

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5794 SB	<b>Title:</b> Tax preferences
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## Estimated Cash Receipts

Agency Name	2025-27			2027-29			2029-31		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	365,961,000	403,071,000	403,241,000	547,814,000	604,294,000	604,386,000	587,395,000	648,555,000	648,605,000
<b>Total \$</b>	<b>365,961,000</b>	<b>403,071,000</b>	<b>403,241,000</b>	<b>547,814,000</b>	<b>604,294,000</b>	<b>604,386,000</b>	<b>587,395,000</b>	<b>648,555,000</b>	<b>648,605,000</b>

Agency Name	2025-27		2027-29		2029-31	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Local Gov. Total						

## Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	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	0	.0	0	0	0	.0	0	0	0
Department of Revenue	3.1	959,100	959,100	959,100	1.7	381,400	381,400	381,400	1.4	317,200	317,200	317,200
Department of Transportation	Non-zero but indeterminate cost and/or savings. Please see discussion.											
<b>Total \$</b>	<b>3.1</b>	<b>959,100</b>	<b>959,100</b>	<b>959,100</b>	<b>1.7</b>	<b>381,400</b>	<b>381,400</b>	<b>381,400</b>	<b>1.4</b>	<b>317,200</b>	<b>317,200</b>	<b>317,200</b>

## Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	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 Transportation	.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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<b>Prepared by:</b> Gwen Stamey, OFM	<b>Phone:</b> (360) 790-1166	<b>Date Published:</b> Final 4/11/2025
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# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5794 SB	<b>Title:</b> Tax preferences	<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:

NONE

### 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.

<b>Legislative Contact:</b> Alia Kennedy	<b>Phone:</b> 360-786-7405	<b>Date:</b> 03/20/2025
<b>Agency Preparation:</b> Pete van Moorsel	<b>Phone:</b> 360-786-5185	<b>Date:</b> 03/25/2025
<b>Agency Approval:</b> Eric Thomas	<b>Phone:</b> 360 786-5182	<b>Date:</b> 03/25/2025
<b>OFM Review:</b> Gaius Horton	<b>Phone:</b> (360) 819-3112	<b>Date:</b> 03/31/2025

## 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.*

SB 5794 repeals, modifies, extends, or clarifies multiple tax preferences. Part 6 of the bill implements recommendations of past JLARC reviews creating six new tax preference performance statements to inform future JLARC reviews.

#### Tax Preference Performance Statement Details

Section 601 – Nonprofit hospitals and nonprofit cancer treatment clinics – property tax:

- Tax preference category: Provide tax relief for certain businesses or individuals.
- Specific public policy objective: Support the provision of charity care and other community benefits by nonprofit hospitals and cancer clinics.
- JLARC to evaluate: the extent to which nonprofit hospitals and nonprofit cancer clinics provide charitable care. The review must:
  - Evaluate the value of charitable care including medical care provided by nonprofit hospitals and nonprofit cancer clinics for which payment is not expected and patients are not billed.
  - Compare the total statewide value of charitable care to beneficiary savings.
  - Compare the of medical services provided by beneficiary hospitals to nonbeneficiary hospitals.
  - Evaluate other applicable community benefits including the difference between the state's Medicaid payment rates and hospitals' costs for serving Medicaid patients, services to patients under other programs with income eligibility requirements, and access to medical training, education, and research programs.
- Likely review year: 2032.

Section 602 – Aerospace tax preferences – multiple taxes:

- Tax preference category: Improve industry competitiveness and create or retain jobs.
- Specific public policy objectives:
  - Reduce the cost of doing business in Washington for the aerospace industry.
  - Encourage the continued presence of the aerospace industry.
  - Provide jobs with good wages.
  - Maintain and grow Washington's aerospace industry workforce.
- JLARC to evaluate:
  - Changes in aerospace industry employment in Washington compared to other states and internationally based on federal and state occupational data statistics.
  - The Legislature intends to extend the expiration dates of the preferences if the review finds Washington is among the top three states in terms of aerospace industry employment.
- Likely review year: 2034.

Section 603 – Financial Institution Commercial Aircraft Loan Interest and Fees – B&O tax:

- Tax preference category: Improve industry competitiveness.
- Specific public policy objective: Support the continued presence of the aerospace industry in Washington.
- JLARC to evaluate:
  - The estimated loss in state revenue resulting from the tax preference compared to the overall economic impact of airlines headquartered in Washington.
  - The review must include an evaluation of both direct and indirect beneficiaries.
- Likely review year: 2033.

Section 604 – Nonprofit Dialysis Facilities – property tax:

- Tax preference category: Provide tax relief for certain businesses or individuals.

- Specific public policy objective: Support nonprofit outpatient dialysis centers, which tend to have a higher share of patients on the kidney transplant waitlist and receive lower revenue per treatment than for-profit facilities.
- JLARC to evaluate: A comparison of nonprofit and for-profit outpatient dialysis facilities, including:
  - the share of patients on the kidney transplant waitlist,
  - amount of revenue received per treatment.
  - Any relevant quality measures
- Likely review year: 2031.

#### Section 605 – Commuter Airplanes – sales and use tax:

- Tax preference category: Improve industry competitiveness.
- Specific public policy objective: Support in-state commuter air carrier services, including:
  - Expanding in-state flight services.
  - Maintaining air service to Washington's small or rural airports.
  - Lowering the cost of providing commuter air carrier services in Washington.
- JLARC to evaluate:
  - Change in the number of commuter air carriers operating in Washington.
  - Change in the number of airports and airfields served by commuter air carriers.
  - The cost of providing commuter air carrier services in this Washington compared to other states.
  - Any other relevant metric.
- Likely review year: 2033.

#### Section 606 – Commuter Air Carriers Paying Excise Tax – property tax:

- Tax preference category: Reduce structural inefficiencies in the tax structure.
- Specific public policy objectives: Streamline and simplify tax reporting for certain commuter air carriers.
- JLARC to evaluate:
  - The effectiveness of the aircraft excise tax in providing an equitable alternative to the property tax for certain commuter air carriers.
  - Any other relevant metric.
- Likely review year: 2033.

## 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.*

This bill is estimated to have no fiscal impact to JLARC during the period of this fiscal note.

While the bill's provisions may result in changes to the committee's 10-year tax preference review schedule, it is not expected to change the overall workload of JLARC's recurring performance review of tax preferences:

- The tax preferences repealed in part 1 of the bill will be replaced by other tax preferences on the 2027-2036 tax preference review cycle. Thus, these are not estimated to result in expenditure reductions.
- The tax preferences for which part 6 of the bill adds tax preference performance statements are already projected to be reviewed during the 2027-2036 tax preference review cycle. Specifically, the reviews are expected to occur between 2031-2034. Thus, these do not represent any additional costs.
- After the bill is signed, JLARC staff will work with the Department of Revenue and relevant agencies to identify the data JLARC staff will need to complete the evaluations directed in part 6 of the bill.

JLARC assumes that the office will absorb any staff costs attributable to the bill’s provisions in in our base budget. However, if the workload of other tax preference legislation exceeds our staffing levels and/or our base budget, we may require additional staffing resources.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

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 2026	FY 2027	2025-27	2027-29	2029-31
Research Analyst	139,776					
Support staff	110,556					
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

<b>Bill Number:</b> 5794 SB	<b>Title:</b> Tax preferences	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates



No Fiscal Impact

### Estimated Cash Receipts to:

Account	FY 2026	FY 2027	2025-27	2027-29	2029-31
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	7,438,000	17,473,000	24,911,000	31,884,000	30,845,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	76,740,000	192,800,000	269,540,000	409,640,000	443,590,000
GF-STATE-State 01 - Taxes 35 - Public Utilities Tax	20,500,000	51,010,000	71,510,000	106,290,000	112,960,000
Multimodal Transportation Account-State 01 - Taxes 01 - Retail Sales Tax	40,000	90,000	130,000	40,000	
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	10,580,000	26,530,000	37,110,000	56,480,000	61,160,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	12,000	28,000	40,000	52,000	50,000
<b>Total \$</b>	115,310,000	287,931,000	403,241,000	604,386,000	648,605,000

### Estimated Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	3.9	2.3	3.1	1.7	1.4
<b>Account</b>					
GF-STATE-State 001-1	697,500	261,600	959,100	381,400	317,200
<b>Total \$</b>	697,500	261,600	959,100	381,400	317,200

### Estimated Capital Budget Impact:

NONE

Request # 5794-1-1

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- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact:	Alia Kennedy	Phone: (360) 786-7405	Date: 03/20/2025
Agency Preparation:	Marianne McIntosh	Phone: (360) 534-1505	Date: 03/25/2025
Agency Approval:	Valerie Torres	Phone: (360) 534-1521	Date: 03/25/2025
OFM Review:	Gwen Stamey	Phone: (360) 790-1166	Date: 03/27/2025

Request # 5794-1-1



## 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.*

#### PART I - ELIMINATING OBSOLETE TAX PREFERENCES

Part I removes the following 62 tax preferences and related laws the Department of Revenue (department) administers:

##### Business and Occupation (B&O) tax:

- Alternative fuel commercial vehicle credit (82.04.4496)
- Aluminum master alloy producers (82.04.110(2)(b))
- Aluminum smelter purchases of electricity or natural gas (82.04.4482)
- Electricity or gas sold to silicon smelters (82.04.545)
- Group discount purchases (82.04.421)
- Hospital delivery system reform incentive payments (82.04.43395(2)(b))
- Insurance claims for state health care coverage (82.04.4331)
- Insurance producers, title insurance agents, and surplus line brokers (82.04.260(9))
- Interest on real estate loans (82.04.29005, 82.04.4292)
- International banking facilities (82.04.315)
- International charter and freight brokers (82.04.260(6))
- International investment management (82.04.290(1), 82.04.293)
- International services (82.04.44525)
- Minor final assembly completed in Washington (82.04.4295)
- Natural gas sold to direct service industry (82.04.447)
- Nonprofit research and development (82.04.260(3))
- Packing of agricultural products (82.04.120(2)(d))
- Precious metals and bullion (82.04.062)
- Prescription drug resellers (82.04.272)
- Stevedoring (82.04.260(7))
- Testing and safety labs (82.04.434)
- Travel agents and tour operators with prior year gross income above \$250,000 (82.04.260(5)(b))
- Tuition fees - foreign degree-granting institutions (82.04.4332)

##### Broker Natural Gas:

- Aluminum smelter purchases of natural gas (82.12.022(5))
- Deferral for direct service industries (82.12.024)
- Natural and manufactured gas not delivered by pipeline (82.12.022(3))
- Silicon smelter use of natural or manufactured gas (82.12.022(7))

##### Hazardous Substance and Petroleum taxes:

- Alumina and natural gas (82.21.040(4))
- Petroleum used prior to 7/1/89 (82.23A.030(4))

##### Leasehold Excise tax:

- Inmate employment programs (82.29A.130(12))
- Second Narrows bridge (82.29A.132)
- Super-efficient airplane production facilities (82.29A.137)

Property tax:

- Second Narrows bridge (84.36.010(1))
- Student loan organizations (84.36.030(6))

Public Utility (PU) tax:

- Aluminum smelter purchases of power (82.16.0498)
- Credit for clean alternative fuel commercial vehicles - alternative fuel vehicle infrastructure (82.16.0496)
- Credit for home energy assistance (82.16.0497)
- Electricity or gas sold to silicon smelters (82.16.315)
- Electricity sold to the direct service industry (82.16.0495)
- Farm products shipped to ports (82.16.050(10))
- Interstate transportation - shipment to ports (82.16.050(9))
- Interstate transportation - through freight (82.16.050(8))
- Second Narrows bridge (82.16.046)

Real Estate Excise tax (REET):

- Foreclosure relocation assistance (82.45.030(3))
- Second Narrows bridge (82.45.190)
- Transfer where REET already paid or lease/contract began prior to 1951 (82.45.010(3)(l))

Sales and Use taxes:

- Aircraft part prototypes (82.08.02566; 82.12.02566)
- Alternative fuel vehicles (82.08.809; 82.12.809)
- Alternative fuel vehicles (82.08.9999; 82.12.9999)
- Aluminum production anodes and cathodes (82.08.02568; 82.12.02568)
- Bailed tangible personal property for research and development (82.12.0265)
- Baseball stadium deferral (36.100.090)
- Ferrosilicon (82.04.050(1)(a)(iv); 82.04.190(1)(d))
- Football stadium deferral (36.102.070)
- Gravitational wave observatory (82.08.02569; 82.12.02569)

Soft Drinks Syrup tax:

- Carbonated beverage syrup purchased before June 1, 1991 (82.64.030(4))

Part I also removes the exemption from the Insurance Premiums tax for dentistry prepayments (48.14.0201(6)(c)). The Office of Insurance Commissioner (OIC) administers this tax.

## PART II - CORRECTING INTERNAL REFERENCES

Part II corrects internal references within the law for the removed preferences.

## PART III - MODIFYING THE AIRCRAFT EXCISE TAX FOR PURPOSES OF THE COMMUTER AIR CARRIER

## AIRPLANES PROPERTY TAX EXEMPTION

Part III increases the annual aircraft excise tax, which the Washington State Department of Transportation (WSDOT) administers.

## Part IV - ADJUSTING FOR INFLATION THE TAX CREDITS FOR ELIGIBLE BUSINESS PROJECTS IN RURAL COUNTIES

Part IV increases the B&O tax credit available for each new employment position a business located in a rural county or with employees who reside in a Community Empowerment Zone creates. The business must be engaged in the following activities:

- Manufacturing.
- Computer-related programming and services performed by a manufacturer.
- Research and development.
- Commercial testing laboratories.

A rural county has an average population density of fewer than 100 persons per square mile or is smaller than 225 square miles.

The increased credit equals:

- \$3,000, increased from \$2,000, for each new qualified employment position with wages and benefits equal to or below \$60,000 (an increase from \$40,000).
- \$6,000, increased from \$4,000, for each new qualified employment position with wages and benefits above \$60,000 (an increase from \$40,000).

Part IV also adds that the department must adjust the wage and benefits amount for inflation each year based on the annual percentage increase in the Consumer Price Index for all urban consumers in the Western region. This adjustment should reflect data from the most recent 12-month period, as provided by the Bureau of Labor Statistics. The department must complete the adjustment by November 25th of the year before the taxes are due.

The total statewide credit cap remains \$7.5 million per fiscal year.

## Part V - MODIFYING THE EXPIRATION DATE FOR CERTAIN TAX PREFERENCES

Part V:

- Extends the expiration date of the pilot Invest in Washington (manufacturer's job creation) sales and use taxes deferral program from January 1, 2026, to January 1, 2036.
- Adds an expiration date to the B&O deduction provided to out-of-state financial institutions when they make loans to Washington-based commercial airlines, who use the loan to purchase commercial airplanes. The out-of-state lenders may deduct B&O tax on the interest and fees they earn from the loans they provide from the measure of tax. This deduction expires on January 1, 2036.
- Adds an expiration date to the sales and use taxes exemption for the following:

- Airplanes sold to the United States government or for use in providing intrastate air transportation by a commuter air carrier.
- Airplanes, locomotives, railroad cars, or watercraft for use in conducting interstate commerce.
- Vessels for use in conducting commercial deep-sea fishing outside the territorial waters of the state.
- Components for such equipment.
- Labor and services for constructing, repairing, cleaning, altering, and improving such equipment.
- This exemption expires on January 1, 2036.
- Adds that the tax performance preference provisions do not apply to the B&O tax exemption for commercial airplane parts sold by Washington sellers for delivery to out-of-state locations.
- Clarifies that when reviewing the effectiveness of the Invest in Washington sales and use taxes deferral, at least half of the jobs each project creates must be permanent full-time jobs.

## Part VI - CLARIFYING THE PUBLIC POLICY OBJECTIVE FOR CERTAIN TAX PREFERENCES TO IMPROVE THE EFFECTIVENESS OF FUTURE TAX PREFERENCE PERFORMANCE REVIEWS

Part VI clarifies the public policy objectives for the following:

- The B&O deduction for commercial aircraft loan fees (82.04.43331).
- The B&O tax credit for aerospace preproduction expenditures (82.04.4461).
- The B&O tax credit for aerospace property and leasehold excise taxes (82.04.4463).
- The B&O tax rate for manufacturing commercial airplanes (82.04.260(7)).
- The leasehold excise tax exemption for superefficient airplane manufacturers (82.29A.137).
- The property tax exemption for aircraft owned and operated by a commuter air carrier that paid aircraft excise tax (84.36.133)
- The property tax exemption for non-profit cancer clinics or centers (84.36.046).
- The property tax exemption for non-profit hospitals for the sick (84.36.040(1)(e)).
- The property tax exemption for outpatient dialysis facilities (84.36.040(1)(f)).
- The property tax exemption for superefficient airplane manufacturers (84.36.655).
- The reduced B&O tax rate for aerospace FAR part 145 repair stations (82.04.250(3)).
- The reduced B&O tax rate for aerospace product development (82.04.290(2)).
- The sales and use taxes exemption for use in providing intrastate air transportation by a commuter air carrier (82.08.0262(1)(a)(iii)/82.12.0254(1)(a)(ii)).
- The sales and use taxes for aerospace computers, software, and peripherals (82.08.975/82.12.975).

The Joint Legislative Audit and Review Committee completes these reviews.

Part VI requires the annual tax performance report for the following:

- The B&O deduction for commercial aircraft loan fees (82.04.43331).
- The sales and use taxes exemption for use in providing intrastate air transportation by a commuter air carrier (82.08.0262(1)(a)(iii)/82.12.0254(1)(a)(ii)).

## Part VII - CLARIFYING THE PUBLIC UTILITY TAX APPLIES TO THE IN-STATE PORTION OF INTERSTATE ACTIVITY

Part VII adds public utility tax to the in-state portion of interstate activities. The department may create a rule for apportioning or allocating gross income from the in-state portion of interstate activities. Any method used must ensure an equitable and constitutionally acceptable division of the tax base.

#### EFFECTIVE DATE

This bill takes effect on January 1, 2026.

## 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 department implements these changes on January 1, 2026, impacting five months of state collections and four months of local collections in fiscal year 2026.

#### PART I - ELIMINATING OBSOLETE TAX PREFERENCES

- The annual growth rates for the removed tax preferences reflect the Economic and Revenue Forecast Council's November 2024 forecast for B&O and PU taxable activities.
- The alternative fuel commercial vehicle and charging infrastructure B&O and PU credit grows at 7.5% annually.
- The annual growth rate for alternative fuel vehicle sales reflects the Transportation Revenue Forecast Council's November 2024 forecast for battery and plug-in hybrid electric vehicle registrations.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3.0%.
- The department receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenue impacts for the state and a two-month delay in revenue impacts for local jurisdictions.
- Currently, tribes with compacts receive a share of state sales and use taxes and certain business and occupation taxes (RCW 43.06.523). Additionally, local governments may also receive a portion of state sales and use taxes. Changes to the Invest in Washington deferral may decrease the revenue shared with tribes and local governments, while the removed tax preferences may increase shared revenue.
- The OIC administers the insurance premiums tax. This fiscal note does not reflect the removal of the dentistry prepayments exemption. The OIC fiscal note will reflect any insurance premiums tax impacts.

#### PART III - MODIFYING THE AIRCRAFT EXCISE TAX FOR PURPOSES OF THE COMMUTER AIR CARRIER AIRPLANES PROPERTY TAX EXEMPTION

- The WSDOT administers the aircraft excise tax. This fiscal note will not reflect the impact of the increased taxes. The WSDOT fiscal note will reflect any aircraft excise tax impacts.

#### Part IV - ADJUSTING FOR INFLATION THE TAX CREDITS FOR ELIGIBLE BUSINESS PROJECTS IN RURAL COUNTIES

- Estimates of future revenue impacts are based on credits used rather than credits approved.
- The annual growth rate reflects the Economic and Revenue Forecast Council's November 2024 B&O taxable forecast.

#### Part V - MODIFYING THE EXPIRATION DATE FOR CERTAIN TAX PREFERENCES

- The annual growth rate for the qualified deferral projects reflects the S&P Global Market Intelligence's November 2024 forecast for the construction of industrial buildings.
- Impact from adding the January 1, 2036 expiration date to the B&O deduction for interest earned on loans to purchase commercial airplanes and sales and use taxes exemption for airplanes sold to the US government or for providing intrastate air transportation by commuter air carrier, or airplanes, locomotives, railroad cars, or watercraft for use in conducting

interstate commerce is beyond the fiscal note.

Part VII - CLARIFYING THE PUBLIC UTILITY TAX APPLIES TO THE IN-STATE PORTION OF INTERSTATE ACTIVITY

- The annual growth rate reflects the Economic and Revenue Forecast Council’s November 2024 taxable public utility tax forecast.
- Most freight commodity product terminals are located near interstate boundaries, the in-state portion of interstate trips will be minimal.
- Vessels, barges, and watercraft will predominantly travel in non-Washington waters.
- The estimated in-state portion of interstate trips is 30%.

DATA SOURCES:

- Department of Revenue, Excise tax and deferral data
- Department of Revenue, 2024 Tax Exemption Study
- Economic and Revenue Forecast Council, November 2024 forecast
- Transportation Revenue Forecast Council, November 2024 forecast
- S&P Global Market Intelligence, November 2024 forecast

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$115.310 million in the five months of impacted collections in fiscal year 2026 and by \$287.931 million in fiscal year 2027, the first full year of impacted collections.

This bill also increases local revenues by an estimated \$3.338 million in the four months of impacted collections in fiscal year 2026 and by \$8.090 million in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 115,310
FY 2027 -	\$ 287,931
FY 2028 -	\$ 297,209
FY 2029 -	\$ 307,177
FY 2030 -	\$ 318,434
FY 2031 -	\$ 330,171

Local Government (cash basis, \$000):

FY 2026 -	\$ 3,338
FY 2027 -	\$ 8,090
FY 2028 -	\$ 7,600
FY 2029 -	\$ 7,160
FY 2030 -	\$ 7,140
FY 2031 -	\$ 7,140

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:

Approximately 15,000 taxpayers are using the tax preferences removed by this legislation.

#### FIRST YEAR COSTS:

The department will incur total costs of \$697,500 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 3.88 FTEs.

- Answer additional phone calls and counter inquiries from businesses, individuals, and accountants regarding tax questions and tax return preparation.
- Amend 21 administrative rules.
- Amend two excise tax advisories.
- Create special notices and update relevant information on the department's website.
- Conduct administrative reviews of notices and assessments.
- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message and paper correspondence.
- Develop and maintain annual tax incentive report questions.
- Examine accounts and make corrections as necessary.
- Gather requirements, attend implementation meetings, and document system changes.
- Set up, program, and test computer system changes.
- Meet with tribes with revenue-sharing compact agreements to discuss changes in law.

Object Costs - \$183,600.

- Computer system changes, including contract programming.
- Printing and postage for notification to taxpayers who file paper returns.
- Travel expenses for meetings with compacting tribes.

#### SECOND YEAR COSTS:

The department will incur total costs of \$261,600 in fiscal year 2027.

Labor Costs – Time and effort equate to 2.3 FTEs.

- Continue processing tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message and paper correspondence.
- Examine accounts and make corrections as necessary.
- Review annual tax incentive report submissions, work to verify submission accuracy, and compile statistics and reports.
- Continue conducting administrative reviews of notices and assessments.

Object Costs - \$500.

- Printing and postage for notification to taxpayers who file paper returns.

#### ONGOING COSTS:

Ongoing costs for the 2027-29 biennium equal \$381,400 and include similar activities described in the second-year costs. Time and effort equate to 1.7 FTEs.

## Part III: Expenditure Detail

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

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	3.9	2.3	3.1	1.7	1.4
A-Salaries and Wages	324,000	163,500	487,500	240,600	200,200
B-Employee Benefits	116,600	58,900	175,500	86,700	72,200
C-Professional Service Contracts	172,700		172,700		
E-Goods and Other Services	59,000	33,100	92,100	47,600	39,400
G-Travel	9,800		9,800		
J-Capital Outlays	15,400	6,100	21,500	6,500	5,400
<b>Total \$</b>	<b>\$697,500</b>	<b>\$261,600</b>	<b>\$959,100</b>	<b>\$381,400</b>	<b>\$317,200</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 2026	FY 2027	2025-27	2027-29	2029-31
EMS BAND 4	135,635	0.0		0.0		
EMS BAND 5	158,451	0.0		0.0		
EXCISE TAX EX 2	59,844	0.5	1.0	0.8	0.7	0.6
EXCISE TAX EX 3	66,012	0.2	0.5	0.4	0.5	0.4
EXCISE TAX EX 4	72,924	0.2	0.2	0.2	0.2	0.1
IT B A-JOURNEY	94,728	0.6	0.4	0.5	0.2	0.2
IT SYS ADM-JOURNEY	99,444	0.4		0.2		
MGMT ANALYST4	78,468	0.2		0.1		
TAX INFO SPEC 1	47,988	0.2		0.1		
TAX POLICY SP 2	80,460	0.4		0.2		
TAX POLICY SP 3	91,068	0.8	0.2	0.5	0.2	0.2
TAX POLICY SP 4	98,040	0.2		0.1		
WMS BAND 2	101,410	0.0		0.0		
WMS BAND 3	115,352	0.1		0.1		
<b>Total FTEs</b>		<b>3.9</b>	<b>2.3</b>	<b>3.1</b>	<b>1.7</b>	<b>1.4</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

*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 process to amend 20 administrative rules.

- WAC 458-20-190, titled: "Sales to and by the United States and certain entities created by the United States—Doing business on federal reservations—Sales to foreign governments."
- WAC 458-20-121, titled: "Sales of heat or steam—Including production by cogeneration."
- WAC 458-20-13501, titled: "Timber harvest operations."
- WAC 458-20-17401, titled: "Use tax liability for motor vehicles, trailers, and parts used by motor carriers operating in interstate or foreign commerce."
- WAC 458-20-179, titled: "Public utility tax."
- WAC 458-20-180, titled: "Motor carriers."
- WAC 458-20-193D, titled: "Transportation, communication, public utility activities, or other services in interstate or foreign commerce."
- WAC 458-20-27901, titled: "Clean alternative fuel vehicles and plug-in hybrid vehicles."
- WAC 458-20-279, titled: "Clean alternative fuel vehicles and high gas mileage vehicles."
- WAC 458-20-265, titled: "Sales and use tax exemption—Airplane maintenance repair stations."
- WAC 458-20-146, titled: "National and state banks, mutual savings banks, savings and loan associations and other financial institutions."
- WAC 458-20-15503, titled: "Digital products."
- WAC 458-20-150, titled: "Optometrists, ophthalmologists, and opticians."
- WAC 458-20-163, titled: "Insurance companies, including surety companies, fraternal benefit societies, fraternal fire insurance associations, beneficiary corporations or societies and Washington state health insurance pool."
- WAC 458-20-182, titled: "Warehouse and other storage businesses."
- WAC 458-20-248, titled: "Sales of precious metal bullion and monetized bullion."
- WAC 458-20-258, titled: "Travel agents and tour operators."
- WAC 458-20-267, titled: "Annual tax performance reports for certain tax preferences."
- WAC 458-20-174, titled: "Sales of motor vehicles, trailers, and parts to motor carriers operating in interstate or foreign commerce."
- WAC 458-20-175, titled: "Persons engaged in the business of operating as a private or common carrier by air, rail or water in interstate or foreign commerce."

Should this legislation become law, the department will use the standard process to amend WAC 458-20-19404, titled: "Financial institutions—Income apportionment."

This rulemaking would affect about 15,000 taxpayers using the tax preferences removed in this legislation.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5794 SB	<b>Title:</b> Tax preferences	<b>Agency:</b> 405-Department of Transportation
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Operating Expenditures from:

Non-zero but indeterminate cost and/or savings. Please see discussion.

### 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: Alia Kennedy	Phone: 360-786-7405	Date: 03/20/2025
Agency Preparation: Kate Manley	Phone: 360-705-7454	Date: 04/10/2025
Agency Approval: Amber Coulson	Phone: 360-705-7525	Date: 04/10/2025
OFM Review: Brooke Gore	Phone: (564) 669-0703	Date: 04/10/2025

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.

See attached fiscal note.

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.

Section 301 (1) (b) tax is expected to increase until January 1, 2036, by \$24,000 per calendar year based on the aircrafts which have paid their registration for the 2025 calendar year. The current 2025 calendar year received \$48,000 for these aircrafts. The expected cash receipts would be a total of \$72,000 per calendar year until January 1, 2036.

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.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

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.*

# Individual State Agency Fiscal Note

**Bill Number:** 5794 SB

**Title:** Tax preferences

**Agency:** 405-Department of Transportation

## Part I: Estimates

- ☐ No Fiscal Impact (Explain required in section II. A)
- ☐ Indeterminate Cash Receipts Impact (Explain in section II. B)
- ☐ Partially Indeterminate Cash Receipts Impact (Explain in section II. B)
- ☒ Indeterminate Expenditure Impact (Explain in section II. C)
- ☐ Partially Indeterminate Expenditure Impact (Explain in section II. C)

- 
- ☒ If fiscal impact is less 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 greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, **complete entire fiscal note form Parts I-V**
  - ☐ Capital budget impact, **complete Part IV**
  - ☐ Requires new rule making, **complete Part V**
  - ☐ Revised

### Fiscal Detail

N/A

### Agency Assumptions

N/A

### Agency Contacts:

Preparer: Kate Manley	Phone: (360) 704-7454	Date: 3/28/2025
Approval: Kate Manley	Phone: (360) 704-7454	Date: 3/28/2025
Budget Manager: My-Hanh Mai	Phone: (360) 705-7545	Date: 4/2/2025

## Part II: Narrative Explanation

### II. A - Brief description of what the measure does that has fiscal impact

Section 120 removes "...all state route 16 corridor transportation systems and facilities constructed under chapter 47.46 RCW."

Section 122 repeals:

(17) RCW 82.16.046 (Exemptions-Operations of state route 16)

(18) RCW 82.29A.132 (Exemptions-Operations of state route 16)

(19) RCW 82.45.190 (Exemptions-State route No. 16 corridor transportation systems and facilities) and 1998 c 179 s 7

# Individual State Agency Fiscal Note

Sec. 207. RCW 82.04.29001 and 2003 c 168 s 602 are each amended to read as follows:

- (1) The creation and distribution of custom software is a service taxable under RCW 82.04.290 (1) Duplication of the software for the same person, or by the same person for its own use, does not change the character of the software.
- (2) The customization of prewritten computer software is a 35service taxable under RCW 82.04.290(1)

Section 301 (1) (b) increases the tax on aircraft owned and operated by a commuter air carrier that is not an airplane company as defined in RCW 84.12.200. The increase is on aircraft designated by the gross maximum take-off weight. The aircraft excise tax rate for commuter air carrier airplanes expires January 1, 2036; at that point they will be subject to property tax.

Under current law, an aircraft owned and operated by a commuter air carrier is exempt from property tax if the owner has paid the aircraft excise tax for that year. The aircraft excise tax is collected annually as a registration fee by the Department of Transportation and deposited to the Aeronautics Account for the maintenance and improvement of airports in Washington.

## II. B – Cash Receipts Impact

Section 301 (1) (b) tax is expected to increase until January 1, 2036, by \$24,000 per calendar year based on the aircrafts which have paid their registration for the 2025 calendar year. The current 2025 calendar year received \$48,000 for these aircrafts. The expected cash receipts would be a total of \$72,000 per calendar year until January 1, 2036.

## II. C - Expenditures

Section 120 removes transportation systems and facilities constructed under chapter 47.46 RCW from the property tax preference. It is indeterminate whether this will have a fiscal impact on the department if new toll transportation facilities are constructed along the state route 16 corridor.

Section 122 repeals the exemption for operations and transportations facilities from future public utility, leasehold excise and real estate taxes for facilities along the state route 16 corridor. It is indeterminate whether these costs will be incurred by the department or its contractors for any future projects.

Section 207 references the creation of customer software. From time to time, the department is a purchasing of custom software as it relates to its toll projects. It is indeterminate whether future contractors who provide software and/or services will be exposed to this tax.

## Part III: Expenditure Detail

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

N/A.

## Part IV: Capital Budget Impact

N/A.

## Part V: New Rule Making Required

N/A.



# Ten Year Analysis

<b>Bill Number: 5794 SB</b>	<b>Title: Tax preferences</b>	<b>Agency: 405 Washington State Department of Transportation</b>
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Ten-year analyses are limited to agency-estimated cash receipts associated with the new proposed taxes or fees or existing tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

☐ No Cash Receipts      ☐ Partially Indeterminate Cash Receipts      ☐ Indeterminate Cash Receipts

Name of Tax or Fee	Account Code and Title	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	Total 2026-35
Aircraft Excise Tax	039 - Aeronautics Account	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	240,000
<b>Totals</b>												

## Narrative Explanation (Required for all Taxes and/or Fees including "Indeterminate," "Partially Indeterminate," or "No Cash Receipts.")

Under current law, an aircraft owned and operated by a commuter air carrier is exempt from property tax if the owner has paid the aircraft excise tax for that year. The aircraft excise tax is collected annually as a registration fee by the Department of Transportation (WSDOT) and deposited to the Aeronautics Account for the maintenance and improvement of airports in Washington.

SB 5794, section 301 (1) (b), increases the aircraft excise tax until January 1, 2036. Based on the 2025 calendar year cash receipts, WSDOT assumes an increase of \$24,000 from \$48,000 to \$72,000 per calendar year until January 1, 2036. The aircraft excise tax rate for commuter air carrier airplanes expires January 1, 2036; at that point they will be subject to property tax.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

<b>Bill Number:</b> 5794 SB	<b>Title:</b> Tax preferences
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**Part I: Jurisdiction**-Location, type or status of political subdivision defines range of fiscal impacts.

**Legislation Impacts:**

- ☒ Cities: increase in tax revenue
- ☒ Counties: increase in tax revenue
- ☒ Special Districts: increase in tax revenue
- ☐ 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:**

Non-zero but indeterminate cost and/or savings. Please see discussion.

**Estimated expenditure impacts to:**

None

**Part III: Preparation and Approval**

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 03/27/2025
Leg. Committee Contact: Alia Kennedy	Phone: 360-786-7405	Date: 03/20/2025
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 03/27/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 03/30/2025



## Part IV: Analysis

### A. SUMMARY OF BILL

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

This bill make numerous modifications and corrections to tax preferences. It also clarifies the public policy objectives for several tax credit and exemption programs and it adds public utility tax to the in-state portion of interstate activities.

### 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.*

This bill would not impact local government expenditures because no action is required.

### 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.*

According to the Department of Revenue (DOR) changes made to the Invest in Washington deferral may decrease the revenue shared with local governments, while the removed tax preferences may increase shared revenue.

DOR estimates an increase in local revenues by \$3.338 million in the four months of impacted collections in fiscal year 2026 and by \$8.090 million in fiscal year 2027, the first full year of impacted collections. Please see the DOR fiscal note for a complete list of their data sources and assumptions.

Local Government impact:

FY 2026 -	\$ 3,338,000
FY 2027 -	\$ 8,090,000
FY 2028 -	\$ 7,600,000
FY 2029 -	\$ 7,160,000
FY 2030 -	\$ 7,140,000
FY 2031 -	\$ 7,140,000

It is unknown how this revenue increase would be distributed to the cities, counties, or special districts.

SOURCES:

Department of Revenue fiscal note, SB 5794 (2025)



# Multiple Agency Ten-Year Analysis Summary

<b>Bill Number</b>	<b>Title</b>
5794 SB	Tax preferences

This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

## Estimated Cash Receipts

	<b>Fiscal Year 2026</b>	<b>Fiscal Year 2027</b>	<b>Fiscal Year 2028</b>	<b>Fiscal Year 2029</b>	<b>Fiscal Year 2030</b>	<b>Fiscal Year 2031</b>	<b>Fiscal Year 2032</b>	<b>Fiscal Year 2033</b>	<b>Fiscal Year 2034</b>	<b>Fiscal Year 2035</b>	<b>2026-35 TOTAL</b>
Joint Legislative Audit and Review Committee	0	0	0	0	0	0	0	0	0	0	0
Department of Revenue	115,310,000	287,931,000	297,209,000	307,177,000	318,434,000	330,171,000	342,478,000	355,215,000	368,452,000	382,249,000	3,104,626,000
Department of Transportation	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	240,000
<b>Total</b>	<b>115,334,000</b>	<b>287,955,000</b>	<b>297,233,000</b>	<b>307,201,000</b>	<b>318,458,000</b>	<b>330,195,000</b>	<b>342,502,000</b>	<b>355,239,000</b>	<b>368,476,000</b>	<b>382,273,000</b>	<b>3,104,866,000</b>



# Ten-Year Analysis

<b>Bill Number</b> 5794 SB	<b>Title</b> Tax preferences	<b>Agency</b> 014 Joint Legislative Audit and Review Committee
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

☒ **No Cash Receipts**      ☐ **Partially Indeterminate Cash Receipts**      ☐ **Indeterminate Cash Receipts**

Name of Tax or Fee	Acct Code											
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Agency Preparation: Pete van Moorsel	Phone: 360-786-5185	Date: 3/25/2025 9:05:26 am
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 3/25/2025 9:05:26 am
OFM Review:	Phone:	Date:



# Ten-Year Analysis

<b>Bill Number</b> 5794 SB	<b>Title</b> Tax preferences	<b>Agency</b> 140 Department of Revenue
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

☐ **No Cash Receipts**
☐ **Partially Indeterminate Cash Receipts**
☐ **Indeterminate Cash Receipts**

## Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	Fiscal Year 2034	Fiscal Year 2035	2026-35 TOTAL
Business and occupation	24J	10,580,000	26,530,000	27,630,000	28,850,000	29,990,000	31,170,000	32,480,000	33,820,000	35,200,000	36,700,000	292,950,000
Business and occupation tax	001	76,740,000	192,800,000	200,760,000	208,880,000	217,370,000	226,220,000	235,450,000	245,030,000	255,000,000	265,350,000	2,123,600,000
Public utility tax	001	20,500,000	51,010,000	52,340,000	53,950,000	55,620,000	57,340,000	59,120,000	60,950,000	62,850,000	64,810,000	538,490,000
Retail sales tax	001	7,438,000	17,473,000	16,412,000	15,472,000	15,429,000	15,416,000	15,403,000	15,390,000	15,377,000	15,364,000	149,174,000
Retail sales tax	218	40,000	90,000	40,000								170,000
Retail sales tax	553	12,000	28,000	27,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	242,000
<b>Total Retail sales tax</b>		<b>7,490,000</b>	<b>17,591,000</b>	<b>16,479,000</b>	<b>15,497,000</b>	<b>15,454,000</b>	<b>15,441,000</b>	<b>15,428,000</b>	<b>15,415,000</b>	<b>15,402,000</b>	<b>15,389,000</b>	<b>149,586,000</b>
<b>Total</b>		<b>115,310,000</b>	<b>287,931,000</b>	<b>297,209,000</b>	<b>307,177,000</b>	<b>318,434,000</b>	<b>330,171,000</b>	<b>342,478,000</b>	<b>355,215,000</b>	<b>368,452,000</b>	<b>382,249,000</b>	<b>3,104,626,000</b>

<b>Biennial Totals</b>	<b>403,241,000</b>	<b>604,386,000</b>	<b>648,605,000</b>	<b>697,693,000</b>	<b>750,701,000</b>	<b>3,104,626,000</b>
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## Narrative Explanation (Required for Indeterminate Cash Receipts)

### PART I - ELIMINATING OBSOLETE TAX PREFERENCES

Part I removes the following 62 tax preferences and related laws the Department of Revenue (department) administers:

Business and Occupation (B&O) tax:

- Alternative fuel commercial vehicle credit (82.04.4496)
- Aluminum master alloy producers (82.04.110(2)(b))
- Aluminum smelter purchases of electricity or natural gas (82.04.4482)



# Ten-Year Analysis

Bill Number	Title	Agency
5794 SB	Tax preferences	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Narrative Explanation (Required for Indeterminate Cash Receipts)

- Electricity or gas sold to silicon smelters (82.04.545)
- Group discount purchases (82.04.421)
- Hospital delivery system reform incentive payments (82.04.43395(2)(b))
- Insurance claims for state health care coverage (82.04.4331)
- Insurance producers, title insurance agents, and surplus line brokers (82.04.260(9))
- Interest on real estate loans (82.04.29005, 82.04.4292)
- International banking facilities (82.04.315)
- International charter and freight brokers (82.04.260(6))
- International investment management (82.04.290(1), 82.04.293)
- International services (82.04.44525)
- Minor final assembly completed in Washington (82.04.4295)
- Natural gas sold to direct service industry (82.04.447)
- Nonprofit research and development (82.04.260(3))
- Packing of agricultural products (82.04.120(2)(d))
- Precious metals and bullion (82.04.062)
- Prescription drug resellers (82.04.272)
- Stevedoring (82.04.260(7))
- Testing and safety labs (82.04.434)
- Travel agents and tour operators with prior year gross income above \$250,000 (82.04.260(5)(b))
- Tuition fees - foreign degree-granting institutions (82.04.4332)

### Broker Natural Gas:

- Aluminum smelter purchases of natural gas (82.12.022(5))
- Deferral for direct service industries (82.12.024)
- Natural and manufactured gas not delivered by pipeline (82.12.022(3))
- Silicon smelter use of natural or manufactured gas (82.12.022(7))

### Hazardous Substance and Petroleum taxes:

- Alumina and natural gas (82.21.040(4))
- Petroleum used prior to 7/1/89 (82.23A.030(4))



# Ten-Year Analysis

Bill Number	Title	Agency
5794 SB	Tax preferences	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Narrative Explanation (Required for Indeterminate Cash Receipts)

### Leasehold Excise tax:

- Inmate employment programs (82.29A.130(12))
- Second Narrows bridge (82.29A.132)
- Super-efficient airplane production facilities (82.29A.137)

### Property tax:

- Second Narrows bridge (84.36.010(1))
- Student loan organizations (84.36.030(6))

### Public Utility (PU) tax:

- Aluminum smelter purchases of power (82.16.0498)
- Credit for clean alternative fuel commercial vehicles - alternative fuel vehicle infrastructure (82.16.0496)
- Credit for home energy assistance (82.16.0497)
- Electricity or gas sold to silicon smelters (82.16.315)
- Electricity sold to the direct service industry (82.16.0495)
- Farm products shipped to ports (82.16.050(10))
- Interstate transportation - shipment to ports (82.16.050(9))
- Interstate transportation - through freight (82.16.050(8))
- Second Narrows bridge (82.16.046)

### Real Estate Excise tax (REET):

- Foreclosure relocation assistance (82.45.030(3))
- Second Narrows bridge (82.45.190)
- Transfer where REET already paid or lease/contract began prior to 1951 (82.45.010(3)(I))

### Sales and Use taxes:

- Aircraft part prototypes (82.08.02566; 82.12.02566)
- Alternative fuel vehicles (82.08.809; 82.12.809)
- Alternative fuel vehicles (82.08.9999; 82.12.9999)



# Ten-Year Analysis

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## Narrative Explanation (Required for Indeterminate Cash Receipts)

- Aluminum production anodes and cathodes (82.08.02568; 82.12.02568)
- Bailed tangible personal property for research and development (82.12.0265)
- Baseball stadium deferral (36.100.090)
- Ferrosilicon (82.04.050(1)(a)(iv); 82.04.190(1)(d))
- Football stadium deferral (36.102.070)
- Gravitational wave observatory (82.08.02569; 82.12.02569)

Soft Drinks Syrup tax:

- Carbonated beverage syrup purchased before June 1, 1991 (82.64.030(4))

Part I also removes the exemption from the Insurance Premiums tax for dentistry prepayments (48.14.0201(6)(c)). The Office of Insurance Commissioner (OIC) administers this tax.

### PART II - CORRECTING INTERNAL REFERENCES

Part II corrects internal references within the law for the removed preferences.

### PART III - MODIFYING THE AIRCRAFT EXCISE TAX FOR PURPOSES OF THE COMMUTER AIR CARRIER AIRPLANES PROPERTY TAX EXEMPTION

Part III increases the annual aircraft excise tax, which the Washington State Department of Transportation (WSDOT) administers.

### Part IV - ADJUSTING FOR INFLATION THE TAX CREDITS FOR ELIGIBLE BUSINESS PROJECTS IN RURAL COUNTIES

Part IV increases the B&O tax credit available for each new employment position a business located in a rural county or with employees who reside in a Community Empowerment Zone creates. The business must be engaged in the following activities:

- Manufacturing.
- Computer-related programming and services performed by a manufacturer.



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## Narrative Explanation (Required for Indeterminate Cash Receipts)

- Research and development.
- Commercial testing laboratories.

A rural county has an average population density of fewer than 100 persons per square mile or is smaller than 225 square miles.

The increased credit equals:

- \$3,000, increased from \$2,000, for each new qualified employment position with wages and benefits equal to or below \$60,000 (an increase from \$40,000).
- \$6,000, increased from \$4,000, for each new qualified employment position with wages and benefits above \$60,000 (an increase from \$40,000).

Part IV also adds that the department must adjust the wage and benefits amount for inflation each year based on the annual percentage increase in the Consumer Price Index for all urban consumers in the Western region. This adjustment should reflect data from the most recent 12-month period, as provided by the Bureau of Labor Statistics. The department must complete the adjustment by November 25th of the year before the taxes are due.

The total statewide credit cap remains \$7.5 million per fiscal year.

## Part V - MODIFYING THE EXPIRATION DATE FOR CERTAIN TAX PREFERENCES

Part V:

- Extends the expiration date of the pilot Invest in Washington (manufacturer's job creation) sales and use taxes deferral program from January 1, 2026, to January 1, 2036.
- Adds an expiration date to the B&O deduction provided to out-of-state financial institutions when they make loans to Washington-based commercial airlines, who use the loan to purchase commercial airplanes. The out-of-state lenders may deduct B&O tax on the interest and fees they earn from the loans they provide from the measure of This deduction expires on January 1, 2036.
- Adds an expiration date to the sales and use taxes exemption for the following:
  - Airplanes sold to the United States government or for use in providing intrastate air transportation by a commuter air carrier.
  - Airplanes, locomotives, railroad cars, or watercraft for use in conducting interstate commerce.
  - Vessels for use in conducting commercial deep-sea fishing outside the territorial waters of the state.
  - Components for such equipment.
  - Labor and services for constructing, repairing, cleaning, altering, and improving such equipment.
  - This exemption expires on January 1, 2036.





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## Narrative Explanation (Required for Indeterminate Cash Receipts)

- Adds that the tax performance preference provisions do not apply to the B&O tax exemption for commercial airplane parts sold by Washington sellers for delivery to out-of-state locations.
- Clarifies that when reviewing the effectiveness of the Invest in Washington sales and use taxes deferral, at least half of the jobs each project creates must be permanent full-time jobs.

### Part VI - CLARIFYING THE PUBLIC POLICY OBJECTIVE FOR CERTAIN TAX PREFERENCES TO IMPROVE THE EFFECTIVENESS OF FUTURE TAX PREFERENCE PERFORMANCE REVIEWS

Part VI clarifies the public policy objectives for the following:

- The B&O deduction for commercial aircraft loan fees (82.04.43331).
- The B&O tax credit for aerospace preproduction expenditures (82.04.4461).
- The B&O tax credit for aerospace property and leasehold excise taxes (82.04.4463).
- The B&O tax rate for manufacturing commercial airplanes (82.04.260(7)).
- The leasehold excise tax exemption for superefficient airplane manufacturers (82.29A.137).
- The property tax exemption for aircraft owned and operated by a commuter air carrier that paid aircraft excise tax (84.36.133).
- The property tax exemption for non-profit cancer clinics or centers (84.36.046).
- The property tax exemption for non-profit hospitals for the sick (84.36.040(1)(e)).
- The property tax exemption for outpatient dialysis facilities (84.36.040(1)(f)).
- The property tax exemption for superefficient airplane manufacturers (84.36.655).
- The reduced B&O tax rate for aerospace FAR part 145 repair stations (82.04.250(3)).
- The reduced B&O tax rate for aerospace product development (82.04.290(2)).
- The sales and use taxes exemption for use in providing intrastate air transportation by a commuter air carrier (82.08.0262(1)(a)(iii)/82.12.0254(1)(a)(ii)).
- The sales and use taxes for aerospace computers, software, and peripherals (82.08.975/82.12.975).

The Joint Legislative Audit and Review Committee completes these reviews.

Part VI requires the annual tax performance report for the following:

- The B&O deduction for commercial aircraft loan fees (82.04.43331).
- The sales and use taxes exemption for use in providing intrastate air transportation by a commuter air carrier (82.08.0262(1)(a)(iii)/82.12.0254(1)(a)(ii)).



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## Narrative Explanation (Required for Indeterminate Cash Receipts)

### Part VII - CLARIFYING THE PUBLIC UTILITY TAX APPLIES TO THE IN-STATE PORTION OF INTERSTATE ACTIVITY

Part VII adds public utility tax to the in-state portion of interstate activities. The department may create a rule for apportioning or allocating gross income from the in-state portion of interstate activities. Any method used must ensure an equitable and constitutionally acceptable division of the tax base.

#### EFFECTIVE DATE

This bill takes effect on January 1, 2026.

#### ASSUMPTIONS:

The department implements these changes on January 1, 2026, impacting five months of state collections and four months of local collections in fiscal year 2026.

### PART I - ELIMINATING OBSOLETE TAX PREFERENCES

- The annual growth rates for the removed tax preferences reflect the Economic and Revenue Forecast Council's November 2024 forecast for B&O and PU taxable activities.
- The alternative fuel commercial vehicle and charging infrastructure B&O and PU credit grows at 7.5% annually.
- The annual growth rate for alternative fuel vehicle sales reflects the Transportation Revenue Forecast Council's November 2024 forecast for battery and plug-in hybrid electric vehicle registrations.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3.0%.
- The department receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenue impacts for the state and a two-month delay in revenue impacts for local jurisdictions.
- Currently, tribes with compacts receive a share of state sales and use taxes and certain business and occupation taxes (RCW 43.06.523). Additionally, local governments may also receive a portion of state sales and use taxes. Changes to the Invest in Washington deferral may decrease the revenue shared with tribes and local governments while the removed tax preferences may increase shared revenue.
- The OIC administers the insurance premiums tax. This fiscal note does not reflect the removal of the dentistry prepayments exemption. The OIC fiscal note will reflect any insurance premiums tax impacts.

### PART III - MODIFYING THE AIRCRAFT EXCISE TAX FOR PURPOSES OF THE COMMUTER AIR CARRIER AIRPLANES PROPERTY TAX EXEMPTION

- The WSDOT administers the aircraft excise tax. This fiscal note will not reflect the impact of the increased taxes. The WSDOT fiscal note will reflect any aircraft excise tax impacts.



# Ten-Year Analysis

Bill Number	Title	Agency
5794 SB	Tax preferences	140 Department of Revenue

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## Narrative Explanation (Required for Indeterminate Cash Receipts)

impacts.

### Part IV - ADJUSTING FOR INFLATION THE TAX CREDITS FOR ELIGIBLE BUSINESS PROJECTS IN RURAL COUNTIES

- Estimates of future revenue impacts are based on credits used rather than credits approved.
- The annual growth rate reflects the Economic and Revenue Forecast Council's November 2024 B&O taxable forecast.

### Part V - MODIFYING THE EXPIRATION DATE FOR CERTAIN TAX PREFERENCES

- The annual growth rate for the qualified deferral projects reflects the S&P Global Market Intelligence's November 2024 forecast for the construction of industrial building;
- Impact from adding the January 1, 2036 expiration date to the B&O deduction for interest earned on loans to purchase commercial airplanes and sales and use taxes exemption for airplanes sold to the US government or for providing intrastate air transportation by commuter air carrier, or airplanes, locomotives, railroad cars, or watercraft for use in conducting interstate commerce is beyond the fiscal note.

### Part VII - CLARIFYING THE PUBLIC UTILITY TAX APPLIES TO THE IN-STATE PORTION OF INTERSTATE ACTIVITY

- The annual growth rate reflects the Economic and Revenue Forecast Council's November 2024 taxable public utility tax forecast.
- Most freight commodity product terminals are located near interstate boundaries, the in-state portion of interstate trips will be minimal.
- Vessels, barges, and watercraft will predominantly travel in non-Washington waters.
- The estimated in-state portion of interstate trips is 30%.

### DATA SOURCES:

- Department of Revenue, Excise tax and deferral data
- Department of Revenue, 2024 Tax Exemption Study
- Economic and Revenue Forecast Council, November 2024 forecast
- Transportation Revenue Forecast Council, November 2024 forecast
- S&P Global Market Intelligence, November 2024 forecast

### REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$115.310 million in the five months of impacted collections in fiscal year 2026 and by \$287.931 million in fiscal year 2027, the first full year of impacted collections.

This bill also increases local revenues by an estimated \$3.338 million in the four months of impacted collections in fiscal year 2026 and by \$8.090 million in fiscal year 2027.



# Ten-Year Analysis

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## Narrative Explanation (Required for Indeterminate Cash Receipts)

the first full year of impacted collections.

### TOTAL REVENUE IMPACT:

#### State Government (cash basis, \$000):

FY 2026 - \$ 115,310  
FY 2027 - \$ 287,931  
FY 2028 - \$ 297,209  
FY 2029 - \$ 307,177  
FY 2030 - \$ 318,434  
FY 2031 - \$ 330,171

#### Local Government (cash basis, \$000):

FY 2026 - \$ 3,338  
FY 2027 - \$ 8,090  
FY 2028 - \$ 7,600  
FY 2029 - \$ 7,160  
FY 2030 - \$ 7,140  
FY 2031 - \$ 7,140

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OFM Review:	Phone:	Date:



# Ten-Year Analysis

<b>Bill Number</b> 5794 SB	<b>Title</b> Tax preferences	<b>Agency</b> 405 Department of Transportation
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

☐ **No Cash Receipts**
☐ **Partially Indeterminate Cash Receipts**
☐ **Indeterminate Cash Receipts**

## Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	Fiscal Year 2034	Fiscal Year 2035	2026-35 TOTAL
Aircraft Excise Tax	039	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	240,000
<b>Total</b>		<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>24,000</b>	<b>240,000</b>
<b>Biennial Totals</b>		<b>48,000</b>		<b>48,000</b>		<b>48,000</b>		<b>48,000</b>		<b>48,000</b>		<b>240,000</b>

## Narrative Explanation (Required for Indeterminate Cash Receipts)

Under current law, an aircraft owned and operated by a commuter air carrier is exempt from property tax if the owner has paid the aircraft excise tax for that year. The aircraft excise tax is collected annually as a registration fee by the Department of Transportation (WSDOT) and deposited to the Aeronautics Account for the maintenance and improvement of airports in Washington.

SB 5794, section 301 (1) (b), increases the aircraft excise tax until January 1, 2036. Based on the 2025 calendar year cash receipts, WSDOT assumes an increase of \$24,000 from \$48,000 to \$72,000 per calendar year until January 1, 2036. The aircraft excise tax rate for commuter air carrier airplanes expires January 1, 2036; at that time they will be subject to property tax.

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