equal to \$1.5 million;
- 2.75 percent for the portion of the selling price greater than \$1.5 million and less than or equal to \$3.0 million; and
- 3.00 percent for the portion of the selling price greater than \$3.0 million

This proposal places within the same sale transfers of controlling interest occurring within 36 months.

This proposal makes the following changes to the distributions of state REET revenue:

Beginning January 1, 2020 through June 30, 2023:

- 1.7 percent is deposited in the public works assistance account;
- 1.4 percent is deposited in the city-county assistance account;
- 79.4 percent is deposited in the general fund; and
- the remainder is deposited in the education legacy trust account.

Beginning July 1, 2023:

- 5.2 percent is deposited in the public works assistance account;
- 1.4 percent is deposited in the city-county assistance account;
- 79.4 percent is deposited in the general fund; and
- the remainder is deposited in the education legacy trust account.

Beginning July 1, 2022, and every fourth year thereafter, the Department must:

- Adjust the selling price threshold of the first tier, to reflect the lesser of the growth of the consumer price index for

- shelter or 5 percent. If the growth is less than zero percent, the current selling price threshold applies.
- Adjust the selling price thresholds of the remaining tiers by the dollar amount of increase in the first tier.
 - Publish updated selling price thresholds by September 1st. The updated selling price thresholds apply beginning January 1 of every fourth year, beginning January 1, 2023.
 - Adjusted selling price thresholds must be rounded to the nearest \$1,000.
 - Report the updated selling price thresholds to the fiscal committees of the legislature by December 1st.
 - Publish guidance to assist sellers in classifying real property on the REET affidavit for determining the proper amount of tax. Real property with multiple uses must be classified based on its' predominate use.

County treasurers are not responsible for verifying the seller properly classified the real property. The Department is solely responsible for verifying the proper classification as part of its audit responsibilities.

If transactions are designed to avoid the above REET rate structure, the Department can disregard the form of the transaction or series of transaction and determine the proper tax treatment. The Department is encouraged to provide guidance on this by rule or otherwise.

Definitions:

Consumer price index for shelter means the most current seasonally adjusted index for the shelter expenditure category of the consumer price index for all urban consumers (CPI-U) as published by July 31st by the bureau of labor statistics.

Growth of the consumer price index for shelter means the percentage increase in the consumer price index for shelter as measured from data published by the bureau of labor statistics by July 31st for the three year period between July 2019 and July 2022, and every four years thereafter.

Agricultural land means farm and agricultural land and farm and agricultural conservation land as defined in RCW 84.34.020, including any structures on such land.

Timberland means land classified under chapter 84.34 RCW or designated under chapter 84.33 RCW, including any structures on such land, and standing timber sold apart from the land upon which it sits.

The tax preference statutes (RCW 82.32.805 and 82.32.808) do not apply to this act.

This bill takes effect on 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

-Thirty-five counties provide the Department of Revenue (Department) with transaction-level REET data through an electronic system. For the four counties that do not report REET data, it is assumed that the transactions are similar to the urban or rural counties that do report data.

- Some sales subject to REET include property used for multiple purposes. Because we don't have a breakdown of the relative uses of such properties, for any transaction that includes the following property use codes this estimate treats the entire transaction as if it were taxable at the state REET rate of 1.28%. This equates to 1.2 percent of the total selling price:

- Agriculture classified under current use chapter 84.34 RCW
- Timberland classified under chapter 84.34 RCW
- Noncommercial forest
- Standing timber (separate from land)

- The percent change in the CPI-U for shelter between July 2019 and July 2022 is an estimated 9.7 percent; therefore, the thresholds grow by 5 percent beginning January 1, 2023. The percentage change in the CPI-U for shelter between July

2022 and July 2026 is an estimated 13.3 percent; therefore, the thresholds grow by 5 percent beginning January 1, 2027.

- Revenues as estimated assume passage of the proposal by April 30, 2019, allowing a full 60 days to implement.

DATA SOURCES:

- Department Real Estate Excise Tax Administration System
- Economic and Revenue Forecast Council November 2018 Forecast
- Office of Financial Management designated rural counties as of April 1, 2018
- Bureau of Labor Statistics
- Statista.com

REVENUE ESTIMATES

This bill increases state revenues by an estimated \$244.5 million in the 2019-21 Biennium and \$356.2 million in the 2021-23 Biennium.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 -	\$ 70,600
FY 2021 -	\$ 173,900
FY 2022 -	\$ 176,600
FY 2023 -	\$ 179,600
FY 2024 -	\$ 181,900
FY 2025 -	\$ 186,100

Local Government, if applicable (cash basis, \$000): through distributions from the city-county assistance account

FY 2020 -	\$ 300
FY 2021 -	\$ 600
FY 2022 -	\$ 600
FY 2023 -	\$ 600
FY 2024 -	\$ 500
FY 2025 -	\$ 600

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.

FIRST YEAR COSTS:

The Department will incur total costs of \$323,500 in Fiscal Year 2020. These costs include:

Labor Costs – Time and effort equates to 2.83 FTEs.

- Update affidavits and create a special notice.
- Change excise tax rates for all tiers.
- Support and educate counties on the new rates and calculation methods.
- Amend two rules and create two new rules

Object Costs - \$33,000.

- Implement changes to information systems.

SECOND YEAR COSTS:

The Department will incur total costs of \$178,000 in Fiscal Year 2021. These costs include:

Labor Costs – Time and effort equates to 1.9 FTEs.

- Update affidavits and create a special notice.
- Support and educate counties on the new rates and calculation method.

ONGOING COSTS:

Ongoing costs for the 2021-23 Biennium equal \$249,500 and include similar activities described in the second year costs. Time and effort equates to 1.45 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	2.8	1.9	2.4	1.5	1.4
A-Salaries and Wages	184,300	118,700	303,000	164,300	158,600
B-Employee Benefits	55,300	35,600	90,900	49,300	47,600
C-Professional Service Contracts	33,000		33,000		
E-Goods and Other Services	32,600	19,700	52,300	29,800	28,800
J-Capital Outlays	18,300	4,000	22,300	6,100	5,800
Total \$	\$323,500	\$178,000	\$501,500	\$249,500	\$240,800

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
EMS BAND 4	115,593	0.0		0.0		
EMS BAND 5	135,039	0.0		0.0		
EXCISE TAX EX 3	56,256	1.4	1.3	1.4	1.4	1.3
EXCISE TAX EX 4	62,148	0.2	0.1	0.2	0.1	0.1
MGMT ANALYST1	45,096	0.0		0.0		
MGMT ANALYST4	63,684	0.2		0.1		
TAX POLICY SP 2	68,580	0.0		0.0		
TAX POLICY SP 3	77,616	0.8	0.4	0.6		
TAX POLICY SP 4	83,556	0.2	0.1	0.1		
WMS BAND 3	98,308	0.0		0.0		
Total FTEs		2.8	1.9	2.4	1.5	1.4

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 expedited process to amend WAC 458-61A-100, titled: "REET Overview", and WAC 458-61A-101, titled "Taxability of transfer of controlling interest". The Department will use the complex process to adopt WAC 458-61A-NEW, titled: "Graduated REET", and WAC 458-61A-NEW, titled "REET Avoidance". Persons affected by this rule making would include sellers of real property.