

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5482 SB	<b>Title:</b> Margin tax
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## Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Office of Attorney General	0	0	85,000	0	0	108,000	0	0	982,000
Department of Revenue	0	0	0	(1,187,400,000)	(1,187,400,000)	(1,187,400,000)	(315,200,000)	(315,200,000)	(315,200,000)
<b>Total \$</b>	<b>0</b>	<b>0</b>	<b>85,000</b>	<b>(1,187,400,000)</b>	<b>(1,187,400,000)</b>	<b>(1,187,292,000)</b>	<b>(315,200,000)</b>	<b>(315,200,000)</b>	<b>(314,218,000)</b>

## Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	.2	66,300	66,300	66,300	.0	0	0	0	.0	0	0	0
Office of Attorney General	.3	0	0	85,000	.4	0	0	108,000	3.2	0	0	982,000
Department of Revenue	31.6	8,706,700	8,706,700	8,706,700	103.5	33,208,900	33,208,900	33,208,900	162.0	37,175,900	37,175,900	37,175,900
<b>Total \$</b>	<b>32.1</b>	<b>8,773,000</b>	<b>8,773,000</b>	<b>8,858,000</b>	<b>103.9</b>	<b>33,208,900</b>	<b>33,208,900</b>	<b>33,316,900</b>	<b>165.2</b>	<b>37,175,900</b>	<b>37,175,900</b>	<b>38,157,900</b>

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Office of Attorney General	.0	0	0	.0	0	0	.0	0	0
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

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**Phone:**  
(360) 584-2207

**Date Published:**  
Revised 2/15/2023

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5482 SB	<b>Title:</b> Margin tax	<b>Agency:</b> 014-Joint Legislative Audit and Review Committee
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## Part I: Estimates

**No Fiscal Impact**

### Estimated Cash Receipts to:

NONE

### Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4	0.0	0.2	0.0	0.0
<b>Account</b>					
General Fund-State      001-1	66,300	0	66,300	0	0
<b>Total \$</b>	66,300	0	66,300	0	0

### 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: Jeffrey Mitchell	Phone: 360-786-7438	Date: 01/19/2023
Agency Preparation: Stephanie Hoffman	Phone: 360 786-5297	Date: 02/14/2023
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 02/14/2023
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 02/15/2023

## 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.*

This bill converts the state's current B&O tax into a margins tax. The bill converts several current statutory exemptions or exclusions codified in chapter 82.04 RCW to apply to the margins tax, rather than the B&O tax. These changes take effect January 1, 2027.

The bill also repeals most of the B&O tax preferences currently in statute. These B&O tax preferences are detailed in JLARC staff's comprehensive tax preference database and tentatively scheduled for a future JLARC review as part of its 10-year tax preference review schedule. The repeals take effect January 1, 2027.

### 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.*

### 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.*

JLARC staff would contact and work with the Department of Revenue immediately after passage of the bill. JLARC staff will revise its master tax preference database and 10-year review schedule to: 1) identify and update all tax preferences modified to apply to the margins tax rather than the B&O tax; and 2) ensure all tax preferences repealed in the bill are identified and updated to reflect the effective date of repeal (1/01/2027).

The expenditure detail reflects outreach and work conducted to update JLARC's database and review schedule.

This audit will require an estimated 3 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately \$22,100 per audit month.

## Part III: Expenditure Detail

### III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	66,300	0	66,300	0	0
Total \$			66,300	0	66,300	0	0

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

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4		0.2		
A-Salaries and Wages	42,900		42,900		
B-Employee Benefits	13,500		13,500		
C-Professional Service Contracts					
E-Goods and Other Services	9,000		9,000		
G-Travel	900		900		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total \$</b>	66,300	0	66,300	0	0

**III. C - Operating FTE 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 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	126,694	0.3		0.2		
Support staff	89,671	0.1		0.1		
<b>Total FTEs</b>		0.4		0.2		0.0

**III. D - 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

**IV. D - Capital FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

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.*

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5482 SB	<b>Title:</b> Margin tax	<b>Agency:</b> 100-Office of Attorney General
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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
Legal Services Revolving Account-State 405-1	24,000	61,000	85,000	108,000	982,000
<b>Total \$</b>	24,000	61,000	85,000	108,000	982,000

### Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.4	0.3	0.4	3.2
<b>Account</b>					
Legal Services Revolving Account-State 405-1	24,000	61,000	85,000	108,000	982,000
<b>Total \$</b>	24,000	61,000	85,000	108,000	982,000

### 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.

Legislative Contact: Jeffrey Mitchell	Phone: 360-786-7438	Date: 01/19/2023
Agency Preparation: Dave Merchant	Phone: 360-753-1620	Date: 01/30/2023
Agency Approval: Edd Giger	Phone: 360-586-2104	Date: 01/30/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/31/2023

## 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.*

PART I: Need and Intent.

This bill would replace the state business and occupation (B&O) tax with a margin tax under RCW 82.04. The proposed margin tax would simplify the tax rates applied to a business's margin (defined in the bill) and would eliminate certain tax preferences currently allowed under the B&O tax structure. The bill would allow business to continue claiming current B&O tax preferences through their expiration dates or 2031.

PART II: Margin Tax.

Section 201: New margin tax added to RCW 82.04. Definitions, to include "taxable margin" which is the measure of the tax imposed.

Section 202: New Section to RCW 82.04. Application and computation of tax.

Section 203: Taxpayer options for calculation.

Section 204: Calculating costs.

Section 205: Calculating compensation.

Section 206: Inflation adjustments.

Section 207: Apportionment to the business/taxpayer.

Section 208: Apportionment of income by state/locale.

Section 209: Affiliated groups, joint and several liability.

Section 210: Combined group taxpayer presumptions.

Section 211: Easy computation and rate for taxpayers with gross income \$5 million or less.

Section 212: Amend existing rulemaking guidance in RCW 34.05.328.

Section 213: Amend RCW 82.04.020 to use calendar year for calculations.

Section 214: Amend RCW 82.04.066 regarding in-state business.

Section 215: Amend 82.04.067 regarding allocation of income regarding other states, groups, and markets.

Section 216: Amend RCW 82.04.080 regarding income.

PART III: Exemptions, Credits, and Additional Deductions.

Sections 301-328: Amends statutes to create or adjust numerous exemptions and credits. Avoidance of paying both margin tax and capital gains tax (Section 324).

Section 328: Credit for timely/accurate remittance of margin taxes.

PART IV: Surcharges.

Adjustment of surcharges for environmental businesses, games of chance, and various other activities.

PART V: Reporting and Paying.

Amends current statutes to provide procedural details for reporting and paying margin tax.

PART VI: Conforming Amendments.

Significant list of conforming amendments to transition from B&O tax to margin tax.

PART VII: Repealers.

Significant list of repealers to remove references to B&O taxes.

**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.*

Cash receipts are assumed to equal the Legal Services Revolving Account (LSRA) cost estimates. These will be billed through the revolving account to the client agency.

The client agencies are the Department of Revenue (DOR) and the Joint Legislative Audit and Review Committee (JLARC). The Attorney General’s Office (AGO) will bill all clients for legal services rendered.

These cash receipts represent the AGO’s authority to bill and are not a direct appropriation to the AGO. The direct appropriation is reflected in the client agency’s fiscal note. Appropriation authority is necessary in the AGO budget.

**AGO AGENCY ASSUMPTIONS:**

DOR will be billed for non-Seattle rates:

- FY 2024: \$24,000 for 0.10 FTE Assistant Attorney General (AAG) and 0.05 FTE Legal Assistant 3 (LA).
- FY 2025: \$61,000 for 0.24 FTE AAG and 0.12 FTE LA.
- FY 2026: \$61,000 for 0.24 FTE AAG and 0.12 FTE LA.
- FY 2027: \$42,000 for 0.17 FTE AAG and 0.08 FTE LA.
- FY 2028: \$344,000 for 1.30 FTE AAG and 0.65 FTE LA.
- FY 2029: \$638,000 for 2.40 FTE AAG and 1.20 FTE LA, and in each FY thereafter..

JLARC will be billed for non-Seattle rates:

- FY 2027: \$5,000 for 0.02 FTE AAG and 0.01 FTE LA.

**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.*

Attorney General’s Office (AGO) Agency Assumptions:

This bill is assumed effective 90 days after the end of the 2023 legislative session.

Location of staffing housed is assumed to be in a non-Seattle office buildings.

Total workload impact in this request includes standard assumption costs for goods & services, travel, and capital outlays for all FTE identified.

Agency administration support FTE are included in the tables, for every 1.0 Assistant Attorney General FTE (AAG), the AGO includes 0.5 FTE for a Legal Assistant 3 (LA) and 0.25 FTE of a Management Analyst 5 (MA). The MA is used as a representative classification.

The AGO Revenue Division (REV) has reviewed this bill and determined the following impact related to the enactment of this bill:

Legal services will begin in FY 2024. Although the margin tax does not replace the business and occupation tax until FY 2027, REV assumes that the Department of Revenue (DOR) will seek legal advice on most of 213 administrative rules and tax advisories that DOR will be amending and adopting prior to the effective date of the margin tax.

REV will bill DOR in all appeals resulting from this bill. DOR assumes this bill would generate the following number of additional appeals for its Administrative Review and Hearings Division (ARHD).

ARHD Appeals:

FY 2027: 187

FY 2028: 356

FY 2029: 460

Based on the above ARHD appeals, REV assumes the following:

1. Approximately ten percent of the appeals handled by ARHD will result in additional appeals for REV AAGs in the Board of Tax Appeals (BTA) and the Thurston County Superior Court.
2. The BTA and superior court appeals will occur in FY following the matter that is handled by ARHD.

REV Appeals:

FY 2028: 19

FY 2029: 36

The average caseload of an AAG representing DOR is approximately 15 appeals at any given time. Thus, REV assumes that 1.0 FTE AAG will be able to handle a caseload of approximately 15 margin tax appeals.

For FY 2028, this bill would result in the need for an additional 1.3 FTE AAGs (19 appeals / 15 appeals per AAG FTE) to cover the increased workload and associated overhead costs.

For FY 2029, the bill would result in the need for an additional 2.4 FTE AAGs (36 appeals / 15 appeals per AAG FTE) to cover the increased workload and associated overhead costs.

REV assumes direct litigation costs of \$600 per appeal for depositions, transcripts, and other court costs:

FY 28: 19 appeals = \$11,400  
 FY 29: 36 appeals = \$21,600

REV total FTE workload impact for non-Seattle rates:

FY 2024: \$24,000 for 0.10 AAG and 0.05 LA.  
 FY 2025: \$61,000 for 0.24 AAG, and 0.12 LA.  
 FY 2026: \$61,000 for 0.24 AAG, and 0.12 LA.  
 FY 2027: \$42,000 for 0.17 AAG, and 0.08 LA.  
 FY 2028: \$344,000 for 1.30 AAG and 0.65 LA (this includes direct litigation costs of \$11,400).  
 FY 2029: \$638,000 for 2.40 AAG and 1.20 LA (this includes direct litigation costs of \$21,600), and in each FY thereafter.

The AGO Government Compliance & Enforcement Division (GCE) has reviewed this bill and determined the following impact to the Joint Legislative Audit and Review Committee (JLARC) and the Citizen Commission for Performance Measurement of Tax Preferences (Tax Preferences Board), staffed by JLARC. GCE assumes that any legal advice resulting from JLARC's or Tax Preference Board's review of tax preferences under the new tax structure would occur in FY 2027, when the new tax structure would be implemented.

GCE total FTE workload impact for non-Seattle rates:

FY 2027: \$5,000 for 0.02 AAG and 0.01 LA.

The AGO Solicitor General's Office has reviewed this bill and determined it will not significantly increase or decrease the division's workload. Therefore, costs are not included in this request.

AGO total FTE workload impact for non-Seattle rate:

FY 2024: \$24,000 for 0.10 AAG and 0.05 LA.  
 FY 2025: \$61,000 for 0.24 AAG, and 0.12 LA.  
 FY 2026: \$61,000 for 0.24 AAG, and 0.12 LA.  
 FY 2027: \$47,000 for 0.19 AAG, and 0.09 LA.  
 FY 2028: \$344,000 for 1.30 AAG and 0.65 LA (this includes direct litigation costs of \$11,400).  
 FY 2029: \$638,000 for 2.40 AAG, and 1.20 LA (this includes direct litigation costs of \$21,600), and each FY thereafter.

**Part III: Expenditure Detail**

**III. A - Operating Budget Expenditures**

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
405-1	Legal Services	State	24,000	61,000	85,000	108,000	982,000
	Revolving Account						
<b>Total \$</b>			24,000	61,000	85,000	108,000	982,000

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

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.4	0.3	0.4	3.2
A-Salaries and Wages	16,000	41,000	57,000	72,000	627,000
B-Employee Benefits	5,000	13,000	18,000	23,000	205,000
C-Professional Service Contracts					33,000
E-Goods and Other Services	3,000	7,000	10,000	13,000	111,000
G-Travel					6,000
<b>Total \$</b>		24,000	61,000	85,000	982,000

**III. C - Operating FTE 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 2024	FY 2025	2023-25	2025-27	2027-29
Assistant Attorney General	118,700	0.1	0.2	0.2	0.2	1.9
Legal Assistant 3	55,872	0.1	0.1	0.1	0.1	0.9
Management Analyst 5	91,524	0.0	0.1	0.0	0.1	0.5
<b>Total FTEs</b>		0.2	0.4	0.3	0.4	3.2

**III. D - Expenditures By Program (optional)**

Program	FY 2024	FY 2025	2023-25	2025-27	2027-29
Government Compliance & Enforcement Division (GCE)				5,000	
Revenue & Finance Division (REV)	24,000	61,000	85,000	103,000	982,000
<b>Total \$</b>	24,000	61,000	85,000	108,000	982,000

**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

**IV. D - Capital FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

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.*

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 5482 SB	<b>Title:</b> Margin tax	<b>Agency:</b> 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 00 - 00 -				1,683,000,000	14,488,600,000
GF-STATE-State 00 - 01 -				(17,400,000)	(88,300,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax				(2,853,000,000)	(14,715,500,000)
<b>Total \$</b>				(1,187,400,000)	(315,200,000)

### Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	25.2	37.9	31.6	103.5	162.0
GF-STATE-State 001-1	3,677,300	5,029,400	8,706,700	33,208,900	37,175,900
<b>Total \$</b>	3,677,300	5,029,400	8,706,700	33,208,900	37,175,900

### 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: Jeffrey Mitchell	Phone: 60-786-7438	Date: 01/19/2023
Agency Preparation: Stephen Cleverdon	Phone: 60-534-1523	Date: 01/25/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 01/25/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/25/2023

Request # 5482-1-1

## 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:

Washington levies its primary business tax, the business and occupation (B&O) tax, on gross income from Washington-based business activity. For businesses engaged in manufacturing or extracting, the B&O tax is imposed on the value of products manufactured or extracted for sale or the taxpayer's own use.

A business must report B&O tax if the business meets any of the following "nexus" thresholds in the current or prior calendar year:

- Has more than \$100,000 in cumulative gross receipts from Washington.
- Has physical presence in Washington.
- Is organized or commercially domiciled in Washington.

Each legal entity must register and report taxes separately for affiliated entities.

For B&O tax purposes, businesses engaging in apportionable activities in multiple states may apportion their income to determine the amount subject to B&O tax. The formula for apportionment is Washington gross apportionable receipts divided by worldwide gross apportionable receipts for the taxing period.

The B&O tax includes a flat rate structure with different rates by activity. There are several surcharges on certain industries and activities, including the workforce education surcharge. The B&O tax also includes approximately 200 tax preferences in the form of credits, deductions, exclusions, exemptions, and preferential rates.

While most businesses with activity in Washington are subject to the B&O tax, some businesses are instead subject to the public utility tax. The public utility tax is a tax on public service businesses, including businesses that engage in transportation and the supply of electrical energy, natural gas, and water. This tax is in lieu of the B&O tax, meaning that businesses would pay one or the other but not both taxes on the same activity.

#### PROPOSAL:

This proposal modifies Washington's B&O tax by converting it into a margin tax modeled after Texas's franchise tax. Many consider a margin tax a modified gross receipts tax.

Businesses pay taxes on their margin. Most businesses calculate their margin by subtracting from their gross income the greater of these four deductions:

- Cost inputs,
- Compensation paid,
- A fixed percentage (30%) of gross income, or
- A standard deduction, which is initially set at \$1 million.

For businesses that engage in manufacturing or extracting in this state, they calculate their margin on this activity by subtracting one of the following amounts from the value of products that they manufactured or extracted in this state:

- Cost inputs,
- A fixed percentage (30%) of the value of products manufactured or extracted in this state, or
- A standard deduction, which is initially set at \$1 million.

Manufacturers and extractors are taxed on all products they manufacture or extract in this state, whether or not the

products are sold in this state. They are also subject to margin tax on the sale in this state of their manufactured or extracted products. However, the bill provides credits so that manufacturers and extractors do not pay margin tax more than once with respect to the same end products.

For most taxpayers, cost inputs are the costs of goods sold properly reportable to the Internal Revenue Service for federal income tax purposes. For taxpayers who are not subject to federal income tax, cost inputs are the cost of goods sold that would be properly reportable for federal income tax purposes if the taxpayer were subject to federal income tax. For the margin tax on manufacturing and extracting, the cost inputs are limited to the costs of goods sold for products manufactured or extracted in Washington.

The compensation paid deduction equals the total compensation paid to the taxpayer's employees during the tax year, less any compensation over the compensation cap, which is initially set at \$400,000. Compensation is Medicare wages properly reportable on box 5 of Internal Revenue Service Form W-2. The compensation cap is adjusted for inflation every two years starting January 1, 2029.

The fixed percentage deduction is equal to 30% of worldwide gross income and for businesses that engage in manufacturing or extracting, 30% of the value of products manufactured or extracted in this state.

The standard deduction equals \$1,000,000 and is adjusted for inflation every two years starting January 1, 2029.

For a taxpayer engaging in business both within and outside of Washington, after subtracting all deductible amounts from its gross income, the taxpayer uses a single-factor sales apportionment method to determine the amount of its worldwide margin subject to the Washington margin tax. For combined groups, if any member of the combined group has nexus in Washington, then all members of the group are included in the apportionment calculation.

This proposal imposes the margin tax on the same types of entities subject to B&O tax, including corporations, partnerships, limited liability companies, sole proprietorships, municipal corporations, and nonprofits. Activities subject to public utility tax under current law remain subject to public utility tax and are excluded from the margin tax. This proposal maintains the existing B&O tax surcharges imposed on certain industries and activities. It also maintains the current registration and nexus thresholds.

This bill requires combined reporting for affiliated groups engaged in a unitary business.

The margin tax rate is 3.1966%.

This bill includes an option for taxpayers with gross income of \$5,000,000 or less to calculate their tax due using gross income and a lower tax rate of 1.75%. Entities selecting this option may not claim any of the four elective deductions available to taxpayers that choose to pay the margin tax at the higher rate (cost inputs, compensation paid, 30% of gross income, or the standard deduction).

Tax credits earned under the B&O tax with a carry forward provision can carry forward and be claimed as a credit against the margin tax for a limited time. These carryforward credits may not exceed the amount of margin tax due. Taxpayers may claim these unused B&O tax credits through tax year 2031 or the latest tax year that the taxpayer could have used the credits under current law as existing on December 31, 2026, whichever is earlier.

Margin tax returns are reported on an annual basis and are due by April 15th of the year following the end of the tax year covered by the return. The bill requires estimated quarterly payments for a tax year when the taxpayer owes \$20,000 or more in tax. Estimated payments are due by the last day of the month following the end of the calendar quarter. For taxpayers engaged in business in Washington during the entire preceding tax year, quarterly payments equal 25% of the taxpayer's prior year tax liability. Taxpayers with gross income over \$500,000 must file an annual return, even if they do not have a tax liability.

The B&O tax surcharges are reported on the combined excise tax return either monthly, quarterly, or annually, as under current law.

This bill repeals the preferential B&O tax rates and most B&O tax deductions, exclusions, and exemptions, except those legally required or necessary for efficient tax administration.

This bill allows a credit against retail sales tax for taxpayers that collect and timely remit retail sales tax to the department. The credit equals 0.2528% of the total amount of the general state retail sales tax properly collected and remitted to the department.

#### EFFECTIVE DATE:

This bill eliminates the B&O tax starting January 1, 2027, and the margin tax begins for gross income earned in 2027. The first quarterly estimated payments are due April 30, 2027. The annual tax return for 2027 is due April 15, 2028.

## 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:

- Taxpayer affiliated groups that file a consolidated federal income tax return will file a combined margin tax return.
- Nexus applies to a combined group if one or more companies within the group have substantial nexus in Washington (RCW 82.04.067).
- The percentage of a business's worldwide taxable margin apportioned to Washington under the margin tax equals the percentage of the business's worldwide taxable gross receipts apportioned to Washington under the B&O tax.
- Taxpayers with a negative margin in a given fiscal year have no tax liability for that fiscal year. These taxpayers do not accrue a deduction or credit against the margin tax for future years.
- The growth of the income and deduction components of the taxable margin follows the growth of before-tax corporate profit forecasts from the Bureau of Labor Statistics (BLS) with an adjustment to account for the higher forecast of Washington employment vs. U.S. employment.
- Because of this significant change in Washington's business tax, a compliance factor of 90% applies to the first year of collections and 95% for each subsequent year.

#### DATA SOURCES:

- Economic and Revenue Forecast Council, November 2022 forecast
- Internal Revenue Service, Form 1120, Form 1120S, and Form 1065 returns
- Internal Revenue Service, W2 wage data
- Washington State Department of Revenue, excise tax data
- Bureau of Economic Analysis (BEA), Before-tax corporate profits with inventory value adjustment (IVA) and capital consumption
- Economic and Revenue Forecast Council, nonfarm payroll employment

#### REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$1.2 billion in the 2025-27 Biennium and by \$315 million in the 2027-29 Biennium.

**TOTAL REVENUE IMPACT:**

State Government (cash basis, \$000):

FY 2024 -	\$	0
FY 2025 -	\$	0
FY 2026 -	\$	0
FY 2027 -	(\$	1,187,400)
FY 2028 -	(\$	316,500)
FY 2029 -	\$	1,300

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:**

The department will receive the first quarterly estimated payments in April 2027.

**FIRST YEAR COSTS:**

The department will incur total costs of \$3,677,300 in Fiscal Year 2024. These costs include:

- Labor Costs - Time and effort equate to 25.23 FTEs.
  - Amend and adopt 213 administrative rules and advisories.
  - Provide technical advice, interpretation, and analysis for internal use during the implementation process.
  - Increase in payroll, human resources, and administrative functions to service new employees.
  - Additional staff for system administration, service desk, network, and telephony.
    - Meet with each tribe with a revenue-sharing compact entered under SHB 2803 (2020) to discuss changes in the compact or the authorizing legislation that might be appropriate to preserve the intended benefits of the negotiated compact.
  - Integration of rulemaking impacts on system programming.

Object Costs - \$334,500.

- Contract computer system preparation.
- Travel expenses for meetings with compacting tribes.
- Software.

**SECOND YEAR COSTS:**

The department will incur total costs of \$5,029,400 in Fiscal Year 2025. These costs include:

- Labor Costs - Time and effort equate to 37.93 FTEs.
  - Continue to amend and adopt 213 administrative rules and advisories.
  - Provide technical advice, interpretation, and analysis for internal use during the implementation process.
  - Increase in payroll, human resources, and administrative functions to service new employees.
  - Additional staff for system administration, service desk, network, and telephony.
  - Continue to meet with each tribe.
  - Integration of rulemaking impacts on system programming.

Object Costs - \$327,500.

- Contract computer system preparation.

- Travel expenses for meetings with compacting tribes.
- Software.

**THIRD YEAR COSTS:**

The department will incur total costs of \$14,553,500 in Fiscal Year 2026. These costs include:

Labor Costs - Time and effort equate to 67.33 FTEs.

- Continue to amend and adopt 213 administrative rules and advisories.
- Provide technical advice, interpretation, and analysis for internal use during the implementation process.
- Increase in payroll, human resources, and administrative functions to service new employees.
- Additional staff for system administration, service desk, network, and telephony.
- Continue to meet with each tribe.
- Setup, program, and test computer system changes.

Object Costs - \$6,278,400.

- Contract computer system programming.
- Media campaign and translation services.
- Travel expenses for meetings with compacting tribes.
- Software.

**FOURTH YEAR COSTS:**

The department will incur total costs of \$18,655,400 in Fiscal Year 2027. These costs include:

Labor Costs - Time and effort equate to 139.65 FTEs.

- Continue to amend and adopt 213 administrative rules and advisories.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
  - Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
  - Examine accounts and make corrections as necessary.
- Increase in payroll, human resources, and administrative functions to service new employees.
- Additional staff for system administration, service desk, network, and telephony.

Object Costs - \$3,092,500.

- Contract computer system programming.
- Continue media campaign.
- Travel expenses for meetings with compacting tribes.
- Software.
- Acquire additional agent seat licenses at the Telephone Information Center.
- Print and mail notices, correspondence and returns to taxpayers who do not file returns electronically.

**ONGOING COSTS:**

Ongoing costs for the 2027-29 Biennium equal \$37,175,900 and include similar activities described in the fourth-year costs.

Time and effort equate to 162.03 FTEs.

## Part III: Expenditure Detail

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

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	25.2	37.9	31.6	103.5	162.0
A-Salaries and Wages	2,088,900	3,049,100	5,138,000	14,924,500	21,207,100
B-Employee Benefits	689,300	1,006,300	1,695,600	4,925,200	6,998,300
C-Professional Service Contracts	275,000	275,000	550,000	7,125,000	500,000
E-Goods and Other Services	435,800	511,400	947,200	4,965,600	6,770,900
G-Travel	11,700	16,500	28,200	162,800	400,400
J-Capital Outlays	176,600	171,100	347,700	1,105,800	1,299,200
<b>Total \$</b>	<b>\$3,677,300</b>	<b>\$5,029,400</b>	<b>\$8,706,700</b>	<b>\$33,208,900</b>	<b>\$37,175,900</b>

**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
ADM ASST 3	44,808				0.2	0.9
COMMUNICATIONS CNSLT 4	66,420		2.0	1.0	2.0	
COMMUNICATIONS CNSLT 5	77,028	1.0	1.0	1.0	1.0	1.0
EMS BAND 4	126,619	0.1	0.1	0.1	0.1	0.0
EMS BAND 5	147,919	0.1	0.1	0.1	0.1	0.0
EXCISE TAX EX 1	44,808				1.1	1.2
EXCISE TAX EX 2	55,872				4.5	26.7
EXCISE TAX EX 3	61,632				2.4	10.7
EXCISE TAX EX 4	68,076		1.0	0.5	1.0	1.0
FINANCIAL EX 3	85,020				0.5	1.0
FISCAL ANALYST 1	44,808				0.1	0.1
FISCAL ANALYST 2	49,404	0.2	0.3	0.3	0.9	1.4
FISCAL ANALYST 3	57,324				0.1	0.1
FORMS AND RECORDS ANALYS 2	46,980				0.1	0.1
HUM RES CNSLT 1	51,888				1.5	1.5
HUM RES CNSLT 3	64,788				0.5	
HUM RES CNSLT 4	71,520				1.5	1.5
IT APP DEV-ENTRY	82,260				1.0	
IT B A-JOURNEY	88,428	0.3	0.3	0.3	1.8	0.1
IT CUST SUP-ENTRY	66,228				0.5	1.0
IT PROJ MGT-JOURNEY	92,844	0.3	0.3	0.3	1.0	0.5
IT QA-JOURNEY	88,428				4.0	1.0
IT SYS ADM-JOURNEY	92,844		0.3	0.2		
MGMT ANALYST4	73,260	3.2	10.7	7.0	26.8	9.8
MGMT ANALYST5	80,952	3.6	4.6	4.1	6.1	5.3
PROCUREMENT AND SUPPLY SP	50,592	0.1	0.1	0.1	0.4	0.6
REVENUE AGENT 2	57,324				5.8	12.5
REVENUE AGENT 4	66,420				0.5	1.0
REVENUE AUDITOR 2	61,632				5.5	22.0
REVENUE AUDITOR 3	68,076				6.5	23.0
TAX INFO SPEC 1	44,808				4.5	10.5
TAX INFO SPEC 2	48,156				1.0	1.5
TAX INFO SPEC 3	58,704				0.5	0.8
TAX POLICY SP 2	75,120	3.1	2.1	2.6	1.3	1.6
TAX POLICY SP 3	85,020	9.3	9.3	9.3	13.1	18.3
TAX POLICY SP 4	91,524	3.0	3.2	3.1	3.3	3.5
WMS BAND 2	94,669	0.5	2.0	1.3	2.4	2.0
WMS BAND 3	107,685	0.4	0.5	0.4	0.5	0.0
<b>Total FTEs</b>		25.2	37.9	31.6	103.5	162.0

**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 standard process to create 20 new rules, use the expedited process to amend 122 rules, and will update approximately 71 excise tax advisories.

Persons affected by this rulemaking will include all persons subject to the B&O tax under current law or subject to the margin tax.