

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						
Loc School dist-SPI						
Local Gov. Other		28,638,721		31,306,771		33,147,180
Local Gov. Total		28,638,721		31,306,771		33,147,180

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	.0	0	0	.0	0	0	.0	0	0
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									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
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	.0	0	0	.0	0	0	.0	0	0
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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Prepared by: Kathy Cody, OFM	Phone: (360) 902-9822	Date Published: Final 5/ 7/2019
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Judicial Impact Fiscal Note

Bill Number: 5997 E S SB	Title: Tax preferences	Agency: 055-Administrative Office of the Courts
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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
Counties					
Cities					
Total \$					

Estimated Expenditures from:

COUNTY	FY 2020	FY 2021	2019-21	2021-23	2023-25
County FTE Staff Years					
Account					
Local - Counties					
Counties Subtotal \$					
CITY	FY 2020	FY 2021	2019-21	2021-23	2023-25
City FTE Staff Years					
Account					
Local - Cities					
Cities Subtotal \$					
Local Subtotal \$					
Total Estimated Expenditures \$					

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Responsibility for expenditures may be subject to the provisions of RCW 43.135.060.

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.

Legislative Contact: Tracey OBrien	Phone: 360-786-7152	Date: 04/26/2019
Agency Preparation: Sam Knutson	Phone: 360-704-5528	Date: 04/30/2019
Agency Approval: Ramsey Radwan	Phone: 360-357-2406	Date: 04/30/2019
OFM Review: Ramona Nabors	Phone: (360) 902-0547	Date: 04/30/2019

Request # 5997 ESSB-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact on the Courts

Please see attached Judicial Impact Note (JIN).

II. B - Cash Receipts Impact

II. C - Expenditures

Part III: Expenditure Detail

III. A - Expenditure By Object or Purpose (State)

<u>State</u>	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years					
Total \$					

III. B - Expenditure By Object or Purpose (County)

<u>County</u>	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years					
Total \$					

III. C - Expenditure By Object or Purpose (City)

<u>City</u>	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years					
Total \$					

Part IV: Capital Budget Impact

Part II: Narrative Explanation

This bill would convert the nonresident sales tax exemption to a remittance program and would modify the preferential business and occupation tax rate for travel agents and tour operators. The bill would create penalties for making fraudulent statements or submitting fraudulent documents.

Part II.A – Brief Description of what the Measure does that has fiscal impact on the Courts

Section 101 – Would provide that any person making fraudulent statements which would include the offer of fraudulent or fraudulently procured identification or fraudulent sales receipts in order to receive a remittance of retail sales tax would be guilty of perjury under RCW 9A.72. Would provide that any person obtaining a remittance of retail sales tax by providing proof of identification or sales receipts not the person's own, or counterfeit identification or sales receipts is liable for repayment of the remittance plus interest and liable for a civil penalty equal to the greater of \$100 or the amount of the remittance obtained in violation of this section. Would provide that any person assisting another person in obtaining a remittance of retail sales tax in violation of this section is jointly and severally liable for amounts due under this section and ineligible to receive further remittance.

II.B - Cash Receipt Impact

None.

II.C – Expenditures

Indeterminate, but expected to be minimal. There is no data available to estimate the number of filings that would result from this bill.

Judicial education would be required. This would be managed within existing resources.

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:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	13.1	8.1	10.6	8.0	8.0
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.

Legislative Contact: Tracey OBrien	Phone: 360-786-7152	Date: 04/26/2019
Agency Preparation: Mark Studer	Phone: 360-534-1507	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 # 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.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5997 E S SB **Title:** Tax preferences

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

Cities: Increased tax revenue resulting from fewer sales tax exemptions.

Counties: Same as above

Special Districts: Same as above

Specific jurisdictions only:

Variance occurs due to:

Part II: Estimates

No fiscal impacts.

Expenditures represent one-time costs:

Legislation provides local option: This bill would allow counties to create a new program.

Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2020	FY 2021	2019-21	2021-23	2023-25
City	4,428,534	4,947,783	9,376,317	10,249,837	10,852,386
County	4,603,024	5,142,733	9,745,757	10,653,694	11,279,986
Special District	4,494,813	5,021,834	9,516,647	10,403,240	11,014,808
TOTAL \$	13,526,371	15,112,350	28,638,721	31,306,771	33,147,180
GRAND TOTAL \$					93,092,672

Estimated expenditure impacts to:

Indeterminate Impact

Part III: Preparation and Approval

Fiscal Note Analyst: Tom Gilmore	Phone: 360-725-5038	Date: 04/30/2019
Leg. Committee Contact: Tracey OBrien	Phone: 360-786-7152	Date: 04/26/2019
Agency Approval: Renee Martine-Tebow	Phone: 360-725-5045	Date: 04/30/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 05/07/2019

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

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, existing law allows an exemption to state and local sales tax, this bill would remove the local sales tax exemption. This would require qualified nonresidents (both businesses and individuals) to apply for a refund of 6.5 percent state sales tax from the Department of Revenue (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.

Part II of this bill would allow counties to set up a "deferred finding program" wherein counties could defer the penalty assessed to Washington residents found to have not licensed their vehicles in the state upon the resident providing proof that the subject vehicle had been appropriately registered.

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.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

This bill contains a local option. The costs of establishing a "deferred finding program" are unknown, and this local option has indeterminate costs.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

This bill would increase local revenues by an estimated \$13,526,371 in FY 2020 and by an estimated \$15,112,350 in FY 2021.

LOCAL GOVERNMENT REVENUE IMPACT:

Counties:

FY 2020 -	\$4,603,024
FY 2021 -	\$5,142,733
FY 2022 -	\$5,264,353
FY 2023 -	\$5,389,341
FY 2024 -	\$5,552,063
FY 2025 -	\$5,727,923

Cities:

FY 2020 -	\$4,428,534
FY 2021 -	\$4,947,783
FY 2022 -	\$5,064,793
FY 2023 -	\$5,185,044
FY 2024 -	\$5,341,596
FY 2025 -	\$5,510,790

Special Districts:

FY 2020 -	\$4,494,813
FY 2021 -	\$5,021,834
FY 2022 -	\$5,140,595

FY 2023 - \$5,262,645
FY 2024 - \$5,421,541
FY 2025 - \$5,593,267

METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on Department of Revenue (DOR) data for local sales and use tax distributions from calendar year 2015 (the most current year available). Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. School districts are also not included in the special districts distribution. This results in a distribution of 34.03 percent to counties, 32.74 percent to cities, and 33.23 percent to special districts. The one percent DOR administrative fee has also been accounted for.

Note: School district impacts, including construction costs, operating costs, levy shifts, and other revenue impacts are described in fiscal notes prepared by the OSPI School District Fiscal Note process. Local Government Fiscal Notes include impacts to all other local governments (cities, counties, special districts). Please refer to the School District Fiscal Note for school district fiscal impacts.

Part II of this bill is a local option with indeterminate costs. However, if a county were to create such a program the county would forgo their portion of assessed fees for each deferred fee. The Local Government Fiscal Notes Program assumes counties will not see additional revenue in the form of vehicle registrations.

SOURCES:

Department of Revenue fiscal note
Department of Revenue Local Tax Distributions (2016)
Local Government Fiscal Note program "Local Sales Tax" model (2019)
Local Government Fiscal Note program "Sales and Use Tax Distribution" model (2019)