Multiple Agency Fiscal Note Summary

Bill Number: 6243 SB	**Title:** Technology manuf./B&O tax

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
Department of Revenue	(3,000,000)	(3,000,000)	(3,000,000)	(39,400,000)	(39,400,000)	(39,400,000)	(44,000,000)	(44,000,000)	(44,000,000)
Total $	**(3,000,000)**	**(3,000,000)**	**(3,000,000)**	**(39,400,000)**	**(39,400,000)**	**(39,400,000)**	**(44,000,000)**	**(44,000,000)**	**(44,000,000)**

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	.0	0	0	9,600	.0	0	0	9,600	.0	0	0	9,600
Department of Revenue	.5	165,600	165,600	165,600	.2	46,400	46,400	46,400	.2	46,400	46,400	46,400
Total $	**0.5**	**165,600**	**165,600**	**175,200**	**0.2**	**46,400**	**46,400**	**56,000**	**0.2**	**46,400**	**46,400**	**56,000**

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
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

Prepared by: Amy Hatfield, OFM	**Phone:** (360) 280-7584	**Date Published:** Final 1/24/2024

FNPID 69646

Individual State Agency Fiscal Note

Bill Number: 6243 SB	**Title:** Technology manuf./B&O tax	**Agency:** 014-Joint Legislative Audit and Review Committee

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
Account					
Performance Audits of Government Account-State 553-1	2,400	7,200	9,600	9,600	9,600
Total $	2,400	7,200	9,600	9,600	9,600

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.

Legislative Contact:	Kellee Gunn	Phone: 786-7429	Date: 01/17/2024
Agency Preparation:	Eric Whitaker	Phone: 3607865618	Date: 01/22/2024
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 01/22/2024
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 01/22/2024

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 seeks to create a new tax preference to encourage clean technology manufacturing in Washington. The preference would be in the form of an exemption from the business and occupation (B&O) tax. Beneficiaries would be required to submit an annual tax preference report, per RCW 82.32.534. However, beneficiaries would be exempt from RCW 82.32.808 (6), which requires taxpayers to report the amount of the tax preference claimed to DOR.

The preference would take effect January 1, 2025, and expire on January 1, 2035.

Tax Preference Performance Statement Details
Section 2 of the bill includes the tax preference performance statement. The Legislature categorizes the tax preference as one intended to achieve multiple purposes, as indicated in RCW 82.32.808 (2):
(a) Induce certain designated behaviors by taxpayers.
(b) Improve industry competitiveness.
(c) Create or retain jobs.

The public policy objective is to provide state-level support to the clean technology sector and supplement federal incentives, including possible federal funding through the Pacific Northwest's designation as a hydrogen hub.

JLARC's review, due by December 31, 2033, must include an evaluation of:
(a) The average construction wages paid for eligible projects.
(b) The number of jobs created in the clean technology sector.
(c) The use of apprenticeship programs, as well as women, minority, or veteran-owned businesses by eligible projects.
(d) The degree to which the preference encouraged manufacturing and component production for technologies that reduce greenhouse gas emissions.
(e) Whether these facilities would have been developed without the tax preference.
(f) Any other relevant metric.

JLARC is directed to refer to any data collected by the state to obtain data for the review.

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 will work with the Department of Revenue and any other appropriate agencies immediately after passage of the bill to ensure project contacts are established and the necessary data for JLARC staff's future evaluation needs are identified and collected. Staff would work with those same agencies when conducting its review. Consistent with the Legislature's direction, this fiscal note assumes the preference will be reviewed in 2033.

The expenditure detail reflects work to be conducted to prepare for the future review of the preference. It includes the costs associated with establishing the data collection plan. Costs associated with conducting the review are not included as the work would take place outside of the timeframe covered by the fiscal note.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2024 legislative session.

This audit will require an estimated 1 audit month.

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 2023-25 costs are calculated at approximately $23,900 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
553-1	Performance Audits of Government Account	State	2,400	7,200	9,600	9,600	9,600
		Total $	2,400	7,200	9,600	9,600	9,600

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages	1,600	4,700	6,300	6,200	6,200
B-Employee Benefits	500	1,500	2,000	2,000	2,000
C-Professional Service Contracts					
E-Goods and Other Services	300	900	1,200	1,200	1,200
G-Travel		100	100	200	200
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	2,400	7,200	9,600	9,600	9,600

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	131,064					
Support staff	110,856					
Total FTEs						0.0

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

NONE

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.

Department of Revenue Fiscal Note

Bill Number: 6243 SB	Title: Technology manuf./B&O tax	Agency: 140-Department of Revenue

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 05 - Bus and Occup Tax		(3,000,000)	(3,000,000)	(39,400,000)	(44,000,000)
Total $		(3,000,000)	(3,000,000)	(39,400,000)	(44,000,000)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		0.9	0.5	0.2	0.2
Account					
GF-STATE-State 001-1		165,600	165,600	46,400	46,400
Total $		165,600	165,600	46,400	46,400

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:	Kellee Gunn	Phone: 786-7429	Date: 01/17/2024
Agency Preparation:	Van Huynh	Phone: 360-534-1512	Date: 01/24/2024
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 01/24/2024
OFM Review:	Amy Hatfield	Phone: (360) 280-7584	Date: 01/24/2024

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:
Manufacturers in Washington pay business and occupation (B&O) tax at a rate of 0.484%. They also pay B&O tax on sales of manufactured products in Washington at the retailing rate of 0.471% or the wholesaling rate of 0.484%. They can take a multiple activities tax credit for the lesser of either the B&O tax on manufacturing or the B&O tax on the selling activity.

Manufacturers, processors for hire, retailers, and wholesales of sustainable aircraft fuel will pay B&O tax at a reduced rate of 0.275% beginning when at least one facility with a cumulative production capacity of at least 20 million gallons of alternative jet fuel each year operates in Washington.

Public utility (PU) tax applies when a light and power business produces energy from renewable resources. B&O tax applies when any other business produces energy from renewable resources.

PROPOSAL:
This bill creates a B&O tax exemption for clean technology manufacturers whose primary business includes clean technology manufacturing.

The bill defines "clean technology manufacturing" as manufacturing tangible personal property exclusively or primarily used in any of the following:
- Vehicles, vessels, and other modes of transportation that emit no exhaust from the onboard power source other than water vapor.
- Charging and fueling infrastructure for electric, hydrogen, or other types of vehicles that emit no exhaust gas from the onboard power source other than water vapor.
- Generation of renewable or green electrolytic hydrogen.
- Production of energy from alternative energy resources.
- Retrofitting of megawatt-class diesel vehicles, vessels, and other modes of transportation to hybrid diesel-electric.
- Production of clean fuels.
- Storage facilities.

The exemption expires on January 1, 2035.

EFFECTIVE DATE:
This bill takes effect on January 1, 2025. However, due to the time it will take to update the Department of Revenue's (department) tax system, the department cannot implement this bill until April 1, 2025.

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 revenue impact shown is based only on data and information available to the department. The impact does not consider any future qualifying activities. As such, the revenue loss from this bill could be significantly more than is shown.
- Businesses qualifying as a clean technology manufacturer, no matter the location of their manufacturing facility, are exempt from all B&O taxes, not just certain B&O activities.
- Growth mirrors the growth in B&O tax for the manufacturing classification as forecasted by the Economic and Revenue

Forecast Council.
- The department will implement this bill on April 1, 2025, impacting two months of collections in fiscal year 2025.

DATA SOURCES
- Department of Revenue, Excise tax data
- Economic and Revenue Forecast Council, November 2023 forecast
- Online research

REVENUE ESTIMATES
This bill decreases state revenues by an estimated $3.0 million in the two months of impacted collections in fiscal year 2025 and by $19.0 million in fiscal year 2026, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2024 -	$ 0
FY 2025 -	($ 3,000)
FY 2026 -	($ 19,000)
FY 2027 -	($ 20,400)
FY 2028 -	($ 21,900)
FY 2029 -	($ 22,100)

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 estimate affects up to 100 taxpayers.

Expenditures assume an effective date of April 1, 2025, providing the department with 12 months to implement the required changes. The department will incur additional costs if a different implementation date is required.

FIRST YEAR COSTS:
The department will not incur costs in fiscal year 2024.

SECOND YEAR COSTS:
The department will incur total costs of $165,600 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.94 FTE.
- Setup, program, and test computer system changes.
- Attend implementation meetings, conduct system testing and documentation.
- Create a special notice and update publications and information on the department's website.
- Develop and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.
- Review reports, scrutinize data, and examine accounts and make corrections as necessary.
- Amend one administrative rule.

Object Costs - $39,600.

- Computer system changes, including contract programming.
- Training.
- Travel.
- Software.

ONGOING COSTS:
Ongoing costs for the 2025-27 biennium equal $46,400 and include similar activities described in the second-year costs. Time and effort equate to 0.2 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		0.9	0.5	0.2	0.2
A-Salaries and Wages		79,400	79,400	30,400	30,400
B-Employee Benefits		26,100	26,100	10,000	10,000
C-Professional Service Contracts		38,400	38,400		
E-Goods and Other Services		15,000	15,000	4,400	4,400
G-Travel		300	300	400	400
J-Capital Outlays		6,400	6,400	1,200	1,200
Total $		$165,600	$165,600	$46,400	$46,400

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	131,684		0.0	0.0		
EMS BAND 5	153,836		0.0	0.0		
EXCISE TAX EX 3	64,092		0.1	0.1	0.1	0.1
IT B A-JOURNEY	91,968		0.3	0.2		
IT SYS ADM-JOURNEY	96,552		0.1	0.1		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120		0.1	0.0		
TAX POLICY SP 3	88,416		0.3	0.2	0.1	0.1
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456		0.0	0.0		
WMS BAND 3	111,992		0.0	0.0		
Total FTEs			0.9	0.5	0.2	0.2

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 amend WAC 458-20-136, titled: "Manufacturing, processing for hire." Persons affected by this rulemaking would include clean technology manufacturers.