



Master License Service Staff Moves to Revenue

The Department assumed administration of the Department of Licensing’s Master License Service (MLS) on July 1 as a result of legislation. The service has been renamed the Business Licensing Service (BLS) to better reflect its role in processing business license applications and renewals. The Department is examining ways it can streamline and modernize the service. All BLS information and online applications are available on the new BLS website: <http://business.wa.gov/BLS>. The Department of Licensing will continue to issue, renew, and regulate professional licenses.

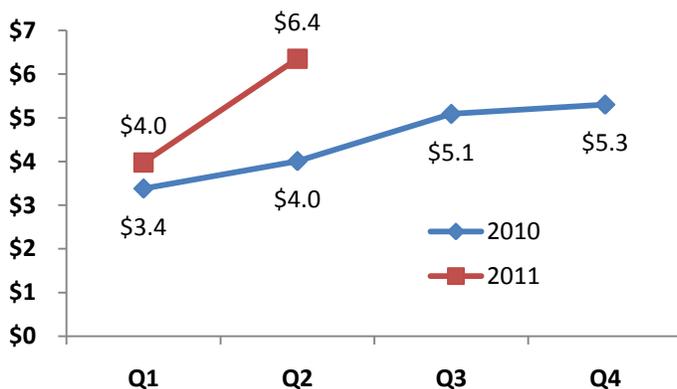
Everett Office Final Day is August 26

The last day to receive taxpayer assistance in the Department’s Everett field office will be August 26. The Department will close its Everett office and will begin providing taxpayer assistance from its Bothell office August 30. The Bothell office, located at 19800 North Creek Parkway, Suite 101, has not been open to the general public, but will now have a customer service counter where taxpayers can file returns, make payments, and receive help on business tax issues. Consolidating the two offices will reduce the agency’s future operating costs by an estimated \$70,000 annually, while allowing continued face-to-face assistance to taxpayers north of Seattle.

Timber Tax Revenues Show Glimmer of Growth

More harvesters are entering timber markets due to expanding opportunities in the export log and lumber markets to China, Japan, and Korea. Quarter 1, 2011 timber excise tax collections were up 9 percent to \$5.4 million over the same period a year ago. Although this growth was primarily due to weather conditions, timber values are on the rise. Values for western Washington Douglas fir and western hemlock are up 64 to 135 percent over the first half of 2010 values. Activity has slowed in the past month due to high inventories and seasonal factors, but is expected to pick up in the fall.

Timber Excise Tax Revenues
\$millions



2011 Unclaimed Property Auction Generates Record \$915,000

The Department's Unclaimed Property section recently held a two-day public auction to sell the contents of safe deposit boxes that have been reported to the Department but left unclaimed. The auction was conducted by the J.G. Murphy Company in Kenmore and brought in a record \$915,000. A set of Morgan silver dollars received the highest bid of \$22,000, and a 1929 first edition \$10 bill (Serial #000001) issued for a Sandpoint, Idaho bank went for \$8,500. The proceeds, minus auction costs and bank fees, have been deposited in the General Fund but may still be claimed by the box owners in perpetuity.

Retail Sales Tax Due on Sports League Fees

The Department recently became aware that many sports leagues were not properly collecting retail sales tax on fees charged to participants. This was a particular problem for many leagues operated by local governments and nonprofit organizations. The Department withheld action until after the legislative session to allow the Legislature to consider corrective legislation. Although a bill was introduced, it did not pass. The Department has now begun educating stakeholders of their responsibility to collect and remit retail sales tax. The Department anticipates continuing stakeholder work and initiating rulemaking on WAC 458-20-183, *Amusement, recreation, and physical fitness services*, later this summer. Although many stakeholders were aware of this issue, recent media coverage reflects adverse reactions to the Department's announcement. The Department's Excise Tax Advisory on this issue and other information is available at

<http://dor.wa.gov/Content/GetAFormOrPublication/PublicationBySubject/TaxTopics/LeagueFees.aspx>

Sprint Spectrum Decision Could Have Major Revenue Impact if Upheld

A recent Superior Court decision in *Sprint Spectrum LP v. DOR* will result in a significant revenue loss if sustained on appeal. A Thurston County Superior Court judge ruled in May that the retail sales tax exemption for certain residential telephone service also applies to cellular service designated "residential" by the carrier. This exemption has historically been limited to landline telephone service provided under a regulatory tariff and has not been applied to cellular service because it is not provided under a similar regulatory structure. The Department is appealing the decision, but if it is sustained on appeal, the Department may be required to grant the exemption to all other telecommunications services a carrier treats as residential, including VoIP services. This could result in a state general fund revenue loss of \$248 million in the 2011-2013 Biennium and \$878 million in the 2013-2015 Biennium. The local revenue loss is estimated at nearly \$92 million for the 2011-2013 Biennium and \$325 million for the 2013-2015 Biennium.

Supreme Court Denies Review of U.S. Oil Trading Decision

On June 7, 2011, the Washington Supreme Court denied U.S. Oil's petition seeking discretionary review of a published decision of Division II of the Court of Appeals upholding the dismissal of U.S. Oil's tort action against the Office of Financial Management and the Department of Revenue. U.S. Oil sought damages of \$11 million, claiming that it was harmed because OFM and DOR intentionally and negligently prepared a false fiscal note with respect to a 2009 bill that amended the B&O tax bunker fuel exemption provided by RCW 82.04.433. The fiscal note reflected a zero fiscal impact on the basis that the amendment merely clarified the scope of the bunker fuel exemption, rather than restricting it. The Court of Appeals agreed that dismissal was proper because OFM and DOR owed no duty to U.S. Oil with respect to the preparation of the fiscal note.

Department of Revenue Testimony Outlines Impact of Digital Goods Bill in Congress

H.R. 1860, the Digital Goods and Services Tax Fairness Act of 2011, would adversely affect Washington's ability to fairly tax digital goods, according to testimony before the Subcommittee on Courts, Commercial and Administrative Law of the U.S. House Committee on the Judiciary in May. Russ Brubaker, the national tax policy advisor for the Department, told the committee that the Act could have the following negative effects:

- Potential revenue losses;
- Tax planning opportunities for multi-state companies resulting in "nowhere income" that is not subject to taxation in any jurisdiction;
- Unprecedented federal court jurisdiction over state tax matters;
- Failure to use definitions, bundling and sourcing provisions and canned software treatment agreed to by industry in the Streamlined Sales and Use Tax Agreement;
- Undefined and inadequately defined terms sure to lead to litigation; and
- Lack of input for states in development of the legislation.

As a result of this testimony the subcommittee has scheduled a work session the week of July 17 with representatives of the states and proponents to work through some of the issues previously raised. The Department will participate in those discussions and seek to minimize any adverse impacts.

DOR Tackles Underground Economy with Help from WSP

Since 2003, the Department of Revenue has coordinated efforts with the Washington State Patrol to bridge the gap of noncompliance and tackle the underground economy. The two agencies have developed an informal partnership allowing Revenue Agents access to scale houses and increasing our statewide field presence. The Revenue Agents review bills of lading of commercial vehicles bringing products into Washington State. This activity increases the Department's ability to determine if a manufacturer has nexus with Washington State, thus requiring a Washington business registration and a tax reporting obligation. This cooperative effort levels the playing field for Washington businesses while increasing revenue to fund Washington services, collecting more than \$1.8 million in FY 2011.