

Multiple Agency Fiscal Note Summary

Bill Number: 5814 E S SB PL	Title: Excise taxes
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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	1,193,060,000	1,146,755,000	1,122,851,000	1,594,265,000	1,533,745,000	1,499,708,000	1,733,420,000	1,667,965,000	1,634,124,000
Total \$	1,193,060,000	1,146,755,000	1,122,851,000	1,594,265,000	1,533,745,000	1,499,708,000	1,733,420,000	1,667,965,000	1,634,124,000

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		564,344,550		742,574,250		833,322,600
Local Gov. Total		564,344,550		742,574,250		833,322,600

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	20.0	4,761,000	4,761,000	4,761,000	7.8	1,685,800	1,685,800	1,685,800	4.0	869,800	869,800	869,800
Total \$	20.0	4,761,000	4,761,000	4,761,000	7.8	1,685,800	1,685,800	1,685,800	4.0	869,800	869,800	869,800

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

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Prepared by: Megan Tudor, OFM	Phone: (360) 890-1722	Date Published: Final 5/16/2025
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Department of Revenue Fiscal Note

Bill Number: 5814 E S SB PL	Title: Excise taxes	Agency: 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	503,980,000	809,345,000	1,313,325,000	1,730,425,000	1,881,945,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(89,530,000)	(142,535,000)	(232,065,000)	(303,660,000)	(329,025,000)
GF-STATE-State 01 - Taxes 26 - Other Tobacco Tax	32,200,000	79,600,000	111,800,000	167,500,000	180,500,000
Andy Hill Cancer Research Endowment Fund Match Transfer Account-State 01 - Taxes 70 - Other Taxes	(3,800,000)	(9,200,000)	(13,000,000)	(18,400,000)	(18,400,000)
Foundational Public Health Services Account-State 01 - Taxes 70 - Other Taxes	(3,800,000)	(9,200,000)	(13,000,000)	(18,400,000)	(18,400,000)
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	(17,870,000)	(28,435,000)	(46,305,000)	(60,520,000)	(65,455,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	822,000	1,274,000	2,096,000	2,763,000	2,959,000
Total \$	422,002,000	700,849,000	1,122,851,000	1,499,708,000	1,634,124,000

Estimated Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	22.9	17.1	20.0	7.8	4.0
Account					
GF-STATE-State 001-1	2,756,800	2,004,200	4,761,000	1,685,800	869,800
Total \$	2,756,800	2,004,200	4,761,000	1,685,800	869,800

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

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

Legislative Contact:	Phone:	Date: 05/05/2025
Agency Preparation: Erin Valz	Phone: (360) 534-1522	Date: 05/05/2025
Agency Approval: Marianne McIntosh	Phone: (360) 534-1505	Date: 05/05/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 05/15/2025

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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 5814 as passed in the 2025 Legislative Session.

COMPARISON OF THE BILL AS PASSED BY THE LEGISLATURE WITH THE ENGROSSED SUBSTITUTE BILL:

The bill as passed by the legislature:

- Removes information technology technical consulting from being subject to retail sales tax.
- Limits advertising services subject to sales tax to in-home advertising, except services related to radio and television broadcasting.
- Removes the sales tax prepayment.
- Removes the new cigarette tax.

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 vapor products tax is based on the volume of solution and the type of container. The tax rate for accessible containers of solution of more than 5 mL is \$0.09/mL, and the tax rate for all others is \$0.27/mL.

The law deposits vapor taxes as follows:

- 50% into the Andy Hill Cancer Research Endowment Fund Match Transfer Account.
- 50% into the Foundational Public Health Services Account.

PROPOSAL:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Part I defines the following as retail sales:

- Custom software and customization of prewritten software.
- Custom website design, support, and development services.
- Information technology related training services, technical support, and other services.
- Investigation, security services, security monitoring, armored car services (not locksmiths).
- Temporary staffing, excluding temporary staff provided at hospitals.
- In-home advertising services, with the exception of services related to printing, publishing, and radio and television broadcasting.
- Live Presentations.

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

Part I and Part II also exclude sales between members of an affiliated group for:

- Information technology related training services, technical support, and other services.
- Custom website design, support, and development services.
- Investigation, security services, security monitoring, armored car services (not locksmiths).
- Advertising.
- Human effort.
- Live presentations.
- Data processing.

Part II adds an exclusion from digital automated services for telehealth or telemedicine.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

Part III changes the definition of "tobacco products."

"Tobacco products" now include products that contain not only tobacco, but also nicotine, whether derived from tobacco or created synthetically. This change subjects those products to the 95% OTP tax. Tobacco products excludes drugs, devices, or combination products approved by the United States Food and Drug Administration.

For vapor products containing nicotine, Part III replaces the current milliliter tax with a tax based on the taxable sales price of the products. The tax rate will be 95% of the taxable sales price.

OTP tax revenues are deposited into the general fund.

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 III 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 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.

PART I – 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.
- Hospital staffing services are 25% of overall staffing service industry.
- Advanced computing surcharge assumed to be 15% of taxable income from taxpayers reporting on service and other activities line code four.
- Sales between members of an affiliated group are assumed to be 45% of overall service revenue.

PART II – ELIMINATING CERTAIN DIGITAL AUTOMATED SERVICE EXCLUSIONS

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- 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%.
- Advertising from affiliated companies is assumed to be 20%.
- Sales between members of an affiliated group are assumed to be 45% of overall service revenue.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

- The price of a disposable vapor product is \$7.49 (small) and \$19.15 (large).
- The price of a nicotine pod is \$5.86.
- A typical alternative nicotine product costs \$7/unit.
- Washington's population is 2.4% of the U.S. population.
- Revenues from the OTP tax on vapor products containing nicotine will be deposited into the general fund. This results in a loss to the Andy Hill Cancer Account and Foundational Public Health Account, due to these products no longer being taxed under the vapor products milliliter tax.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3%.
- Part III takes effect January 1, 2026, and impacts five months of state collections and four months of local collections in fiscal year 2026.

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 \$422 million in fiscal year 2026, and by an estimated \$701 million in fiscal year 2027.

This bill also increases local revenues by an estimated \$205 million in collections in fiscal year 2026, and by an estimated \$364 million in collections in fiscal year 2027.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 422,002
FY 2027 -	\$ 700,849
FY 2028 -	\$ 733,736
FY 2029 -	\$ 765,972
FY 2030 -	\$ 799,343
FY 2031 -	\$ 834,781

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

FY 2026 -	\$ 205,335
FY 2027 -	\$ 364,710
FY 2028 -	\$ 380,725
FY 2029 -	\$ 396,350
FY 2030 -	\$ 412,450
FY 2031 -	\$ 429,290

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 \$2,756,800 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 22.87 FTEs.

- Amend eight administrative rules.
- Amend four excise tax advisories.
- Create a special notice and update relevant information on the department's website.
- Gather requirements, attend implementation meetings, and document system changes.
- Set up, program, and test computer system changes.
- Increased policy guidance to address administrative and legal concerns due to the complexity in rulemaking.
- 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.
- 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 - \$132,800.

- 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:

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The department will incur total costs of \$2,004,200 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 17.1 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.
- 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 \$1,685,800 and include similar activities described in the second-year costs. Time and effort equate to 7.8 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	22.9	17.1	20.0	7.8	4.0
A-Salaries and Wages	1,606,900	1,229,600	2,836,500	1,044,100	534,400
B-Employee Benefits	578,500	442,700	1,021,200	375,900	192,400
C-Professional Service Contracts	74,500		74,500		
E-Goods and Other Services	343,500	241,200	584,700	218,200	113,800
G-Travel	62,000	51,700	113,700	17,800	13,800
J-Capital Outlays	91,400	39,000	130,400	29,800	15,400
Total \$	\$2,756,800	\$2,004,200	\$4,761,000	\$1,685,800	\$869,800

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 2	59,844	1.5	0.8	1.2	0.5	0.3
EXCISE TAX EX 3	66,012	1.6	0.5	1.1	0.4	0.2
EXCISE TAX EX 4	72,924	0.2		0.1		
IT B A-JOURNEY	94,728	0.4		0.2		
IT QA-JOURNEY	94,728	0.1	0.1	0.1		
IT QA-SR/SPEC	104,412	0.1		0.1		
IT SYS ADM-JOURNEY	99,444	0.1		0.1		
MGMT ANALYST4	78,468	0.6	0.4	0.5		
REVENUE AGENT 2	61,404	1.5	4.5	3.0	2.8	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	3.2	5.3	1.4	
TAX POLICY SP 2	80,460	1.3	0.8	1.1	0.2	
TAX POLICY SP 3	91,068	4.5	3.6	4.0	1.1	0.1
TAX POLICY SP 4	98,040	1.7	1.5	1.6	0.2	
WMS BAND 2	101,410	0.0		0.0		
WMS BAND 3	115,352	0.4	0.3	0.4		
Total FTEs		22.9	17.1	20.0	7.8	4.0

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."

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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

Revised

Department of Commerce

Bill Number: 5814 E S SB PL **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	61,330,074	108,932,677	170,262,751	224,034,651	251,413,428
County	75,620,774	134,315,399	209,936,173	276,237,621	309,996,007
Special District	66,330,802	117,814,824	184,145,626	242,301,978	271,913,165
TOTAL \$	203,281,650	361,062,900	564,344,550	742,574,250	833,322,600
GRAND TOTAL \$	2,140,241,400				

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 05/16/2025
Leg. Committee Contact:	Phone:	Date: 05/05/2025
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 05/16/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 05/16/2025

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 5814 as passed in the 2025 Legislative Session. A fiscal note was not completed for the first substitute or engrossed substitute, this analysis is not a comparison to other versions.

This bill:

- Extends retail sales and use tax to certain specified services.
- Makes certain products containing nicotine subject to the other tobacco products tax.

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.

Note: A fiscal note was not completed for the first substitute or engrossed substitute, this analysis is not a comparison to other versions.

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 \$205 million in collections in fiscal year 2026, and by an estimated \$364 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	\$75,620,774
FY 2027	\$134,315,399
FY 2028	\$140,213,403
FY 2029	\$136,024,218
FY 2030	\$151,897,086
FY 2031	\$158,098,921

Cities:

FY 2026	\$61,330,074
FY 2027	\$108,932,677
FY 2028	\$113,716,085
FY 2029	\$110,318,566
FY 2030	\$123,191,803
FY 2031	\$128,221,625

Special Districts:

FY 2026	\$66,330,802
FY 2027	\$117,814,824
FY 2028	\$122,988,262

FY 2029	\$119,313,716
FY 2030	\$133,236,611
FY 2031	\$138,676,554

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, ESSB.PL 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)



Multiple Agency Ten-Year Analysis Summary

Bill Number	Title
5814 E S SB PL	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	422,002,000	700,849,000	733,736,000	765,972,000	799,343,000	834,781,000	871,967,000	910,993,000	952,456,000	999,548,000	7,991,647,000



Ten-Year Analysis

Bill Number 5814 E S SB PL	Title Excise taxes	Agency 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	(89,530,000)	(142,535,000)	(148,805,000)	(154,855,000)	(161,175,000)	(167,850,000)	(174,655,000)	(181,875,000)	(189,210,000)	(197,190,000)	(1,607,680,000)
Business and occupation tax	24J	(17,870,000)	(28,435,000)	(29,640,000)	(30,880,000)	(32,125,000)	(33,330,000)	(34,800,000)	(36,210,000)	(37,630,000)	(38,900,000)	(319,820,000)
Total Business and occupation tax		(107,400,000)	(170,970,000)	(178,445,000)	(185,735,000)	(193,300,000)	(201,180,000)	(209,455,000)	(218,085,000)	(226,840,000)	(236,090,000)	(1,927,500,000)
Other tobacco products tax	001	32,200,000	79,600,000	82,300,000	85,200,000	88,500,000	92,000,000	96,000,000	100,300,000	105,000,000	110,200,000	871,300,000
Retail sales tax	001	503,980,000	809,345,000	846,915,000	883,510,000	921,115,000	960,830,000	1,002,260,000	1,045,570,000	1,090,985,000	1,142,075,000	9,206,585,000
Retail sales tax	553	822,000	1,274,000	1,366,000	1,397,000	1,428,000	1,531,000	1,562,000	1,608,000	1,711,000	1,763,000	14,462,000
Total Retail sales tax		504,802,000	810,619,000	848,281,000	884,907,000	922,543,000	962,361,000	1,003,822,000	1,047,178,000	1,092,696,000	1,143,838,000	9,221,047,000
Vapor tax	19V	(3,800,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(86,600,000)
Vapor tax	24B	(3,800,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(9,200,000)	(86,600,000)
Total Vapor tax		(7,600,000)	(18,400,000)	(18,400,000)	(18,400,000)	(18,400,000)	(18,400,000)	(18,400,000)	(18,400,000)	(18,400,000)	(18,400,000)	(173,200,000)
Total		422,002,000	700,849,000	733,736,000	765,972,000	799,343,000	834,781,000	871,967,000	910,993,000	952,456,000	999,548,000	7,991,647,000

Biennial Totals	1,122,851,000	1,499,708,000	1,634,124,000	1,782,960,000	1,952,004,000	7,991,647,000
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Narrative Explanation (Required for Indeterminate Cash Receipts)

Note: This fiscal note reflects language in ESSB 5814 as passed in the 2025 Legislative Session.

COMPARISON OF THE BILL AS PASSED BY THE LEGISLATURE WITH THE ENGROSSED SUBSTITUTE BILL:



Ten-Year Analysis

Bill Number	Title	Agency
5814 E S SB PL	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)

The bill as passed by the legislature:

- Removes information technology technical consulting from being subject to retail sales tax.
- Limits advertising services subject to sales tax to in-home advertising, except services related to radio and television broadcasting.
- Removes the sales tax prepayment.
- Removes the new cigarette tax.

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.



Ten-Year Analysis

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Narrative Explanation (Required for Indeterminate Cash Receipts)

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 vapor products tax is based on the volume of solution and the type of container. The tax rate for accessible containers of solution of more than 5 mL is \$0.09/mL, and the tax rate for all others is \$0.27/mL.

The law deposits vapor taxes as follows:

- 50% into the Andy Hill Cancer Research Endowment Fund Match Transfer Account.
- 50% into the Foundational Public Health Services Account.

PROPOSAL:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES

Part I defines the following as retail sales:

- Custom software and customization of prewritten software.
- Custom website design, support, and development services.
- Information technology related training services, technical support, and other services.
- Investigation, security services, security monitoring, armored car services (not locksmiths).
- Temporary staffing, excluding temporary staff provided at hospitals.
- In-home advertising services, with the exception of services related to printing, publishing, and radio and television broadcasting.
- Live Presentations.

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:



Ten-Year Analysis

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Narrative Explanation (Required for Indeterminate Cash Receipts)

- Data processing
- Advertising
- Human effort
- Live presentations

Part I and Part II also exclude sales between members of an affiliated group for:

- Information technology related training services, technical support, and other services.
- Custom website design, support, and development services.
- Investigation, security services, security monitoring, armored car services (not locksmiths).
- Advertising.
- Human effort.
- Live presentations.
- Data processing.

Part II adds an exclusion from digital automated services for telehealth or telemedicine.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

Part III changes the definition of "tobacco products."

"Tobacco products" now include products that contain not only tobacco, but also nicotine, whether derived from tobacco or created synthetically. This change subjects the products to the 95% OTP tax. Tobacco products excludes drugs, devices, or combination products approved by the United States Food and Drug Administration.

For vapor products containing nicotine, Part III replaces the current milliliter tax with a tax based on the taxable sales price of the products. The tax rate will be 95% of the taxable sales price.

OTP tax revenues are deposited into the general fund.

EFFECTIVE DATE:

PART I – EXTENDING RETAIL SALES TAX TO SELECT SERVICES



Ten-Year Analysis

Bill Number	Title	Agency
5814 E S SB PL	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)

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 III takes effect on January 1, 2026.

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.

PART I – 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.
- Hospital staffing services are 25% of overall staffing service industry.
- Advanced computing surcharge assumed to be 15% of taxable income from taxpayers reporting on service and other activities line code four.
- Sales between members of an affiliated group are assumed to be 45% of overall service revenue.

PART II – 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%.
- Advertising from affiliated companies is assumed to be 20%.



Ten-Year Analysis

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Narrative Explanation (Required for Indeterminate Cash Receipts)

- Sales between members of an affiliated group are assumed to be 45% of overall service revenue.

PART III – CONCERNING THE TAXATION OF NICOTINE PRODUCTS

- The price of a disposable vapor product is \$7.49 (small) and \$19.15 (large).
- The price of a nicotine pod is \$5.86.
- A typical alternative nicotine product costs \$7/unit.
- Washington's population is 2.4% of the U.S. population.
- Revenues from the OTP tax on vapor products containing nicotine will be deposited into the general fund. This results in a loss to the Andy Hill Cancer Account and Foundational Public Health Account, due to these products no longer being taxed under the vapor products milliliter tax.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3%.
- Part III takes effect January 1, 2026, and impacts five months of state collections and four months of local collections in fiscal year 2026.

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 \$422 million in fiscal year 2026, and by an estimated \$701 million in fiscal year 2027.

This bill also increases local revenues by an estimated \$205 million in collections in fiscal year 2026, and by an estimated \$364 million in collections in fiscal year 2027.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 - \$ 422,002



Ten-Year Analysis

Bill Number	Title	Agency
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Narrative Explanation (Required for Indeterminate Cash Receipts)

FY 2027 - \$ 700,849
FY 2028 - \$ 733,736
FY 2029 - \$ 765,972
FY 2030 - \$ 799,343
FY 2031 - \$ 834,781

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

FY 2026 - \$ 205,335
FY 2027 - \$ 364,710
FY 2028 - \$ 380,725
FY 2029 - \$ 396,350
FY 2030 - \$ 412,450
FY 2031 - \$ 429,290

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Agency Approval: Marianne McIntosh	Phone: 360-534-1505	Date: 5/5/2025 4:24:01 pm
OFM Review:	Phone:	Date: