

Department of Revenue Fiscal Note

Bill Number: 1561 HB	Title: Public utility tax exemption	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 35 - Public Utilities Tax	(610,000)	(680,000)	(1,290,000)	(1,390,000)	(1,450,000)
Total \$	(610,000)	(680,000)	(1,290,000)	(1,390,000)	(1,450,000)

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.0	0.5	0.8	0.3	0.3
GF-STATE-State 001-1	233,200	58,500	291,700	79,600	79,600
Total \$	233,200	58,500	291,700	79,600	79,600

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 Preparation: Beth Leech	Phone: 60-534-1513	Date: 02/06/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 02/06/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/07/2023

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Part II: Narrative Explanation

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

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

Public utility (PU) tax applies to those engaging in the following business:

- Sewerage collection.
- Light and power.
- Gas distribution.
- Urban transportation.
- Vessels under 65 feet.
- Motor transportation, railroad, and tugboat operation.
- Water distribution.
- Log transportation.

PU tax does not apply to those engaging in the business activities above whose total gross income is less than \$2,000 for a monthly period.

PROPOSAL:

PU tax does not apply to those engaging in the business activities above whose total gross income is less than \$4,000 for a monthly period.

The gross income threshold for exemption from PU tax must be adjusted for inflation every year beginning January 1, 2024, based on the change in the consumer price index published by November 15th of the previous year for the most recent 12-month period.

Consumer price index means the average consumer price index for the 12-month period for the Seattle, Washington area for urban wage earners and clerical workers compiled by the Bureau of Labor Statistics, U.S. Department of Labor.

EFFECTIVE DATE:

This bill contains an emergency clause and takes effect on July 1, 2023.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS

- The percent change in the CPI-W for Seattle is 2.3% for calendar year 2024, 2.6% for calendar year 2025, 2.1% for calendar year 2026, 2.2% for calendar year 2027, 2.3% for calendar year 2028, and 2.1% for calendar year 2029.
- Growth in PU tax mimics the growth of PU tax in the Economic and Revenue Forecast Council's November 2022 forecast.
- Seven months of collections in each fiscal year use the previous calendar year's filing threshold.
- Five months of collections in each fiscal year use the current calendar year's filing threshold.
- Those taxpayers below the PU tax threshold but that pay other business and occupation taxes will continue to pay PU tax.
- Those taxpayers paying retail sales taxes continue to file a tax return.
- This legislation takes effect July 1, 2023, and impacts 11 months of collections in fiscal year 2024.

DATA SOURCES

- Department of Revenue, Excise tax data

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Form FN (Rev 1/00) 182,250.00

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- Economic and Revenue Forecast Council, November 2022 forecast
- Bureau of Labor Statistics, U.S. Department of Labor

REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$610,000 in the 11 months of impacted collections in fiscal year 2024, and by \$680,000 in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

- FY 2024 - (\$ 610)
- FY 2025 - (\$ 680)
- FY 2026 - (\$ 690)
- FY 2027 - (\$ 700)
- FY 2028 - (\$ 720)
- FY 2029 - (\$ 730)

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This legislation will affect 3,500 PU tax reporters.

FIRST YEAR COSTS:

The department will incur total costs of \$233,200 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 1.0 FTE.

- Set up, program and test computer system changes to increase the threshold for eight PU tax reporting lines.
- Create two new PU tax line codes for reporting by annual filers.
- Update and test computer systems for the annual adjustment of the PU tax threshold based on change in the consumer price index.
- 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.
- Examine accounts and make corrections as necessary.
- Amend three administrative rules.

Object Costs - \$119,100.

- Contract computer system programming.
- Print and mail a special notice to all PU tax reporters.
- Print and mail reporting addendums to PU tax reporters that do not file returns electronically.

SECOND YEAR COSTS:

The department will incur total costs of \$58,500 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 0.5 FTE.

- Update and test computer systems for the annual adjustment of the PU tax threshold based on change in the consumer

price index.

- 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.
- Examine accounts and make corrections as necessary.

Object Costs - \$10,400.

- Contract computer system programming.
- Print and mail reporting addendums to PU tax reporters that do not file returns.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$79,600 and include similar activities described in the second-year costs. Time and effort equate to 0.3 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.0	0.5	0.8	0.3	0.3
A-Salaries and Wages	69,300	30,800	100,100	38,200	38,200
B-Employee Benefits	22,900	10,200	33,100	12,600	12,600
C-Professional Service Contracts	114,400	8,800	123,200	17,600	17,600
E-Goods and Other Services	19,700	7,100	26,800	9,400	9,400
J-Capital Outlays	6,900	1,600	8,500	1,800	1,800
Total \$	\$233,200	\$58,500	\$291,700	\$79,600	\$79,600

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
EXCISE TAX EX 2	55,872	0.2	0.2	0.2	0.1	0.1
EXCISE TAX EX 3	61,632	0.2	0.2	0.2	0.1	0.1
IT SYS ADM-JOURNEY	92,844	0.1		0.1		
MGMT ANALYST4	73,260	0.4	0.1	0.3	0.1	0.1
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.0		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		1.0	0.5	0.8	0.3	0.3

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill 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 rule-making process to amend WAC 458-20-101, titled: "Tax registration and tax reporting", WAC 458-20-104, titled: "Small business tax relief based on income of business", and WAC 458-20-179, titled: "Public utility tax".

Persons affected by this rulemaking would include businesses subject to PU tax.