

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5794 E S SB PL	<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	135,150,000	148,450,000	148,490,000	216,400,000	236,720,000	236,772,000	244,100,000	266,120,000	266,172,000
<b>Total \$</b>	<b>135,150,000</b>	<b>148,450,000</b>	<b>148,490,000</b>	<b>216,400,000</b>	<b>236,720,000</b>	<b>236,772,000</b>	<b>244,100,000</b>	<b>266,120,000</b>	<b>266,172,000</b>

## 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	1.4	583,200	583,200	583,200	.3	80,300	80,300	80,300	.2	64,200	64,200	64,200
Office of Insurance Commissioner	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Transportation	Fiscal note not available											
<b>Total \$</b>	<b>1.4</b>	<b>583,200</b>	<b>583,200</b>	<b>583,200</b>	<b>0.3</b>	<b>80,300</b>	<b>80,300</b>	<b>80,300</b>	<b>0.2</b>	<b>64,200</b>	<b>64,200</b>	<b>64,200</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
Office of Insurance Commissioner	.0	0	0	.0	0	0	.0	0	0
Department of Transportation	Fiscal note not available								
<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

<b>Prepared by:</b> Megan Tudor, OFM	<b>Phone:</b> (360) 890-1722	<b>Date Published:</b> Preliminary 5/14/2025
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# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5794 E S SB PL	<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.

Legislative Contact:	Phone:	Date: 05/05/2025
Agency Preparation: Pete van Moorsel	Phone: 360-786-5185	Date: 05/06/2025
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 05/06/2025
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 05/13/2025

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.

ES SB 5794 repeals multiple tax preferences.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

JLARC 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.

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 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.

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 E S SB PL	<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	6,800,000	16,200,000	23,000,000	32,400,000	32,400,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	28,470,000	80,140,000	108,610,000	179,000,000	206,700,000
GF-STATE-State 01 - Taxes 35 - Public Utilities Tax	1,040,000	2,500,000	3,540,000	5,000,000	5,000,000
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	3,790,000	9,510,000	13,300,000	20,320,000	22,020,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	10,000	30,000	40,000	52,000	52,000
<b>Total \$</b>	40,110,000	108,380,000	148,490,000	236,772,000	266,172,000

### Estimated Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	2.4	0.4	1.4	0.3	0.2
<b>Account</b>					
GF-STATE-State 001-1	524,200	59,000	583,200	80,300	64,200
<b>Total \$</b>	524,200	59,000	583,200	80,300	64,200

### Estimated Capital Budget Impact:

NONE

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*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:	Phone:	Date: 05/05/2025
Agency Preparation: Marianne McIntosh	Phone: (360) 534-1505	Date: 05/07/2025
Agency Approval: Valerie Torres	Phone: (360) 534-1521	Date: 05/07/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 05/13/2025

Request # 5794-4-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

Note: This fiscal note reflects language in ESSB 5794 as passed in the 2025 Legislative Session.

#### COMPARISON OF THE BILL AS PASSED THE LEGISLATURE TO THE ENGROSSED SUBSTITUTE BILL.

The bill, as passed by the legislature, does the following:

- Aligns the business and occupation tax (B&O) tax rates on gross receipts from the rental of self-storage units with the service and other B&O tax rates.
- Clarifies sale of real estate excludes the gross proceeds from individual storage space rentals or individual storage space leases for 30 days or longer at a self-service storage facility.
- Returns the following exemptions to current law:
  - The preferential B&O tax rate for warehousing and reselling prescription drugs, insurance agents, surplus line brokers, and investment management services.
  - The dentistry prepayment insurance premium tax exemption.
  - The international banking facilities B&O tax exemption.

#### PART I - ELIMINATING OBSOLETE TAX PREFERENCES

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

Business and Occupation (B&O) tax:

- Title insurance agents (82.04.260(9))
- Interest on real estate loans (82.04.29005, 82.04.4292)
- International services (82.04.44525)
- Precious metals and bullion (82.04.062)
- Testing and safety labs (82.04.434)

Public Utility (PU) tax:

- Credit for home energy assistance (82.16.0497)

Part I amends the credit union B&O tax exemption. If a credit union merges or acquires a bank regulated by the Department of Financial Institutions, it no longer qualifies for the exemption from B&O tax, and a new B&O tax rate of 1.2% applies.

#### PART II - CORRECTING INTERNAL REFERENCES

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

#### PART III - ELIMINATING THE BUSINESS AND OCCUPATION TAX EXEMPTION FOR THE RENTAL OR LEASE OF INDIVIDUAL STORAGE SPACE AT SELF-SERVICE STORAGE FACILITIES

Part III makes the rental of self-service storage units taxable at the rate of:

- 1.75% for businesses with taxable income of \$1 million or more in the prior year.

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- 1.5% for businesses with taxable income less than \$1 million in the prior year. However, if a business is affiliated with one or more other businesses, and the aggregate gross income of all affiliated businesses is greater than or equal to \$1,000,000 for the immediately preceding calendar year, the business must pay the higher rate.

Affiliate means a business that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another person.

#### EFFECTIVE DATE

Except for sections 102, 301, and 302, this bill takes effect on January 1, 2026.

Section 102 takes effect January 1, 2034.

Sections 301 and 302 take effect on April 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:

##### 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.
- 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. The removed tax preferences may increase the revenue shared with tribes and local governments.
- No credit unions meet the definition of a specified financial institution, so the specified financial institution surcharge does not apply.
- Washington chartered credit unions attribute all their income to Washington.
- Two credit unions will be subject to this tax in fiscal year 2026. One additional credit union will become subject to this tax in each subsequent fiscal year.
- Based on credit unions acquiring or merging with a bank, a credit union's taxable income averages approximately \$185 million.
- 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.
- Part I of this legislation takes effect January 1, 2026, impacting five months of state collections and four months of local collections in fiscal year 2026.

##### PART III ELIMINATING THE BUSINESS AND OCCUPATION TAX EXEMPTION FOR THE RENTAL OR LEASE OF INDIVIDUAL STORAGE SPACE AT SELF-SERVICE STORAGE FACILITIES

- The majority of storage unit rental income is for rentals lasting 30 or more days. The revenue for storage units renting less than 30 days is indeterminate, but presumed to be minimally positive.
- There is some litigation risk that the courts would invalidate this tax on the rental of storage units on the grounds that rental income from real property is subject to the state constitution's uniformity clause [See Apartment Operators Ass'n of Seattle, Inc. v. Schumacher, 56 Wn.2d 46, 351 P.2d 124(1960)]. While the Quinn decision was critical of the Apartment Operators case, it did not overturn it [See Quinn v. State, 1 Wn.3d 453, 526 P.3d 1 (2023)]. There is a good likelihood our Supreme Court will overrule Apartment Operators and uphold a clear legislative intent to impose a B&O tax on the activity of renting

real property. This estimate assumes tax collection would not be delayed during any legal challenges, and the tax would ultimately survive any legal challenges.

- Annual growth rate mirrors the Grand View Research global market compound annual growth rate for self-storage market size.
- Part III of this legislation takes effect April 1, 2026, and impacts two months of collections in fiscal year 2026.

DATA SOURCES:

- Department of Revenue, Excise tax and deferral data, and 2024 tax exemption study
- Economic and Revenue Forecast Council, November 2024 forecast
- S&P Global Market Intelligence, November 2024 forecast
- National Credit Union Administration, Call Report data 2023
- Spokane Journal of Business. (2024, November 7). Credit unions acquire community banks at record pace. <https://www.spokanejournal.com/articles/16485-credit-unions-acquiring-community-banks>

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$40.1 million in the five months of impacted collections in fiscal year 2026 and by an estimated \$108.4 million in fiscal year 2027, the first full year of impacted collections.

This bill increases local revenues by an estimated \$2.5 million in the four months of impacted collections in fiscal year 2026 and by an estimated \$7.5 million in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 40,110
FY 2027 -	\$ 108,380
FY 2028 -	\$ 114,786
FY 2029 -	\$ 121,986
FY 2030 -	\$ 129,186
FY 2031 -	\$ 136,986

Local Government (cash basis, \$000):

FY 2026 -	\$ 2,500
FY 2027 -	\$ 7,500
FY 2028 -	\$ 7,500
FY 2029 -	\$ 7,500
FY 2030 -	\$ 7,500
FY 2031 -	\$ 7,500

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 4,000 taxpayers are using the tax preferences removed by this legislation.

FIRST YEAR COSTS:

The department will incur total costs of \$524,200 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 2.44 FTEs.

- Answer additional phone calls and counter inquiries from businesses, individuals, and accountants regarding tax questions and tax return preparation.
- Amend nine administrative rules.
- Amend one excise tax advisory.
- 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.
- 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 - \$194,200.

- Computer system changes, including contract programming.
- Printing and postage costs 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 \$59,000 in fiscal year 2027.

Labor Costs – Time and effort equate to 0.4 FTE.

- 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.
- Continue conducting administrative reviews of notices and assessments.

Object Costs - \$5,800.

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

## ONGOING COSTS:

Ongoing costs for the 2027-29 biennium equal \$80,300 and include similar activities described in the second-year costs. Time and effort equate to 0.25 FTE.

## Part III: Expenditure Detail

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

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	2.4	0.4	1.4	0.3	0.2
A-Salaries and Wages	209,500	34,100	243,600	44,500	34,000
B-Employee Benefits	75,400	12,300	87,700	16,000	12,200
C-Professional Service Contracts	177,400		177,400		
E-Goods and Other Services	42,400	11,400	53,800	18,800	17,200
G-Travel	9,800		9,800		
J-Capital Outlays	9,700	1,200	10,900	1,000	800
<b>Total \$</b>	<b>\$524,200</b>	<b>\$59,000</b>	<b>\$583,200</b>	<b>\$80,300</b>	<b>\$64,200</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
COMMUNICATIONS CNSLT 4	71,148	0.1		0.1		
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 3	66,012	0.1	0.2	0.2	0.1	0.1
EXCISE TAX EX 4	72,924	0.1		0.1		
IT B A-SR/SPEC	104,412	0.1	0.2	0.2	0.2	0.1
IT SYS ADM-JOURNEY	99,444	0.4		0.2		
MGMT ANALYST4	78,468	0.2		0.1		
TAX INFO SPEC 1	47,988	0.1		0.1		
TAX POLICY SP 2	80,460	0.4		0.2		
TAX POLICY SP 3	91,068	0.6		0.3		
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>		2.4	0.4	1.4	0.3	0.2

**III. C - Expenditures By Program (optional)**

NONE

**Part IV: Capital Budget Impact**

**IV. A - Capital Budget Expenditures**

NONE

**IV. B - Expenditures by Object Or Purpose**

NONE

**IV. C - Capital Budget Breakout**

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

NONE

**Part V: New Rule Making Required**

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

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

- 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 458-20-164, titled: "Insurance producers, adjusters—Title insurance agents—Surplus line brokers."
- WAC 458-20-179, titled: "Public utility tax."
- WAC 458-20-182, titled: "Warehouse and other storage businesses."
- WAC 458-20-19401, titled: "Minimum nexus thresholds for apportionable activities and selling activities."
- WAC 458-20-248, titled: "Sales of precious metal bullion and monetized bullion."

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

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- WAC 458-20-118, titled: "Sale or rental of real estate, license to use real estate."
- WAC 458-20-146, titled: "National and state banks, mutual savings banks, savings and loan associations and other financial institutions."
- WAC 458-20-19404, titled: "Financial institutions—Income apportionment."

This rulemaking would affect about 4,000 taxpayers using the tax preferences removed in this legislation.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5794 E S SB PL	<b>Title:</b> Tax preferences	<b>Agency:</b> 160-Office of Insurance Commissioner
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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.

Legislative Contact:	Phone:	Date: 05/05/2025
Agency Preparation: Joyce Brake	Phone: 360-725-7041	Date: 05/08/2025
Agency Approval: Tom Zuvela	Phone: (800) 562-6900	Date: 05/08/2025
OFM Review: Jason Brown	Phone: (360) 742-7277	Date: 05/13/2025

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.

The health care services premium tax section of this bill in Section 103 includes only technical amendments. Therefore, no fiscal impact.

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.

NONE.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

NONE.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

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

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.*

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

<b>Bill Number:</b> 5794 E S SB PL	<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 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:

None

### Estimated expenditure impacts to:

None

## Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 05/07/2025
Leg. Committee Contact:	Phone:	Date: 05/05/2025
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 05/07/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 05/13/2025

## Part IV: Analysis

### A. SUMMARY OF BILL

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

Note: This fiscal note reflects language in ESSB 5794 as passed in the 2025 Legislative Session.

#### COMPARISON OF THE BILL AS PASSED THE LEGISLATURE TO THE ENGROSSED SUBSTITUTE BILL.

The bill, as passed by the legislature, does the following:

- Aligns the business and occupation tax (B&O) tax rates on gross receipts from the rental of self-storage units with the service and other B&O tax rates.
- Clarifies sale of real estate excludes the gross proceeds from individual storage space rentals or individual storage space leases for 30 days or longer at a self-service storage facility.
- Returns the following exemptions to current law:
  - The preferential B&O tax rate for warehousing and reselling prescription drugs, insurance agents, surplus line brokers, and investment management services.
  - The dentistry prepayment insurance premium tax exemption.
  - The international banking facilities B&O tax exemption.

#### SUMMARY OF CURRENT BILL:

This bill increases tax revenue by repealing multiple tax preferences.

### B. SUMMARY OF EXPENDITURE IMPACTS

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

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

None

#### EXPENDITURE IMPACTS OF CURRENT BILL:

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.*

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

This engrossed substitute version as passed by the legislature increases local governments tax revenue for FY 2026 and FY 2027 compared to the substitute bill. The impact is the same for FY 2028-FY 2031.

#### REVENUE IMPACTS OF CURRENT BILL:

According to the Department of Revenue (DOR) this bill increases local revenues by an estimated \$2.5 million in the four months of impacted collections in fiscal year 2026 and by an estimated \$7.5 million in fiscal year 2027, the first full year of impacted collections.

Local Government impact:

- FY 2026 - \$ 2,500,000
- FY 2027 - \$ 7,500,000
- FY 2028 - \$ 7,500,000

FY 2029 - \$ 7,500,000  
FY 2030 - \$ 7,500,000  
FY 2031 - \$ 7,500,000

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

SOURCE:

Department of Revenue fiscal note, ESSB.PL 5794 (2025)



# Multiple Agency Ten-Year Analysis Summary

<b>Bill Number</b>	<b>Title</b>
5794 E S SB PL	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	40,110,000	108,380,000	114,786,000	121,986,000	129,186,000	136,986,000	145,186,000	153,996,000	163,296,000	173,196,000	1,287,108,000
Office of Insurance Commissioner	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>40,110,000</b>	<b>108,380,000</b>	<b>114,786,000</b>	<b>121,986,000</b>	<b>129,186,000</b>	<b>136,986,000</b>	<b>145,186,000</b>	<b>153,996,000</b>	<b>163,296,000</b>	<b>173,196,000</b>	<b>1,287,108,000</b>



# Ten-Year Analysis

<b>Bill Number</b> 5794 E S SB PL	<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: 5/6/2025 9:19:51 am
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 5/6/2025 9:19:51 am
OFM Review:	Phone:	Date:



# Ten-Year Analysis

<b>Bill Number</b> 5794 E S SB PL	<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 Tax	001	28,470,000	80,140,000	86,150,000	92,850,000	99,650,000	107,050,000	114,750,000	123,060,000	131,860,000	141,160,000	1,005,140,000
Business and Occupation Tax	24J	3,790,000	9,510,000	9,910,000	10,410,000	10,810,000	11,210,000	11,710,000	12,210,000	12,710,000	13,310,000	105,580,000
<b>Total Business and Occupation Tax</b>		<b>32,260,000</b>	<b>89,650,000</b>	<b>96,060,000</b>	<b>103,260,000</b>	<b>110,460,000</b>	<b>118,260,000</b>	<b>126,460,000</b>	<b>135,270,000</b>	<b>144,570,000</b>	<b>154,470,000</b>	<b>1,110,720,000</b>
Public Utilities Tax	001	1,040,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	23,540,000
Retail Sales Tax	001	6,800,000	16,200,000	16,200,000	16,200,000	16,200,000	16,200,000	16,200,000	16,200,000	16,200,000	16,200,000	152,600,000
Retail Sales Tax	553	10,000	30,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	248,000
<b>Total Retail Sales Tax</b>		<b>6,810,000</b>	<b>16,230,000</b>	<b>16,226,000</b>	<b>16,226,000</b>	<b>16,226,000</b>	<b>16,226,000</b>	<b>16,226,000</b>	<b>16,226,000</b>	<b>16,226,000</b>	<b>16,226,000</b>	<b>152,848,000</b>
<b>Total</b>		<b>40,110,000</b>	<b>108,380,000</b>	<b>114,786,000</b>	<b>121,986,000</b>	<b>129,186,000</b>	<b>136,986,000</b>	<b>145,186,000</b>	<b>153,996,000</b>	<b>163,296,000</b>	<b>173,196,000</b>	<b>1,287,108,000</b>
<b>Biennial Totals</b>		<b>148,490,000</b>	<b>236,772,000</b>	<b>266,172,000</b>	<b>299,182,000</b>	<b>336,492,000</b>	<b>1,287,108,000</b>					

## Narrative Explanation (Required for Indeterminate Cash Receipts)

Note: This fiscal note reflects language in ESSB 5794 as passed in the 2025 Legislative Session.

### COMPARISON OF THE BILL AS PASSED THE LEGISLATURE TO THE ENGROSSED SUBSTITUTE BILL.

The bill, as passed by the legislature, does the following:

- Aligns the business and occupation tax (B&O) tax rates on gross receipts from the rental of self-storage units with the service and other B&O tax rates.
- Clarifies sale of real estate excludes the gross proceeds from individual storage space rentals or individual storage space leases for 30 days or longer at a self-service storage facility.



# Ten-Year Analysis

Bill Number	Title	Agency
5794 E S SB PL	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)

- Returns the following exemptions to current law:
  - The preferential B&O tax rate for warehousing and reselling prescription drugs, insurance agents, surplus line brokers, and investment management services.
  - The dentistry prepayment insurance premium tax exemption.
  - The international banking facilities B&O tax exemption.

### PART I - ELIMINATING OBSOLETE TAX PREFERENCES

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

Business and Occupation (B&O) tax:

- Title insurance agents (82.04.260(9))
- Interest on real estate loans (82.04.29005, 82.04.4292)
- International services (82.04.44525)
- Precious metals and bullion (82.04.062)
- Testing and safety labs (82.04.434)

Public Utility (PU) tax:

- Credit for home energy assistance (82.16.0497)

Part I amends the credit union B&O tax exemption. If a credit union merges or acquires a bank regulated by the Department of Financial Institutions, it no longer qualifies the exemption from B&O tax, and a new B&O tax rate of 1.2% applies.

### PART II - CORRECTING INTERNAL REFERENCES

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

Part III - ELIMINATING THE BUSINESS AND OCCUPATION TAX EXEMPTION FOR THE RENTAL OR LEASE OF INDIVIDUAL STORAGE SPACE AT SELF-SERVICE



# Ten-Year Analysis

Bill Number	Title	Agency
5794 E S SB PL	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)

### STORAGE FACILITIES

Part III makes the rental of self-service storage units taxable at the rate of:

- 1.75% for businesses with taxable income of \$1 million or more in the prior year.
- 1.5% for businesses with taxable income less than \$1 million in the prior year. However, if a business is affiliated with one or more other businesses, and the aggregate gross income of all affiliated businesses is greater than or equal to \$1,000,000 for the immediately preceding calendar year, the business must pay the higher rate.

Affiliate means a business that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another person.

### EFFECTIVE DATE

Except for sections 102, 301, and 302, this bill takes effect on January 1, 2026.

Section 102 takes effect January 1, 2034.

Sections 301 and 302 take effect on April 1, 2026.

### ASSUMPTIONS:

#### 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.
- 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. The removed tax preferences may increase the revenue shared with tribes and local governments.
- No credit unions meet the definition of a specified financial institution, so the specified financial institution surcharge does not apply.
- Washington chartered credit unions attribute all their income to Washington.
- Two credit unions will be subject to this tax in fiscal year 2026. One additional credit union will become subject to this tax in each subsequent fiscal year.
- Based on credit unions acquiring or merging with a bank, a credit union's taxable income averages approximately \$185 million.
- 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.



# Ten-Year Analysis

Bill Number	Title	Agency
5794 E S SB PL	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)

- Part I of this legislation takes effect January 1, 2026, impacting five months of state collections and four months of local collections in fiscal year 2026.

### PART III ELIMINATING THE BUSINESS AND OCCUPATION TAX EXEMPTION FOR THE RENTAL OR LEASE OF INDIVIDUAL STORAGE SPACE AT SELF-SERVICE STORAGE FACILITIES

- The majority of storage unit rental income is for rentals lasting 30 or more days. The revenue for storage units renting less than 30 days is indeterminate, but presumed be minimally positive.
- There is some litigation risk that the courts would invalidate this tax on the rental of storage units on the grounds that rental income from real property is subject to the state constitution's uniformity clause [See Apartment Operators Ass'n of Seattle, Inc. v. Schumacher, 56 Wn.2d 46, 351 P.2d 124(1960)]. While the Quinn decision was critical of the Apartment Operators case, it did not overturn it [See Quinn v. State, 1 Wn.3d 453, 526 P.3d 1 (2023)]. There is a good likelihood our Supreme Court will overrule Apartment Operators and uphold a clear legislative intent to impose a B&O tax on the activity of renting real property. This estimate assumes tax collection would not be delayed during any legal challenges, and the tax would ultimately survive any legal challenges.
- Annual growth rate mirrors the Grand View Research global market compound annual growth rate for self-storage market size.
- Part III of this legislation takes effect April 1, 2026, and impacts two months of collections in fiscal year 2026.

### DATA SOURCES:

- Department of Revenue, Excise tax and deferral data, and 2024 tax exemption study
- Economic and Revenue Forecast Council, November 2024 forecast
- S&P Global Market Intelligence, November 2024 forecast
- National Credit Union Administration, Call Report data 2023
- Spokane Journal of Business. (2024, November 7). Credit unions acquire community banks at record pace. <https://www.spokanejournal.com/articles/16485-credit-unions-acquiring-community-banks>

### REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$40.1 million in the five months of impacted collections in fiscal year 2026 and by an estimated \$108.4 million in fiscal year 2027, the first full year of impacted collections.

This bill increases local revenues by an estimated \$2.5 million in the four months of impacted collections in fiscal year 2026 and by an estimated \$7.5 million in fiscal year 2027, the first full year of impacted collections.

### TOTAL REVENUE IMPACT:



# Ten-Year Analysis

Bill Number	Title	Agency
5794 E S SB PL	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)

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

FY 2026 - \$ 40,110  
FY 2027 - \$ 108,380  
FY 2028 - \$ 114,786  
FY 2029 - \$ 121,986  
FY 2030 - \$ 129,186  
FY 2031 - \$ 136,986

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

FY 2026 - \$ 2,500  
FY 2027 - \$ 7,500  
FY 2028 - \$ 7,500  
FY 2029 - \$ 7,500  
FY 2030 - \$ 7,500  
FY 2031 - \$ 7,500

Agency Preparation: Marianne McIntosh	Phone: 360-534-1505	Date: 5/7/2025 12:18:59 pm
Agency Approval: Valerie Torres	Phone: 360-534-1521	Date: 5/7/2025 12:18:59 pm
OFM Review:	Phone:	Date:



# Ten-Year Analysis

<b>Bill Number</b> 5794 E S SB PL	<b>Title</b> Tax preferences	<b>Agency</b> 160 Office of Insurance Commissioner
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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: Joyce Brake	Phone: 360-725-7041	Date: 5/8/2025 2:43:27 pm
Agency Approval: Tom Zuvela	Phone: (800) 562-6900	Date: 5/8/2025 2:43:27 pm
OFM Review:	Phone:	Date: