

Department of Revenue Fiscal Note

Bill Number: 1561 S 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	(280,000)	(680,000)	(960,000)	(1,390,000)	(1,430,000)
Total \$	(280,000)	(680,000)	(960,000)	(1,390,000)	(1,430,000)

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.6	0.3	0.5	0.3	0.3
GF-STATE-State 001-1	97,300	39,800	137,100	79,600	79,600
Total \$	97,300	39,800	137,100	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 Approval: Valerie Torres	Phone: 60-534-1521	Date: 03/08/2023
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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.

Note: This fiscal note reflects language in SHB 1561, 2023 Legislative Session.

COMPARISON OF SUBSTITUTE BILL WITH ORIGINAL BILL:

The substitute bill changes the effective date to January 1, 2024 and clarifies the threshold adjustment calculation.

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 with total gross income less than \$2,000 a month.

PROPOSAL:

PU tax does not apply to those engaging in the business activities with total gross income less than \$4,000 a month.

The Department of Revenue (department) must adjust the gross income threshold exemption from PU tax for inflation every year beginning October 1, 2024. The department adjusts the threshold by multiplying the current threshold amount by one plus the percentage change between the most current consumer price index (CPI) published by October 1st of the current year and the CPI for the prior 12-month period. The department then rounds the adjustment to the nearest \$10. If the adjustment reduces the threshold then the threshold stays the same for the following year. The department must publish the threshold on its website by December 31st of each year. The adjusted threshold applies to taxes due the following calendar year.

CPI means the consumer price index for all urban consumers, for the Seattle area as calculated by the United States Bureau of Labor Statistics or its successor agency.

Seattle area means the geographic area that includes Seattle and surrounding areas.

EFFECTIVE DATE:

This bill takes effect on January 1, 2024.

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:

- This estimate uses the Economic and Revenue Forecast Council's calendar year percent change in the CPI-U for the Seattle area.
- Growth in PU tax mimics the growth of PU tax in the Economic and Revenue Forecast Council's November 2022

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forecast.

- Seven months of collections in each fiscal year use the previous calendar year's filing threshold and five months of collections in each fiscal year use the current calendar year's filing threshold.
- Those taxpayers below the PU tax threshold 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.

DATA SOURCES:

- Department of Revenue, Excise tax data
- 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 \$280,000 in the five 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 - (\$ 280)
- FY 2025 - (\$ 680)
- FY 2026 - (\$ 690)
- FY 2027 - (\$ 700)
- FY 2028 - (\$ 710)
- FY 2029 - (\$ 720)

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 public utility tax reporters.

FIRST YEAR COSTS:

The department will incur total costs of \$97,300 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 0.6 FTE.

- Set up, program and test computer system changes to increase the threshold for eight PUT reporting lines.
 - 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 - \$31,200.

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

SECOND YEAR COSTS:

The department will incur total costs of \$39,800 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 0.3 FTE.

- Update and test computer systems for the annual adjustment of the PUT 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 PUT 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	0.6	0.3	0.5	0.3	0.3
A-Salaries and Wages	39,800	19,100	58,900	38,200	38,200
B-Employee Benefits	13,100	6,300	19,400	12,600	12,600
C-Professional Service Contracts	26,400	8,800	35,200	17,600	17,600
E-Goods and Other Services	13,900	4,700	18,600	9,400	9,400
J-Capital Outlays	4,100	900	5,000	1,800	1,800
Total \$	\$97,300	\$39,800	\$137,100	\$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	0.1	0.1	0.1	0.1	0.1
EXCISE TAX EX 3	61,632	0.2	0.1	0.2	0.1	0.1
MGMT ANALYST4	73,260	0.2	0.1	0.2	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		0.6	0.3	0.5	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.