

Multiple Agency Fiscal Note Summary

Bill Number: 6038 SB	Title: Child care tax preference
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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
Department of Revenue	(500,000)	(500,000)	(500,000)	(1,140,000)	(1,140,000)	(1,140,000)	(1,240,000)	(1,240,000)	(1,240,000)
Total \$	(500,000)	(500,000)	(500,000)	(1,140,000)	(1,140,000)	(1,140,000)	(1,240,000)	(1,240,000)	(1,240,000)

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	7,200	.0	0	0	4,800	.0	0	0	4,800
Department of Revenue	.3	72,400	72,400	72,400	.0	0	0	0	.0	0	0	0
Department of Social and Health Services	Fiscal note not available											
Department of Children, Youth, and Families	Fiscal note not available											
Total \$	0.3	72,400	72,400	79,600	0.0	0	0	4,800	0.0	0	0	4,800

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
Department of Social and Health Services	Fiscal note not available								
Department of Children, Youth, and Families	Fiscal note not available								
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

This preliminary package is incomplete. Other impacted agencies' fiscal notes will be distributed as soon as possible.

Prepared by: Amy Hatfield, OFM	Phone: (360) 280-7584	Date Published: Preliminary 1/25/2024
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Individual State Agency Fiscal Note

Bill Number: 6038 SB	Title: Child care tax preference	Agency: 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
Account					
Performance Audits of Government Account-State 553-1	2,400	4,800	7,200	4,800	4,800
Total \$	2,400	4,800	7,200	4,800	4,800

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: Tianyi Lan	Phone: 360-786-7432	Date: 01/06/2024
Agency Preparation: Dana Lynn	Phone: 360-786-5177	Date: 01/10/2024
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 01/10/2024
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 01/11/2024

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 creates a new B&O tax exemption for income received by nursery school, preschool, or child care providers for care of children under 13 years.

Section 1 is a tax preference performance statement:

- Subsection (2) categorizes the preferences as intended to provide tax relief to certain businesses or individuals as noted in RCW 82.32.808(2)(e).
- Subsection (3) states the specific public policy objective is to reduce the costs associated with providing child care for children up to age 12.
- Subsection (4) notes if a review finds the costs of providing child care and education are reduced, then the Legislature intends to extend the expiration date.

Section 2 is a new section in chapter 82.04 RCW exempting income from various providers of child care for children 12 and under from B&O tax. The section expires July 1, 2034.

The preference takes effect July 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.

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 other appropriate agencies immediately after passage to establish project contacts and ensure any data for JLARC's future review are identified and collected. Staff would work with these same agencies when conducting the review. JLARC will likely review the preference in 2032.

The expenditure detail reflects work conducted to prepare for the future review of the preference. Costs associated with the review are not included in this fiscal note. This fiscal note reflects only the costs associated with establishing data collection.

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 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	4,800	7,200	4,800	4,800
Total \$			2,400	4,800	7,200	4,800	4,800

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	3,100	4,700	3,200	3,200
B-Employee Benefits	500	1,000	1,500	1,000	1,000
C-Professional Service Contracts					
E-Goods and Other Services	300	600	900	600	600
G-Travel		100	100		
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	4,800	7,200	4,800	4,800

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: 6038 SB	Title: Child care tax preference	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 05 - Bus and Occup Tax		(500,000)	(500,000)	(1,140,000)	(1,240,000)
Total \$		(500,000)	(500,000)	(1,140,000)	(1,240,000)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.3	0.3		
Account					
GF-STATE-State 001-1	32,200	40,200	72,400		
Total \$	32,200	40,200	72,400		

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: Tianyi Lan	Phone: 60-786-7432	Date: 01/06/2024
Agency Preparation: Alex Merk-Dyes	Phone: 60-534-1601	Date: 01/23/2024
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 01/23/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/24/2024

Request # 6038-1-1

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:

Income received by a nursery school, preschool, or childcare provider is taxed at the business and occupation (B&O) tax rate of 0.484%.

There are exemptions, such as providing care to children ages eight and under not enrolled in 1st grade, childcare provided by a church exempt from property tax, and children attending a privately operated kindergarten.

PROPOSAL:

This bill provides a B&O tax exemption for amounts received by a nursery school, preschool, or childcare provider to care for or supervise children under 13 years of age.

The exemption expires on July 1, 2034.

EFFECTIVE DATE:

This bill takes effect on July 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 proposal takes effect July 1, 2024, and impacts 11 months of collections in fiscal year 2025.
- Growth rate mirrors the B&O tax growth rate reflected in the Economic and Revenue Forecast Council's November 2023 forecast.
- All taxable income reported under the child care B&O tax rate is for children under the age of 13.

DATA SOURCES

- Department of Revenue, Excise tax data
- Economic and Revenue Forecast Council, November 2023 forecast

REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$500,000 in the 11 months of impacted collections in fiscal year 2025 and by \$560,000 in fiscal year 2026, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	(\$ 500)
FY 2026 -	(\$ 560)
FY 2027 -	(\$ 580)
FY 2028 -	(\$ 610)
FY 2029 -	(\$ 630)

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

Request # 6038-1-1

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 1,200 taxpayers.
- Taxpayers must explicitly report the amount of excluded income. This requires a new deduction on the combined excise tax return. These expenditures include the costs to implement the new tax preference.

FIRST YEAR COSTS:

The Department of Revenue (department) will incur total costs of \$32,200 in fiscal year 2024. These costs include:

- Labor Costs – Time and effort equate to 0.19 FTE.
- Set up, program, and test computer system changes for a new B&O tax deduction.
 - Create a Special Notice to inform businesses of the new exemption.
 - Update the department’s website and industry guide on child care.

- Object Costs - \$6,800.
- Contract computer system programming.

SECOND YEAR COSTS:

The department will incur total costs of \$40,200 in fiscal year 2025. These costs include:

- Labor Costs – Time and effort equate to 0.31 FTE.
- Continued computer system testing.
 - Implementation and management of statistical data.
 - Amend three administrative rules.

- Object Costs - \$700.
- Software expense.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.2	0.3	0.3		
A-Salaries and Wages	16,000	25,500	41,500		
B-Employee Benefits	5,200	8,400	13,600		
C-Professional Service Contracts	6,800		6,800		
E-Goods and Other Services	2,900	4,500	7,400		
G-Travel		200	200		
J-Capital Outlays	1,300	1,600	2,900		
Total \$	\$32,200	\$40,200	\$72,400		

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		
IT B A-JOURNEY	91,968	0.1	0.1	0.1		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120	0.1	0.0	0.0		
TAX POLICY SP 3	88,416	0.0	0.2	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		0.2	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 rulemaking process to amend WAC 458-20-167, titled: "Educational institutions, school districts, student organizations, and private schools", WAC 458-20-169, titled: "Nonprofit organizations", and WAC 458-20-183, titled: "Recreational services and activities." Persons affected by this rulemaking would include certain child care and day care centers.