

Multiple Agency Fiscal Note Summary

Bill Number: 5814 SB	Title: Excise taxes
-----------------------------	----------------------------

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	2,953,389,000	2,863,864,000	2,869,269,000	1,926,598,000	1,809,432,000	1,813,331,000	3,011,020,000	2,884,235,000	2,889,928,000
Total \$	2,953,389,000	2,863,864,000	2,869,269,000	1,926,598,000	1,809,432,000	1,813,331,000	3,011,020,000	2,884,235,000	2,889,928,000

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		1,077,590,250		1,471,938,930		1,594,478,160
Local Gov. Total		1,077,590,250		1,471,938,930		1,594,478,160

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
Department of Revenue	22.2	5,406,900	5,406,900	5,406,900	9.4	2,011,200	2,011,200	2,011,200	4.2	899,700	899,700	899,700
Total \$	22.2	5,406,900	5,406,900	5,406,900	9.4	2,011,200	2,011,200	2,011,200	4.2	899,700	899,700	899,700

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

--

Prepared by: Megan Tudor, OFM	Phone: (360) 890-1722	Date Published: Final 4/16/2025
--------------------------------------	---------------------------------	---

Department of Revenue Fiscal Note

Bill Number: 5814 SB	Title: Excise taxes	Agency: 140-Department of Revenue
-----------------------------	----------------------------	--

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	967,116,000	2,383,541,000	3,350,657,000	2,430,168,000	3,549,421,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(174,261,000)	(277,307,000)	(451,568,000)	(591,370,000)	(641,001,000)
GF-STATE-State 01 - Taxes 26 - Other Tobacco Tax	15,200,000	39,100,000	54,300,000	87,800,000	102,600,000
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	(34,534,000)	(54,991,000)	(89,525,000)	(117,166,000)	(126,785,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	1,568,000	3,837,000	5,405,000	3,899,000	5,693,000
Total \$	775,089,000	2,094,180,000	2,869,269,000	1,813,331,000	2,889,928,000

Estimated Expenditures from:

Account	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	23.9	20.5	22.2	9.4	4.2
GF-STATE-State 001-1	2,991,000	2,415,900	5,406,900	2,011,200	899,700
Total \$	2,991,000	2,415,900	5,406,900	2,011,200	899,700

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: 603-786-7405	Date: 04/15/2025
Agency Preparation:	Victor Crosetti	Phone: 603-534-1554	Date: 04/16/2025
Agency Approval:	Valerie Torres	Phone: 603-534-1521	Date: 04/16/2025
OFM Review:	Megan Tudor	Phone: (603) 890-1722	Date: 04/16/2025

Request # 5814-1-1

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:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Business and occupation (B&O) tax applies to the gross receipts of businesses operating in Washington, without deductions for the cost of doing business.

Certain services are taxable under special classifications and rates as follows:

- Broadcasting, child care, insurance agencies, and brokerages pay a 0.484% B&O tax rate.
- Hospitals, qualified co-ops, real estate commissions, royalties, and scientific research and development pay a 1.5% B&O tax rate.
- All other service activities pay the service and other activities B&O tax rate of either:
 - 1.5% for businesses with taxable service and other activities income less than \$1 million in the prior year.
 - 1.75% for businesses with taxable service and other activities income of \$1 million or more in the prior year.

PART II – ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

Sales or use taxes apply to all digital products, regardless of how they are accessed. Digital products are digital goods and digital automated services (DAS).

A DAS is any service transferred electronically that uses one or more software applications.

A digital good is a sound, image, data, fact, or information, or any combination thereof, transferred or accessed electronically.

Some DAS exclusions exist that exempt specific DAS from the definition of retail sales. A few of those exclusions include, but are not limited to:

- Any service that primarily involves the seller's application of human effort.
- Advertising services.
- Data processing services.

The above exclusions are exempt from retail sales tax and retailing business and occupation (B&O) tax; they are instead subject to the service and other activities B&O tax.

Digital goods concurrently available for use inside and outside Washington are not subject to retail sales or use taxes if the goods or services are not for personal use.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

The other tobacco products (OTP) tax applies to moist snuff and other tobacco products. "Moist snuff" is tobacco that is finely cut, ground, or powdered; is not for smoking; and is intended to be placed in the oral, but not the nasal, cavity.

“Tobacco products” include products, regardless of form, that contain tobacco, but does not include cigarettes.

PART IV - REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

The combined excise tax return for monthly filers is due on the 25th of the following month. For example, the June tax

return is due July 25.

This creates a delay between when retailers receive the sales tax from their customers and remit those funds to the state.

PROPOSAL:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Part I defines the following as retail sales:

- Custom software.
- Custom website design, support, and development services.
- Information technology technical consulting.
- Information technology related training services, technical support, and other services.
- Investigation, security services, security monitoring, armored car services (not locksmiths).
- Temporary staffing.
- Advertising, with the exception of printing, publishing, radio, and television

This results in the sales of these services being taxed at the retailing B&O rate of 0.471% and becoming subject to retail sales tax.

PART II – ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

Part II eliminates the exclusions from the definition of digital automated services for the following:

- Data processing
- Advertising
- Human effort
- Live presentations

The eliminated exclusions are subject to retailing B&O tax and retail sales tax or use tax.

This proposal also requires taxpayers to provide an exemption certificate at the time of purchase or within 90 days of such purchase when claiming the multiple points of use exclusion for digital goods.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

Part III changes the definitions of "moist snuff" and "tobacco products" to include products containing nicotine, subjecting those products to the OTP tax.

"Moist snuff" now includes not only tobacco, but also similar products containing nicotine.

"Tobacco products" now include products that contain not only tobacco, but also nicotine, whether derived from tobacco or created synthetically.

The definition of "tobacco products" is amended so that the OTP tax will also apply to nicotine cessation products.

PART IV - REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

Part IV imposes a one-time prepayment of state sales tax collected during June 2027 for monthly filers with \$3 million or more taxable retail sales during Calendar Year 2026.

The identified monthly filers would be required to make a prepayment of state sales tax on June 25, 2027, equal to 80% of their state sales tax collected and remitted for the June 2026 reporting period.

This would shift approximately 80% of one month's state sales tax collections from fiscal year 2028 (July 2027) to fiscal year 2027 (June 2027).

This does not include use tax.

Monthly filers meeting the calendar year 2026 threshold will be notified that they must submit a prepayment for their June 2027 state sales tax. This notification will include an estimate of the amount due.

The estimated payments are due by June 25, 2027, to allow processing time before the end of the month.

- Automated Clearing House (ACH) debit and credit card payments will not be warehoused and will be processed immediately.
- ACH credit payments will be posted the following day after transmission. These payments need to be received by June 25, 2027.

A unique one-time payment option will be developed for taxpayers to utilize. This will designate the payment as a prepayment for the June 2027 excise tax return.

- Prepayments not sent with this payment option will be posted to the taxpayer's account and will not follow the funding setup.
- These payments will be located and manually adjusted for the special payment type.
- If these payments are not received and identified by June 30, 2027, they will not post correctly nor be received in fiscal year 2027.

Prepayments are deposited into the General Fund.

The tax return and remaining tax liability is due July 27, 2027. Retailers must correct the collection amounts on the regularly filed excise tax returns due July 27, 2027. Filers will see their prepayment applied to their June return. Once the return is filed, the tax will be appropriately distributed.

A one-time 10% penalty will apply for failing to submit a prepayment or submitting a prepayment lower than 80% of the June 2026 state sales tax. The department can waive this penalty if the taxpayer can show that June 2027 taxable retail sales were less than 80% of June 2026.

EFFECTIVE DATE:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Part I takes effect on October 1, 2025.

PART II – ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

Part II takes effect on October 1, 2025.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

Part II takes effect on January 1, 2026.

PART IV - REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

Part III takes effect on January 1, 2027.

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 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. Under this legislation, the amount of revenue shared with tribes and local governments may increase.

EXTENDING RETAIL SALES TAX TO SELECT SERVICES

- Lower compliance factors applied for some industries.
- The annual growth rate reflects the Economic and Revenue Forecast Council's November 2024 business and occupation tax forecast.
- This proposal takes effect October 1, 2025, and impacts eight months of state collections and seven months of local collections in fiscal year 2026.

ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

- The tax impact from repealing the DAS exclusion for primarily human effort is indeterminate.
- 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 revenues for the state and a two-month delay for local jurisdictions.
- Local revenue estimates use the statewide average local sales and use tax rate of 3.00%.

CONCERNING THE TAXATION OF NICOTINE PRODUCTS

- A typical alternative nicotine product costs \$7/unit.
- Washington's population is 2.4% of the U.S. population.
- Nicotine cessation products sale in the U.S. ranges from \$1.2 billion to \$1.5 billion annually.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3%.
- The department will implement this bill by January 1, 2026, impacting five months of state collections and four months of local collections in fiscal year 2026.

REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

- Taxpayers will make the necessary payment in a timely manner. The department will not need to assess penalties.
- Payments will include local sales tax collections. These amounts will be distributed to the local jurisdictions in August 2027 as usual.

Request # 5814-1-1

DATA SOURCES:

- US Census Bureau, Population data
- US Census Bureau, 2012 Economic Census data
- Economic and Revenue Forecast Council, November 2024 forecast
- Department of Revenue, Excise tax data
- Tobacco Insider, <https://tobaccoinsider.com>
- Office of Financial Management, Population data

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$775.089 million in fiscal year 2026, and by an estimated \$2.094 billion in fiscal year 2027.

This bill also increases local revenues by an estimated \$391.069 million in collections in fiscal year 2026, and by an estimated \$697.406 million in collections in fiscal year 2027.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 775,089
FY 2027 -	\$ 2,094,180
FY 2028 -	\$ 454,900
FY 2029 -	\$ 1,358,431
FY 2030 -	\$ 1,414,973
FY 2031 -	\$ 1,474,955

Local Government, if applicable (cash basis, \$000):

FY 2026 -	\$ 391,069
FY 2027 -	\$ 697,406
FY 2028 -	\$ 728,401
FY 2029 -	\$ 758,406
FY 2030 -	\$ 789,145
FY 2031 -	\$ 821,439

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 proposal affects approximately 35,000 taxpayers.

FIRST YEAR COSTS:

The department will incur total costs of \$2,991,000 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 23.87 FTEs.

- Amend eight administrative rules.
- Amend four excise tax advisories.
- Create a special notice and update relevant information on the department’s website.
- Increased policy guidance to address administrative and legal concerns due to the complexity in rulemaking.
- Set up, program, and test computer system changes.
- Hear additional administrative reviews that provide taxpayers with an informal, non-adversarial dispute resolution

process for the review of a disputed action by the department, such as an assessment of taxes, notice of taxes due, denial of a refund request, or tax ruling.

- Accounting activities for the new tax; compiling receivable information for statewide financial statements and stakeholders.

- Process 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.

- Gathering requirements, attending implementation meetings, and documenting and testing system changes.

- Answer additional phone calls and counter inquiries from businesses, individuals, and accountants regarding tax questions and tax return preparation.

- Meet with tribes with revenue-sharing compact agreements to discuss changes that would be appropriate to preserve the intended benefits of the negotiated compact.

- Respond to data requests and questions, compile statistics, and manage data.

- Conduct audits.

- Investigate and examine accounts to ensure tax compliance. Make corrections and assessments as necessary.

- Correspond with taxpayers impacted by their account change.

Object Costs - \$226,300.

- Computer system changes, including contract programming.

- Travel expenses for meetings with compacting tribes.

- Printing and postage.

- Supplies and materials for new business packets.

SECOND YEAR COSTS:

The department will incur total costs of \$2,415,900 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 20.5 FTEs.

- Conduct additional administrative reviews of notices and assessments.

- Conduct additional audits.

- Review and adjust accounting reports.

- Implementation meetings, monitor reports, quality check and work review, prepare statistics, verify imaging, index data items, archive tax information and retrieve documents from archive.

- Continue to investigate accounts and make corrections and assessments as necessary.

- Continue to respond to data requests and questions, compile statistics, and manage data.

- Continue to process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.

- Continue to examine accounts and make corrections as necessary.

- Continued computer system testing, monitoring, and maintenance.

- Continue to answer phone calls and counter inquiries.

- Meet with tribes with revenue-sharing compact agreements to discuss changes that would be appropriate to preserve the intended benefits of the negotiated compact.

Object Costs - \$40,600.

- Travel expenses for meetings with compacting tribes.

- Printing and postage.

ONGOING COSTS:

Ongoing costs for the 2027-29 biennium equal \$2,011,200 and include similar activities described in the second-year costs. Time and effort equate to 9.4 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	23.9	20.5	22.2	9.4	4.2
A-Salaries and Wages	1,696,100	1,489,800	3,185,900	1,244,800	553,500
B-Employee Benefits	610,500	536,400	1,146,900	448,300	199,300
C-Professional Service Contracts	168,000		168,000		
E-Goods and Other Services	358,200	289,300	647,500	262,800	117,300
G-Travel	62,800	53,000	115,800	18,800	13,800
J-Capital Outlays	95,400	47,400	142,800	36,500	15,800
Total \$	\$2,991,000	\$2,415,900	\$5,406,900	\$2,011,200	\$899,700

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
CUSTOMER SERV SP2	44,736	0.1		0.1		
EMS BAND 4	135,635	0.0		0.0		
EMS BAND 5	158,451	0.0		0.0		
EXCISE TAX EX 1	47,988		0.1	0.1		
EXCISE TAX EX 2	59,844	1.5	1.1	1.3	1.1	0.4
EXCISE TAX EX 3	66,012	1.6	0.8	1.2	0.6	0.3
EXCISE TAX EX 4	72,924	0.2	0.1	0.2	0.2	
IT B A-JOURNEY	94,728	0.4	0.2	0.3		
IT B A-SR/SPEC	104,412		0.3	0.2		
IT QA-JOURNEY	94,728	0.5	0.5	0.5		
IT QA-SR/SPEC	104,412	0.1	0.1	0.1		
IT SYS ADM-JOURNEY	99,444	0.3		0.2		
MGMT ANALYST4	78,468	1.0	0.8	0.9		
REVENUE AGENT 2	61,404	1.5	4.5	3.0	3.0	2.0
REVENUE AUDITOR 2	66,012	0.8	0.8	0.8	0.8	0.8
REVENUE AUDITOR 3	72,924	0.3	0.3	0.3	0.3	0.3
REVENUE AUDITOR SUPV	98,040	0.3	0.3	0.3	0.3	0.3
TAX INFO SPEC 1	47,988	7.4	3.9	5.7	1.6	
TAX POLICY SP 2	80,460	1.3	0.8	1.1	0.2	
TAX POLICY SP 3	91,068	4.5	3.8	4.1	1.1	0.1
TAX POLICY SP 4	98,040	1.7	1.5	1.6	0.2	
WMS BAND 1	82,395		0.1	0.1		
WMS BAND 2	101,410	0.0	0.2	0.1	0.1	
WMS BAND 3	115,352	0.4	0.3	0.4		
Total FTEs		23.9	20.5	22.2	9.4	4.2

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited rulemaking process to amend the following rules:

- WAC 458-20-204, titled: "Outdoor advertising and advertising display services."
- WAC 458-20-274, titled: "Staffing services."
- WAC 458-20-224, titled: "Service and other business activities."
- WAC 458-20-218, titled: "Advertising agencies."

The department will use the standard process to amend the following rules:

- WAC 458-20-15503, titled: "Digital products."
- WAC 458-20-19402, titled: "Single factor receipts apportionment - Generally."
- WAC 458-20-15502, titled: "Taxation of computer software."

The department will use the standard process to create a new rule:

- WAC 458-20-NEW, titled: "Taxability of certain services as retail."

This rulemaking would affect persons who are in the advertising business, business management strategy and planning services, custom software, information technology technical consulting, temporary staffing, investigation, security services, security monitoring, armored car services, marketing research and consulting, office support services, and satellite and cable services.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5814 SB	Title: Excise taxes
-----------------------------	----------------------------

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

Legislation Impacts:

- Cities: increase in sales tax revenue
- Counties: increase in sales tax revenue
- Special Districts: increase in sales 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:

Jurisdiction	FY 2026	FY 2027	2025-27	2027-29	2029-31
City	116,805,662	208,303,316	325,108,978	444,083,975	481,054,061
County	144,022,891	256,840,682	400,863,573	547,561,282	593,145,876
Special District	126,329,757	225,287,942	351,617,699	480,293,673	520,278,223
TOTAL \$	387,158,310	690,431,940	1,077,590,250	1,471,938,930	1,594,478,160
GRAND TOTAL \$					4,144,007,340

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 04/16/2025
Leg. Committee Contact: Alia Kennedy	Phone: 360-786-7405	Date: 04/15/2025
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 04/16/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 04/16/2025

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill:

- Extends retail sales and use tax to certain specified services.
- Makes certain products containing nicotine subject to the other tobacco products tax.
- Imposes a one-time prepayment of state sales tax collections for businesses with \$3 million or more in taxable retail sales during calendar year 2026.

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.

By extending retail sales and use tax to certain specified services, this bill would increase local government sales and use tax revenue.

According to the Department of Revenue (DOR) this bill would increase local revenues by an estimated \$391.069 million in collections in fiscal year 2026, and by an estimated \$697.406 million in collections in fiscal year 2027. Please see the DOR fiscal note for a complete list of their data sources and assumptions.

SALES TAX INCREASE BREAKDOWN

Counties:

FY 2026	\$144,022,891
FY 2027	\$256,840,682
FY 2028	\$268,255,520
FY 2029	\$279,305,762
FY 2030	\$290,626,321
FY 2031	\$302,519,555

Cities:

FY 2026	\$116,805,662
FY 2027	\$208,303,316
FY 2028	\$217,560,996
FY 2029	\$226,522,979
FY 2030	\$235,704,196
FY 2031	\$245,349,865

Special Districts:

FY 2026	\$126,329,757
FY 2027	\$225,287,942
FY 2028	\$235,300,474
FY 2029	\$244,993,199
FY 2030	\$254,923,033
FY 2031	\$265,355,190

METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2023. Distributions in 2023 were 37.20 percent to counties, 30.17 percent to cities, and 32.63 percent to special districts. A one percent DOR administrative fee has been deducted from the total.

SOURCES:

Department of Revenue fiscal note, SB 5814 (2025)

Department of Revenue Local Tax Distributions (2023)

Local Government Fiscal Note program, Local Sales Tax model (2025)

Local Government Fiscal Note Program “Sales and Use Tax Distribution Model” (2025)

Senate Bill Report, Ways & Means Committee (04/16/2025)



Multiple Agency Ten-Year Analysis Summary

Bill Number 5814 SB	Title Excise taxes
-------------------------------	------------------------------

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

Estimated Cash Receipts

	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
Department of Revenue	775,089,000	2,094,180,000	454,900,000	1,358,431,000	1,414,973,000	1,474,955,000	1,537,465,000	1,602,450,000	1,670,937,000	1,747,107,000	14,130,487,000



Ten-Year Analysis

Bill Number 5814 SB	Title Excise taxes	Agency 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>.

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 Tax	001	(174,261,000)	(277,307,000)	(289,742,000)	(301,628,000)	(313,977,000)	(327,024,000)	(340,200,000)	(354,310,000)	(368,765,000)	(384,241,000)	(3,131,455,000)
Business and Occupation Tax	24J	(34,534,000)	(54,991,000)	(57,380,000)	(59,786,000)	(62,206,000)	(64,579,000)	(67,394,000)	(70,147,000)	(72,944,000)	(75,617,000)	(619,578,000)
Total Business and Occupation Tax		(208,795,000)	(332,298,000)	(347,122,000)	(361,414,000)	(376,183,000)	(391,603,000)	(407,594,000)	(424,457,000)	(441,709,000)	(459,858,000)	(3,751,033,000)
Other Tobacco Products Tax	001	15,200,000	39,100,000	42,200,000	45,600,000	49,300,000	53,300,000	57,800,000	62,600,000	67,900,000	73,600,000	506,600,000
Retail Sales Tax	001	967,116,000	2,383,541,000	758,608,000	1,671,560,000	1,739,098,000	1,810,323,000	1,884,246,000	1,961,210,000	2,041,464,000	2,129,984,000	17,347,150,000
Retail Sales Tax	553	1,568,000	3,837,000	1,214,000	2,685,000	2,758,000	2,935,000	3,013,000	3,097,000	3,282,000	3,381,000	27,770,000
Total Retail Sales Tax		968,684,000	2,387,378,000	759,822,000	1,674,245,000	1,741,856,000	1,813,258,000	1,887,259,000	1,964,307,000	2,044,746,000	2,133,365,000	17,374,920,000
Total		775,089,000	2,094,180,000	454,900,000	1,358,431,000	1,414,973,000	1,474,955,000	1,537,465,000	1,602,450,000	1,670,937,000	1,747,107,000	14,130,487,000
Biennial Totals		2,869,269,000	1,813,331,000	2,889,928,000	3,139,915,000	3,418,044,000	14,130,487,000					

Narrative Explanation (Required for Indeterminate Cash Receipts)

CURRENT LAW:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Business and occupation (B&O) tax applies to the gross receipts of businesses operating in Washington, without deductions for the cost of doing business.

Certain services are taxable under special classifications and rates as follows:

- Broadcasting, child care, insurance agencies, and brokerages pay a 0.484% B&O tax rate.



Ten-Year Analysis

Bill Number 5814 SB	Title Excise taxes	Agency 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)

- Hospitals, qualified co-ops, real estate commissions, royalties, and scientific research and development pay a 1.5% B&O tax rate.
- All other service activities pay the service and other activities B&O tax rate of either:
 - 1.5% for businesses with taxable service and other activities income less than \$1 million in the prior year.
 - 1.75% for businesses with taxable service and other activities income of \$1 million or more in the prior year.

PART II – ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

Sales or use taxes apply to all digital products, regardless of how they are accessed. Digital products are digital goods and digital automated services (DAS).

A DAS is any service transferred electronically that uses one or more software applications.

A digital good is a sound, image, data, fact, or information, or any combination thereof, transferred or accessed electronically.

Some DAS exclusions exist that exempt specific DAS from the definition of retail sales. A few of those exclusions include, but are not limited to:

- Any service that primarily involves the seller's application of human effort.
- Advertising services.
- Data processing services.

The above exclusions are exempt from retail sales tax and retailing business and occupation (B&O) tax; they are instead subject to the service and other activities B&O tax.

Digital goods concurrently available for use inside and outside Washington are not subject to retail sales or use taxes if the goods or services are not for personal use.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

The other tobacco products (OTP) tax applies to moist snuff and other tobacco products. "Moist snuff" is tobacco that is finely cut, ground, or powdered; is not for smoking and is intended to be placed in the oral, but not the nasal, cavity.

"Tobacco products" include products, regardless of form, that contain tobacco, but does not include cigarettes.

PART IV - REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

The combined excise tax return for monthly filers is due on the 25th of the following month. For example, the June tax return is due July 25.



Ten-Year Analysis

Bill Number	Title	Agency
5814 SB	Excise taxes	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)

This creates a delay between when retailers receive the sales tax from their customers and remit those funds to the state.

PROPOSAL:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Part I defines the following as retail sales:

- Custom software.
- Custom website design, support, and development services.
- Information technology technical consulting.
- Information technology related training services, technical support, and other services.
- Investigation, security services, security monitoring, armored car services (not locksmiths).
- Temporary staffing.
- Advertising, with the exception of printing, publishing, radio, and television

This results in the sales of these services being taxed at the retailing B&O rate of 0.471% and becoming subject to retail sales tax.

PART II – ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

Part II eliminates the exclusions from the definition of digital automated services for the following:

- Data processing
- Advertising
- Human effort
- Live presentations

The eliminated exclusions are subject to retailing B&O tax and retail sales tax or use tax.

This proposal also requires taxpayers to provide an exemption certificate at the time of purchase or within 90 days of such purchase when claiming the multiple points of exclusion for digital goods.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

Part III changes the definitions of "moist snuff " and " tobacco products" to include products containing nicotine, subjecting those products to the OTP tax.



Ten-Year Analysis

Bill Number	Title	Agency
5814 SB	Excise taxes	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)

"Moist snuff" now includes not only tobacco, but also similar products containing nicotine.

"Tobacco products" now include products that contain not only tobacco, but also nicotine, whether derived from tobacco or created synthetically.

The definition of "tobacco products" is amended so that the OTP tax will also apply to nicotine cessation products.

PART IV - REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

Part IV imposes a one-time prepayment of state sales tax collected during June 2027 for monthly filers with \$3 million or more taxable retail sales during Calendar Year 2026.

The identified monthly filers would be required to make a prepayment of state sales tax on June 25, 2027, equal to 80% of their state sales tax collected and remitted for June 2026 reporting period.

This would shift approximately 80% of one month's state sales tax collections from fiscal year 2028 (July 2027) to fiscal year 2027 (June 2027).

This does not include use tax.

Monthly filers meeting the calendar year 2026 threshold will be notified that they must submit a prepayment for their June 2027 state sales tax. This notification will include an estimate of the amount due.

The estimated payments are due by June 25, 2027, to allow processing time before the end of the month.

- Automated Clearing House (ACH) debit and credit card payments will not be warehoused and will be processed immediately.
- ACH credit payments will be posted the following day after transmission. These payments need to be received by June 25, 2027.

A unique one-time payment option will be developed for taxpayers to utilize. This will designate the payment as a prepayment for the June 2027 excise tax return.

- Prepayments not sent with this payment option will be posted to the taxpayer's account and will not follow the funding setup.
- These payments will be located and manually adjusted for the special payment type.
- If these payments are not received and identified by June 30, 2027, they will not post correctly nor be received in fiscal year 2027.



Ten-Year Analysis

Bill Number	Title	Agency
5814 SB	Excise taxes	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)

Prepayments are deposited into the General Fund.

The tax return and remaining tax liability is due July 27, 2027. Retailers must correct the collection amounts on the regularly filed excise tax returns due July 27, 2027. Filers will see their prepayment applied to their June return. Once the return is filed, the tax will be appropriately distributed.

A one-time 10% penalty will apply for failing to submit a prepayment or submitting a prepayment lower than 80% of the June 2026 state sales tax. The department can waive this penalty if the taxpayer can show that June 2027 taxable retail sales were less than 80% of June 2026.

EFFECTIVE DATE:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Part I takes effect on October 1, 2025.

PART II – ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

Part II takes effect on October 1, 2025.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

Part II takes effect on January 1, 2026.

PART IV - REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

Part III takes effect on January 1, 2027.

ASSUMPTIONS:

- 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 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 government may also receive a portion of state sales and use taxes. Under this legislation, the amount of revenue shared with tribes and local governments may increase.

EXTENDING RETAIL SALES TAX TO SELECT SERVICES



Ten-Year Analysis

Bill Number	Title	Agency
5814 SB	Excise taxes	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)

- Lower compliance factors applied for some industries.
- The annual growth rate reflects the Economic and Revenue Forecast Council's November 2024 business and occupation tax forecast.
- This proposal takes effect October 1, 2025, and impacts eight months of state collections and seven months of local collections in fiscal year 2026.

ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

- The tax impact from repealing the DAS exclusion for primarily human effort is indeterminate.
- 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 revenues for the state and a two-month delay for local jurisdictions.
- Local revenue estimates use the statewide average local sales and use tax rate of 3.00%.

CONCERNING THE TAXATION OF NICOTINE PRODUCTS

- A typical alternative nicotine product costs \$7/unit.
- Washington's population is 2.4% of the U.S. population.
- Nicotine cessation products sale in the U.S. ranges from \$1.2 billion to \$1.5 billion annually.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3%.
- The department will implement this bill by January 1, 2026, impacting five months of state collections and four months of local collections in fiscal year 2026.

REQUIRING CERTAIN BUSINESSES TO MAKE A ONE-TIME PREPAYMENT OF STATE SALES TAX COLLECTIONS

- Taxpayers will make the necessary payment in a timely manner. The department will not need to assess penalties.
- Payments will include local sales tax collections. These amounts will be distributed to the local jurisdictions in August 2027 as usual.

DATA SOURCES:

- US Census Bureau, Population data
- US Census Bureau, 2012 Economic Census data
- Economic and Revenue Forecast Council, November 2024 forecast
- Department of Revenue, Excise tax data
- Tobacco Insider, <https://tobaccoinsider.com>
- Office of Financial Management, Population data



Ten-Year Analysis

Bill Number 5814 SB	Title Excise taxes	Agency 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)

<p>REVENUE ESTIMATES: This bill increases state revenues by an estimated \$775.089 million in fiscal year 2026, and by an estimated \$2.094 billion in fiscal year 2027.</p> <p>This bill also increases local revenues by an estimated \$391.069 million in collections in fiscal year 2026, and by an estimated \$697.406 million in collections in fiscal year 2027.</p> <p>TOTAL REVENUE IMPACT:</p> <p>State Government (cash basis, \$000):</p> <table> <tr><td>FY 2026 -</td><td>\$ 775,089</td></tr> <tr><td>FY 2027 -</td><td>\$ 2,094,180</td></tr> <tr><td>FY 2028 -</td><td>\$ 454,900</td></tr> <tr><td>FY 2029 -</td><td>\$ 1,358,431</td></tr> <tr><td>FY 2030 -</td><td>\$ 1,414,973</td></tr> <tr><td>FY 2031 -</td><td>\$ 1,474,955</td></tr> </table> <p>Local Government, if applicable (cash basis, \$000):</p> <table> <tr><td>FY 2026 -</td><td>\$ 391,069</td></tr> <tr><td>FY 2027 -</td><td>\$ 697,406</td></tr> <tr><td>FY 2028 -</td><td>\$ 728,401</td></tr> <tr><td>FY 2029 -</td><td>\$ 758,406</td></tr> <tr><td>FY 2030 -</td><td>\$ 789,145</td></tr> <tr><td>FY 2031 -</td><td>\$ 821,439</td></tr> </table>	FY 2026 -	\$ 775,089	FY 2027 -	\$ 2,094,180	FY 2028 -	\$ 454,900	FY 2029 -	\$ 1,358,431	FY 2030 -	\$ 1,414,973	FY 2031 -	\$ 1,474,955	FY 2026 -	\$ 391,069	FY 2027 -	\$ 697,406	FY 2028 -	\$ 728,401	FY 2029 -	\$ 758,406	FY 2030 -	\$ 789,145	FY 2031 -	\$ 821,439
FY 2026 -	\$ 775,089																							
FY 2027 -	\$ 2,094,180																							
FY 2028 -	\$ 454,900																							
FY 2029 -	\$ 1,358,431																							
FY 2030 -	\$ 1,414,973																							
FY 2031 -	\$ 1,474,955																							
FY 2026 -	\$ 391,069																							
FY 2027 -	\$ 697,406																							
FY 2028 -	\$ 728,401																							
FY 2029 -	\$ 758,406																							
FY 2030 -	\$ 789,145																							
FY 2031 -	\$ 821,439																							

Agency Preparation: Victor Crosetti	Phone: 360-534-1554	Date: 4/16/2025 11:57:19 an
Agency Approval: Valerie Torres	Phone: 360-534-1521	Date: 4/16/2025 11:57:19 an
OFM Review:	Phone:	Date: