

Department of Revenue Fiscal Note

Bill Number: 2391 HB	Title: Workforce Surcharge/housing	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
Workforce Educationa Investment Account-State 01 - Taxes 05 - Bus and Occup Tax		(12,500,000)	(12,500,000)	(20,300,000)	(21,800,000)
Total \$		(12,500,000)	(12,500,000)	(20,300,000)	(21,800,000)

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.3	0.1	0.2	0.1	
Account					
GF-STATE-State 001-1	29,700	8,000	37,700	16,000	
Total \$	29,700	8,000	37,700	16,000	

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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Request # 2391-1-1

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:

E2SHB 2158, passed during the 2019 legislative session, imposes tiered surcharges, codified under RCW 82.04.299, based on a percentage of the service and other activities B&O tax payable by a business. One of those surcharges is a 20 percent surcharge on “specified persons” primarily engaged in one or more of the enumerated categories of activities described in RCW 82.04.299(2).

The surcharge took effect on January 1, 2020.

PROPOSAL:

This bill exempts architectural, engineering and related services from the workforce education surcharge created in E2SHB 2158, if the business was contracted for those business activities for work on at least one affordable housing project during the relevant tax year.

This bill takes effect on July 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

- 90 percent of architects, engineers, and related businesses will contract for work on at least one affordable housing project each year.
- Under current law it is assumed that the compliance for the collection of the .3 percent surcharge is as follows:
 - 90 percent compliance for Fiscal Year 2020.
 - 95 percent compliance for Fiscal Year 2021.
 - 75 percent compliance for all fiscal years thereafter.
- In addition to the compliance factors above, it is assumed that refund requests will be received starting January 1, 2022, for amounts paid in Fiscal Years 2020 and 2021.

DATA SOURCES

Department of Revenue excise tax returns for Fiscal Year 2019
Washington State Economic and Revenue Forecast Council November 2019 forecast

REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$12.5 million in the 11 months of impacted collections in Fiscal Year 2021, and by \$9.9 million in Fiscal Year 2022, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 -	\$ 0
FY 2021 -	(\$ 12,500)
FY 2022 -	(\$ 9,900)

FY 2023 - (\$ 10,400)
FY 2024 - (\$ 10,700)
FY 2024 - (\$ 11,100)

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 bill affects 6,000 taxpayers.
- There is no expectation of targeted tax discovery or review and verification.

FIRST YEAR COSTS:

The Department will incur total costs of \$29,700 in Fiscal Year 2020. These costs include:

Labor Costs - Time and effort equates to 0.3 FTE.

- Answer additional phone calls on tax questions and tax return preparation from businesses, individuals, and accountants.
- Create a Special Notice and identify publications and information that needs to be created or updated on the Department's website.
- Respond to letter ruling requests, email inquiries, and more difficult call backs from the telephone information center.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

Object Costs - \$3,900.

- Contract computer system programming to create web messages and a letter notification.
- Print and mail educational materials to affected taxpayers who do not file returns electronically.
- Print and mail a special notice to affected taxpayers who do not file returns electronically.

SECOND YEAR COSTS:

The Department will incur total costs of \$8,000 in Fiscal Year 2021. These costs include:

Labor Costs - Time and effort equates to 0.1 FTE.

- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

ONGOING COSTS:

Ongoing costs for the 2021-2023 Biennium equal \$16,000 and include similar activities described in the second year costs. Time and effort equates to 0.1 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.3	0.1	0.2	0.1	
A-Salaries and Wages	15,800	5,300	21,100	10,600	
B-Employee Benefits	4,700	1,600	6,300	3,200	
C-Professional Service Contracts	2,200		2,200		
E-Goods and Other Services	5,000	900	5,900	1,800	
J-Capital Outlays	2,000	200	2,200	400	
Total \$	\$29,700	\$8,000	\$37,700	\$16,000	

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
EXCISE TAX EX 2	52,536	0.1	0.1	0.1	0.1	
TAX INFO SPEC 1	42,132	0.1		0.1		
TAX INFO SPEC 4	62,460	0.1		0.1		
Total FTEs		0.3	0.1	0.2	0.1	

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

NONE

None.

Part V: New Rule Making Required