

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 2199 E HB	<b>Title:</b> CCA tax exemptions
-------------------------------	----------------------------------

## 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	(900,000)	(1,100,000)	(1,100,000)	(5,000,000)	(5,800,000)	(5,800,000)	(8,600,000)	(10,000,000)	(10,000,000)
<b>Total \$</b>	<b>(900,000)</b>	<b>(1,100,000)</b>	<b>(1,100,000)</b>	<b>(5,000,000)</b>	<b>(5,800,000)</b>	<b>(5,800,000)</b>	<b>(8,600,000)</b>	<b>(10,000,000)</b>	<b>(10,000,000)</b>

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	No fiscal impact					
Local Gov. Total						

## 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
Department of Revenue	.1	13,500	13,500	13,500	.0	0	0	0	.0	0	0	0
<b>Total \$</b>	<b>0.1</b>	<b>13,500</b>	<b>13,500</b>	<b>13,500</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
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>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

# Estimated Capital Budget Breakout

<b>Prepared by:</b> Amy Hatfield, OFM	<b>Phone:</b> (360) 280-7584	<b>Date Published:</b> Final 2/15/2024
---------------------------------------	---------------------------------	---

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 2199 E HB	<b>Title:</b> CCA tax exemptions	<b>Agency:</b> 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		(900,000)	(900,000)	(5,000,000)	(8,600,000)
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax		(200,000)	(200,000)	(800,000)	(1,400,000)
<b>Total \$</b>		(1,100,000)	(1,100,000)	(5,800,000)	(10,000,000)

### Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.1		
GF-STATE-State 001-1	13,500		13,500		
<b>Total \$</b>	13,500		13,500		

### 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: Kim Cushing	Phone: (360) 786-7421	Date: 02/13/2024
Agency Preparation: Victor Crosetti	Phone: (360) 534-1554	Date: 02/15/2024
Agency Approval: Valerie Torres	Phone: (360) 534-1521	Date: 02/15/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/15/2024

Request # 2199-2-1

## 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.*

Note: This fiscal note reflects language in EHB 2199, 2024 Legislative Session.

#### COMPARISON OF THE SUBSTITUTE BILL WITH ORIGINAL BILL:

The substitute bill changes the business and occupation (B&O) tax and public utility (PU) tax exemptions to only exempt covered entities, opt-in entities, and no-cost allowance entities.

#### CURRENT LAW:

The Climate Commitment Act (CCA) is a cap-and-invest (cap-and-trade) program where polluters must purchase credits, allowances, or price ceiling units to offset their greenhouse gas or carbon emissions.

Carbon-negative businesses may obtain credits and then sell them. Allowances are purchased at auction from the Department of Ecology. Price ceiling units are issued at a fixed price by the Department of Ecology to limit price increases and fund further investments.

No tax exemption exists for proceeds from the sale or transfer of credits, allowances, or units.

#### PROPOSAL:

This legislation creates a new tax exemption for amounts received by a covered entity, opt-in entity, or entity receiving no-cost allowances from the receipt, generation, purchase, sale, transfer, or retirement of allowances, offset credits, or price ceiling units under the CCA. General market participants will pay B&O tax or PU tax on these transactions. This exemption applies to both B&O tax and PU tax.

The new tax preference performance provisions do not apply to this bill (see section 1 of the bill).

#### EFFECTIVE DATE:

This bill contains an emergency clause and takes effect April 1, 2024. The tax changes take effect both retroactively and prospectively.

### 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

- All participating entities selling emission allowances and offset credits will meet the \$1 million threshold required to pay the higher 1.75% services and other activities B&O tax rate.
- The services and other activities B&O tax rate applies to the sale of carbon allowances and offset credits. In certain circumstances, entities may bundle transactions to include the sale of utilities for which PU tax applies. The bill exempts both B&O and PU tax; however, for estimating purposes, the PU tax exemption has a minimal impact. So, all impacts are shown under the B&O tax.
- CCA auction #4 represents the portion of entities qualifying for exemption in all auctions.
- This estimate applies a low compliance factor on the early stages of the cap and invest program and assumes no taxpayers report this currently.
- No enforcement activity occurs during the first year this law is effective.
- For the above reasons, the following compliance factors apply to this estimate:
  - 0% for fiscal year 2024.

- 13% for fiscal year 2025.
- 26% for fiscal year 2026.
- 39% for fiscal year 2027.
- 52% for all fiscal years thereafter.

**DATA SOURCES**

- Washington Department of Ecology, Climate Commitment Act data reports
- 2021 Legislative Session, E2SSB 5126
- Economic and Revenue Forecast Council, November 2023 forecast

**REVENUE ESTIMATES**

This bill decreases state revenues by an estimated \$1.1 million in fiscal year 2025, and by \$2.3 million in fiscal year 2026.

**TOTAL REVENUE IMPACT:**

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	(\$ 1,100)
FY 2026 -	(\$ 2,300)
FY 2027 -	(\$ 3,500)
FY 2028 -	(\$ 4,900)
FY 2029 -	(\$ 5,100)

Local Government (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 100 taxpayers.

**FIRST YEAR COSTS:**

The Department of Revenue (department) will incur total costs of \$13,500 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.11 FTE.

- Create a Special Notice and identify publications and information the department may need to create or update on the department’s website.
- Update web pages, publications, and forms for the reporting change.

**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	0.1		0.1		
A-Salaries and Wages	8,400		8,400		
B-Employee Benefits	2,800		2,800		
E-Goods and Other Services	1,600		1,600		
J-Capital Outlays	700		700		
<b>Total \$</b>	<b>\$13,500</b>		<b>\$13,500</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
TAX POLICY SP 2	78,120	0.1		0.0		
TAX POLICY SP 3	88,416	0.0		0.0		
WMS BAND 2	98,456	0.0		0.0		
<b>Total FTEs</b>		<b>0.1</b>		<b>0.1</b>		

#### 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

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

**Bill Number:** 2199 E HB

**Title:** CCA tax exemptions

**Part I: Jurisdiction**-Location, type or status of political subdivision defines range of fiscal impacts.

## Legislation Impacts:

- Cities:
- Counties:
- Special Districts:
- Specific jurisdictions only:
- Variance occurs due to:

## Part II: Estimates

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time:

### Estimated revenue impacts to:

None

### Estimated expenditure impacts to:

None

## Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 02/15/2024
Leg. Committee Contact: Kim Cushing	Phone: (360) 786-7421	Date: 02/13/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/15/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/15/2024

## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

*Description of the bill with an emphasis on how it impacts local government.*

Note: This fiscal note reflects language in EHB 2199, 2024 Legislative Session.

#### CHANGES BETWEEN THIS ENGROSSED VERSION AND ORIGINAL BILL VERSION:

This engrossed bill changes the business and occupation (B&O) tax and public utility (PU) tax exemptions to only exempt covered entities, opt-in entities, and no-cost allowance entities.

#### SUMMARY OF CURRENT BILL:

This bill authorizes a B&O tax and a PU tax exemption for covered entities, opt-in entities, and entities that received no cost allowances for amounts received from the receipt, generation, purchase, sales, transfer of allowances, offset credits, or price ceiling units under the 2021 Climate Commitment Act.

### **B. SUMMARY OF EXPENDITURE IMPACTS**

*Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.*

#### CHANGES IN EXPENDITURE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

The changes in the engrossed version do not create any new fiscal impacts to local government expenditures.

#### EXPENDITURE IMPACTS OF CURRENT BILL:

This engrossed bill would not impact local government expenditures.

### **C. SUMMARY OF REVENUE IMPACTS**

*Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.*

#### CHANGES IN REVENUE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

The changes in the engrossed version do not create any new fiscal impacts to local government revenue.

#### REVENUE IMPACTS OF CURRENT BILL:

This engrossed bill would not impact local government revenue.

According to the Department of Revenue, this bill would only decrease state revenue.

#### Source:

Association of Washington Cities

Department of Revenue fiscal note, EHB 2199 (2024)