

Local Government Partnership

Carol K. Nelson, Director

June 5, 2013



Agenda

- | | |
|---------------|--|
| 8:30 – 9:00 | Registration |
| 9:00 – 9:10 | Welcome and Introductions |
| 9:10 – 9:30 | Business Licensing Service (BLS) |
| 9:30 – 9:40 | Government to government transactions |
| 9:40 – 10:20 | 2013 Legislation |
| 10:20 – 10:35 | Break |
| 10:35 – 10:45 | Telecommunications refund (confidential tax information) |

Agenda, continued

10:45 – 11:10 Protecting confidential tax & licensing information

11:10 – 11:30 Federal legislation

11:30 – 11:50 Taxing marijuana

11:50 – 12:00 Local tax system replacement project

12:00 – 12:20 Use tax – motor vehicles

12:20 – 12:30 Miscellaneous updates & closing

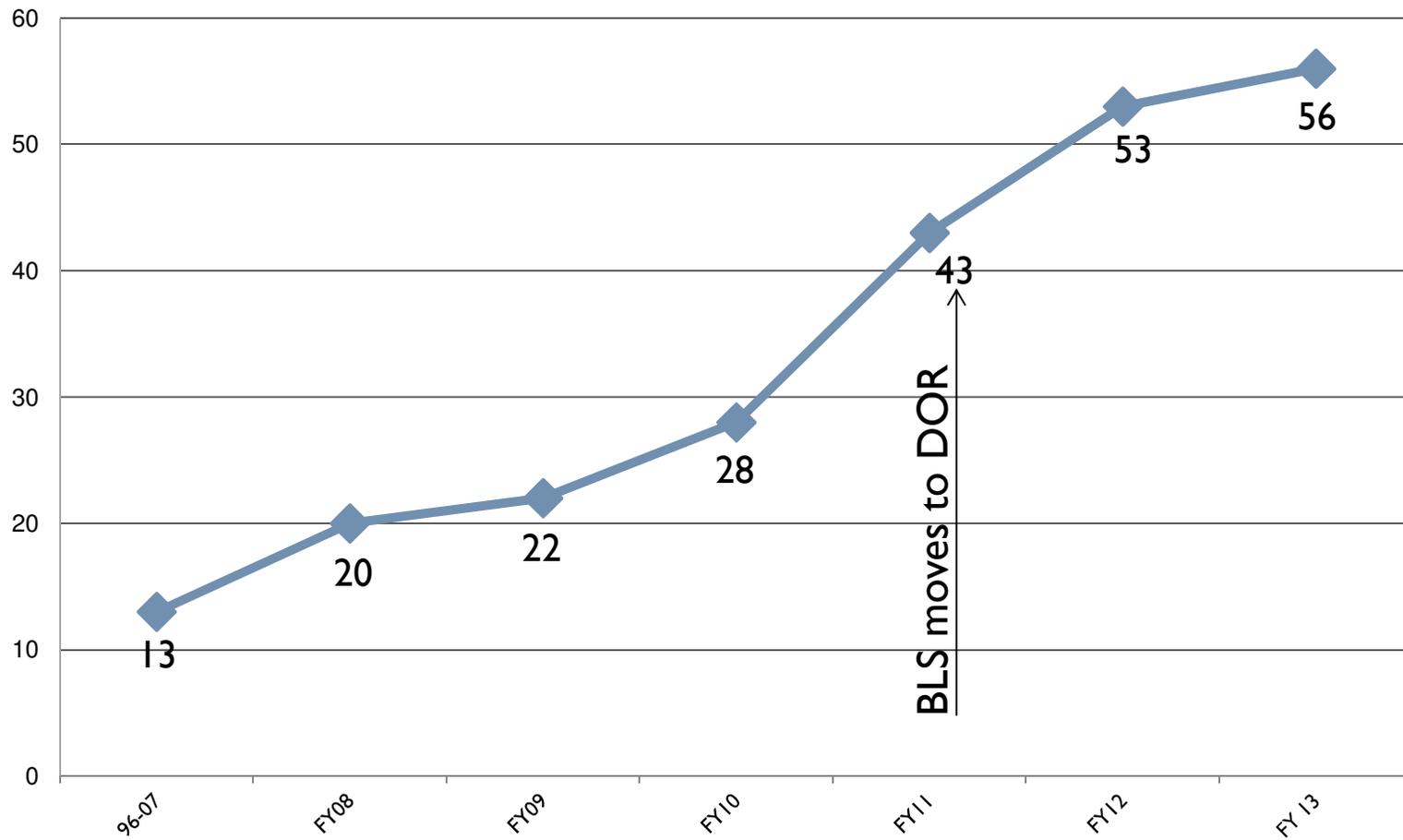
Business Licensing Service (BLS)

Janet Shimabukuro
Assistant Director

About Business Licensing Service (BLS)

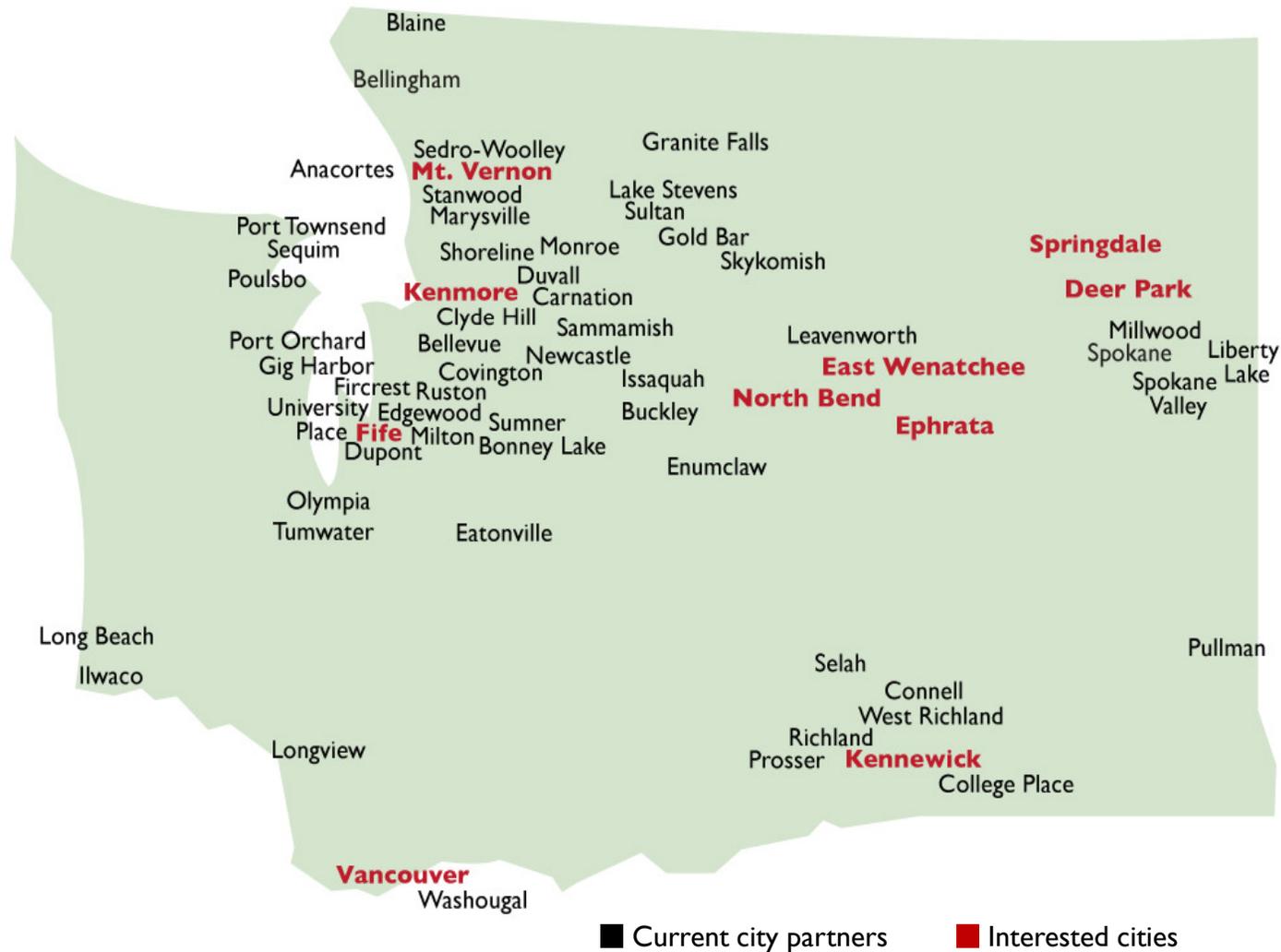
- 1977 Legislature created Master License Service to streamline business licensing and renewal
 - Program transferred to the Department of Revenue on July 1, 2011
 - Master License Service was renamed to Business Licensing Service to better reflect the program's purpose
 - BLS is the clearinghouse for business licensing – offering more than 200 endorsements from 10 state agency partners and 70 licenses from 56 city partners
- | | |
|-----------------------|------------------------|
| ✓ Agriculture | ✓ Liquor Control Board |
| ✓ Ecology | ✓ Licensing |
| ✓ Employment Security | ✓ Lottery |
| ✓ Health | ✓ Revenue |
| ✓ Labor & Industries | ✓ Secretary of State |

BLS Continues to Add City Partners



Current Partners/Interested Cities

25% of the 212 cities that license businesses are currently part of BLS



Benefits of BLS to City Partners

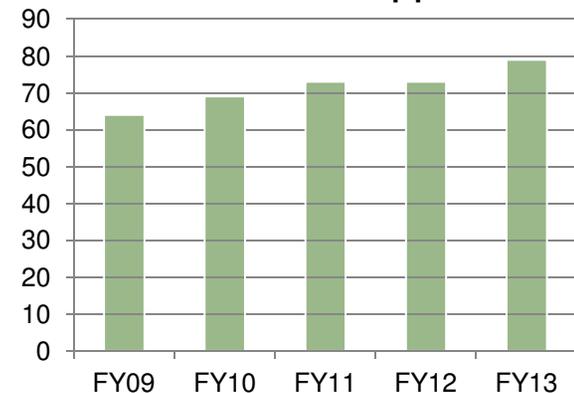
- BLS handles all registrations and renewals
- Reduced printing/mailing costs
- Increased compliance and tax discovery
- Reduced city staff time spent on license renewals (average .5 FTE savings)



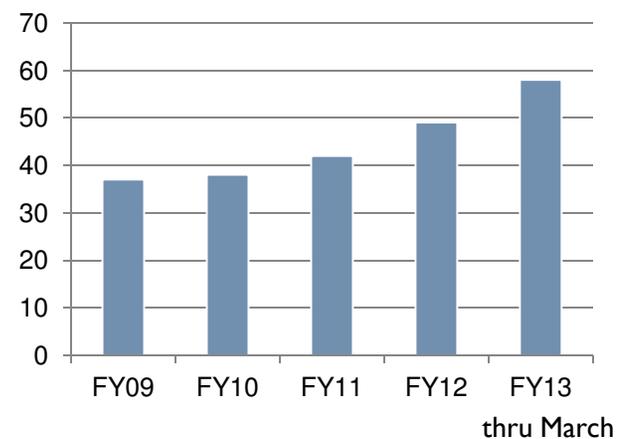
Improvements since BLS moved to DOR

- Held a Lean Improvement Workshop to increase online renewals
- Added e-check as a free payment option; 32% of payments don't have a processing fee
- Created a web site (business.wa.gov/BLS) that leverages the familiarity with the state's business portal
- Created shorter, simpler URLs:
 - ✓ CorpRenewal.wa.gov
 - ✓ BusinessRenewal.wa.gov
- Created central points of contact for BLS help – one email, one phone number, one website, direct access for tech support
- Developed “Partner Post” website for news and updates
- Sped up the process for bringing cities onboard, using the data warehouse for verification
- Added online password retrieval service for corporate renewal process

Online Business Applications



Online Business Renewals



BLS/Core Tax System Replacement

May:

- Wrapped up the Replacement Study

Next Steps:

- Start staffing the project for the 3-year BLS system replacement effort
- Increase fees:
 - application from \$15 to \$19
 - renewal from \$9 to \$11
- Gather system requirements
- Issue RFP for Commercial Off-the-Shelf (COTS) solution

Questions?



Government to Government Transactions

John Wack
Tax Information Specialist

Government to Government Transactions

General Treatment

- Taxability depends on activity
- Retail sales tax
 - ✓ Applies to sales of goods and repairs/improvements made to property
 - ✓ Exemption for interdepartmental charges
 - ✓ Exemption for public road construction
- B&O applies to “enterprise activities”
 - ✓ Exemption for state agencies
 - ✓ Exemption for exclusively governmental activities
 - ✓ Deduction for charges between political subdivisions of the state subject to service B&O tax

Government to Government Transactions – Cont.

- Public utility tax applies to “public service businesses”
 - ✓ Deduction for amounts derived from the sale of commodities for resale to other government agencies operating the same public service business
 - ✓ Deduction for amounts paid by a sewerage collection entity to an entity responsible for sewage treatment or disposal

Government Entities

State and state agencies

State
Resources

State
Transportation

Other political
subdivisions of the state

Regional
Transit

Local Transit

Municipal corporations

County Health

County Roads

City Fire

City Police

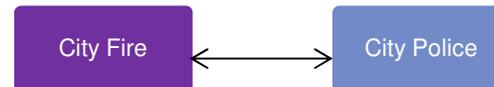
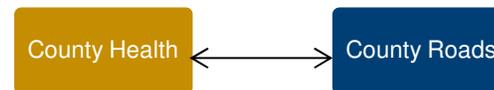
Fire District

Interdepartmental - Exempt Transactions

All state agencies are considered part of the same entity, the State.

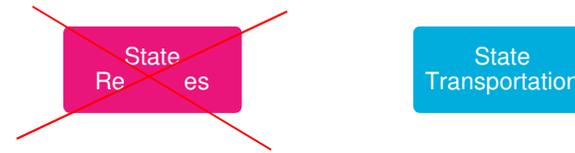


All departments of a city/county are considered part of the same municipal corporation.

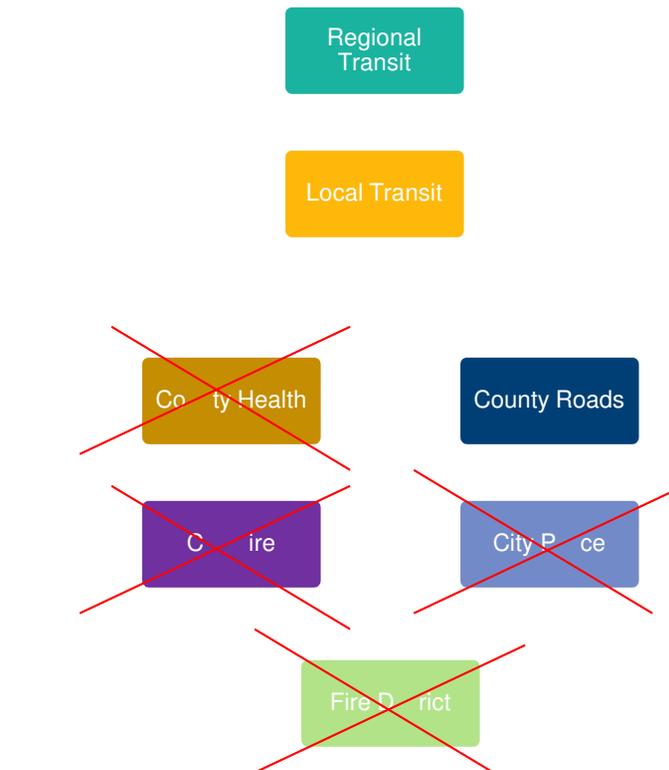


Public Road Construction Exemption

The state and its agencies are not eligible for public road construction treatment.



Cities, counties, transit districts, etc. are eligible for public road construction treatment.



B&O Tax – operating an enterprise activity

The state and its agencies are exempt from B&O tax.

Cities, counties, transit districts, etc. may owe B&O tax on income received from certain activities.



Services Provided Between Entities

- Design and project management services
 - ✓ Mere design service is subject to service B&O tax
 - ✓ Deduction available when performed for other political subdivision
 - ✓ Retail sales tax does not apply
- Repair services
 - ✓ Subject to retail sales tax and retailing B&O tax
- Construction services
 - ✓ Subject to retail sales tax and retailing B&O tax
 - ✓ Includes design and/or project management services when rendered in respect to construction

Questions?



2013 Legislation

Mark Mullin, Legislative Counsel &
Pete Levine, Property Acquisition Specialist

SHB 1068

- Bill exempts satellite television customers from the excise tax imposed by a television reception improvement district (District). (Cable television customers are already exempt from the tax.)
- Allows a District's employees and board members to assist a county treasurer in sending out tax notices

ESHB 1253

- Permanently extends several lodging tax changes made in 2007
 - ✓ All of the current allowed uses of lodging taxes are preserved except that lodging taxes may no longer be used for capital expenditures for tourism-related facilities owned by nonprofit organizations.
- Bill also:
 - ✓ Modifies reporting and application requirements for those seeking or receiving lodging tax revenues.
 - ✓ Requires applicants in jurisdictions with a population of 5,000 or more to submit applications for the use of lodging tax revenues to the local lodging tax advisory committee, except for applicants in King County.
 - ✓ Requires JLARC to report to the Legislature biannually on the economic impact of lodging tax revenues.

SHB 1420

- Eliminates retainage for all state and local public improvement projects funded in whole or in part with federal transportation funds
- In lieu of retainage, the contract bond required under chapter 39.08 RCW is available to satisfy claims arising with respect to such projects, including taxes
- Liability for taxes is limited to taxes incurred on the project
- Public entity administering the contract must notify DOR, ESD, and L&I, within 30 days of the completion of contracts over \$35,000

SHB 1420, continued

- On a public improvement contract that is exempt from the contract retainage requirement, the affidavit of wages paid must be submitted to the public entity disbursing the contract funds prior to final acceptance of the public works contract.
- Public agencies and the WSDOT are allowed to enter into reciprocal agreements to mutually waive indirect costs associated with a project or work.

ESSB 5110

- Allow municipalities to award a contract for supplies, materials, or equipment to the lowest bid **before** any applicable local sales taxes and local business and occupation taxes
- Notice of a local government's intent to award contracts based on the lowest bid before taxes are applied must be given prior to submission of bids

SSB 5072

- Creates a sales/use tax exemption for prescribed add-on automotive adaptive equipment, including charges for installation and repair, if:
 - ✓ The sale is to a disabled veteran or active duty military member, and
 - ✓ A federal agency reimburses the buyer in whole or in part for the purchase, and the reimbursement is paid directly to the seller
- Exemption takes effect 8-1-13, and expires 7-1-18
- Fiscal note shows estimated loss of \$22,770 for local governments in 2013-2015 Biennium

ESHB 1846

- Amounts paid for insurance coverage for pediatric oral services are subject to the insurance premiums tax if the services qualify as coverage for the minimum essential coverage requirement under the federal Patient Protection and Affordable Care Act
- Amounts no longer subject to B&O tax
- Effective for benefit years beginning 1-1-15
- Amounts received for other dental coverage are exempt from insurance premiums tax

SHB 1568

- Business Licensing Service (BLS) clean-up bill requested by DOR
- Updates statutes to replace references to master license with business license to reflect the name change from Master License Service to Business Licensing Service
- Section 26 makes changes to the confidentiality statute for licensing information obtained by DOR through BLS. The amendments in this section:
 - ✓ Clarify who a “person” is for purposes of the statute
 - ✓ Broaden the provisions governing authorized disclosure of licensing information

Bills to watch

- E2SHB 1971
- ESSB 5656
- E2SSB 5688
- SSB 5613
- ESHB 2038

E2SHB 1971

Number of changes to taxation of telecommunications industry, including:

- ✓ Eliminating sales tax exemption for local telephone service
- ✓ Shifting responsibility for collecting state and county E-911 taxes on prepaid wireless telecommunications service from service providers to retailers that sell prepaid wireless services
- ✓ Eliminates the Washington Telephone Assistance Program (WTAP) and the Telecommunications Relay Service (TRS) excise taxes
- ✓ WTAP & TRS taxes replaced with biennial general fund appropriations
- ✓ Each tax change is contingent on all other tax changes being enacted into law

ESSB 5656

- ESSB 5656 passed out of the Senate but died in the House:
 - ✓ Require all cities imposing a local B&O tax to have their general business licenses issued and renewed through BLS or a city-developed portal by July 1, 2016
 - ✓ Require all other cities with general business licenses to have such licenses issued and renewed through BLS or a city-developed portal by January 1, 2019
 - ✓ Allow DOR to delay or phase-in the issuance and renewal of general business licenses beyond these dates
- Bill was amended in the House Local Gov't Committee

E2SSB 5688

- E2SSB 5688 passed out of the Senate but died in the House. This version of the bill would require DOR to establish a workgroup to evaluate and develop recommendations on issues related to simplifying city and state B&O tax laws, specifically in regards to:
 - ✓ Uniformity
 - ✓ Classifications
 - ✓ Apportionment
 - ✓ Nexus
- Report to the Legislature due December 15, 2013

SSB 5613

- Bill eliminates the so-called “Dance Tax”
- Cover charges for the “opportunity to dance” would be reclassified from a retail to non-retail service
- Charges no longer subject to sales tax
- Income reported under service and other activities B&O tax classification
- Fiscal note indicates estimated reduction in local sales tax revenue of \$401,000 for 2013-2015 Biennium

ESHB 2038

- Eliminates or narrows a number of tax preferences and extends expiring taxes to provide funding for education
- Several provisions increase revenues for local governments
 - ✓ Eliminating sales and use tax exemption for bottled water
 - ✓ Modifying nonresident sales tax exemption so that qualifying nonresidents would pay the tax to the vendor and request a refund from DOR
 - ✓ Ending the high technology sales and use tax deferral early
 - ✓ Narrowing use tax exemption for fuel used in a manufacturing or extracting operation by the manufacturer or extractor of the fuel

E2SHB 1306

Changes the Local Infrastructure Financing Tool (LIFT) program, as passed by the Senate, the bill would:

- ✓ Extend current expiration date of the program from June 30, 2039, to June 30, 2044
- ✓ Eliminate requirement that a sponsoring or cosponsoring local gov't issue indebtedness to finance the costs of public improvements
- ✓ Clarify that Department's determination of the amount of the state contribution may not be changed unless the Department determines that the local revenue information contained in the annual report differs from actual dedicated local revenue

E2SHB 1306, continued

- ✓ Change deadline for commencing construction of the public improvement from the end of the fifth fiscal year that the LIFT tax is imposed to June 30, 2017
- ✓ Add a definition for the term “dedicated”
- ✓ Requires sponsoring local government's annual report to the Department and CERB include local revenues received by co-sponsoring and participating local governments and that were dedicated to pay for the LIFT-related public improvements
- ✓ Add a new demonstration project referred to as the Spokane County Kendall Yards Urban Development Project
 - Project award may not exceed \$350,000 per year. Note: annual \$7.5 million state contribution limit for LIFT tax was not increased

Property Tax

SSB 5444

- Eliminates requirement that county assessors annually value tax-exempt government properties
- Eliminates the Leasehold Excise Tax (LET) credit for amounts of LET in excess of amount of property tax that would have applied if property was owned by lessee or sub-lessee
- Requires county assessors to value and list such property beginning January 1 of the year in which the exempt status changes

EHB 1421

- Requires proceeds from sale of tax-title property be applied first to reimburse county for its costs in foreclosing and selling property
- If property had lien for deferred taxes at time of foreclosure, any remaining proceeds would be paid to the state for the amount of deferred property taxes, plus interest, outstanding as of the date the county acquired the property
- Remaining proceeds distributed in accordance with current law
- Allows the Department to charge off uncollectible any deferred taxes if Department is satisfied there are no cost-effective means of collecting amount due

SSB 5705

Concerns amounts received by taxing districts from property tax refunds and abatements:

- ✓ Provides taxing districts a way to recover some of the lost revenue from cancelled taxes
- ✓ Clarifies that county treasurers can offer property owners flexibility to make partial payments on past due property taxes through partial payment agreements
- ✓ Allows county treasurers ability to recover collection costs for delinquent property taxes

EHB 1493

- Requires county treasurers cancel outstanding property taxes, interest, and penalties on a manufactured home, mobile home, or park model trailer located in a manufactured or mobile home park if:
 - ✓ Most recent assessed value of the premises is less than \$8,000; and
 - ✓ Park's landlord submits a signed affidavit to county assessor indicating landlord has taken ownership of the premises with intent to resell or rent after:
 - Premises were abandoned, or
 - Title to premises was lawfully transferred to landlord after final judgment of restitution

ESHB 1432

- Allows county legislative authority to levy less than statutory minimum rates for Veterans' Assistance Fund and for Mental Health/Developmental Disabilities Services levies
 - ✓ Veterans Assistance Fund levy – can now levy less than \$0.01125 per \$1,000 of assessed value
 - ✓ Mental Health/Developmental Disabilities Services levy – can now levy less than \$0.025 per \$1,000 of assessed value
- Provides more flexibility for counties when allocating funds from county general fund for veterans assistance and community services for mental health/developmental disabilities

SSB 5332

- Changes voter approval requirement for continuation of benefit charges imposed by fire protection districts from super majority to majority requirement
 - ✓ Requires 50% voter approval vs. 60% voter approval
- Super majority voter approval requirement for initial imposition remains

HB 1576

- Allows county assessors to send assessments, notices, and any other information to persons electronically instead of regular mail if certain conditions are met:
 - ✓ Taxpayer must authorize electronic means; and
 - ✓ Methods reasonably designed to protect confidential information must be used unless waived in writing by taxpayer

E2SSB 5078

- Establishes new exemption for certain nonprofit fair associations, providing clarification for those, organized under RCW 24.06 with majority of property acquired from a city or county between 1995 and 1998
- New exemption differs from the current exemption in the following respects:
 - ✓ Does not require exclusive use of property for fair purposes;
 - ✓ Is not subject to the conditions in RCW 84.36.805; and
 - ✓ Expires for taxes due in 2019
- Limitations preclude other fair associations from receiving a property tax exemption

HB 1277

- Enables federally recognized Indian tribes to acquire and hold conservation easements or other similar future interests in lands or improvements, outside of Indian Country or to conserve the property for open space purposes
- Adds federally recognized Indian tribes to list of entities that can acquire land under chapters 84.33 RCW or 84.34 RCW for conservation-related purposes and have land removed without charging seller, under most circumstances, additional tax, interest, and penalty, or compensating tax

2SHB 1416

- Bill changes various provisions governing local improvement districts created by irrigation districts
- Amends definition of “local government” for purposes of the current use program in RCW 84.34.310
- Eliminates exemption from special benefit assessments levied by LIDs within irrigation districts for land classified in current use program

Bills passing of general interest

SB 5593

- ✓ Imposes Oct 31 filing deadline each year for applications for property tax exemption claims for certain improvements to benefit fish and wildlife habitat, water quality, or water quantity; and amending RCW 84.36.255

SB 5627

- ✓ Exempts from property tax airplanes operated by a commuter air carriers whose ground property is located primarily on private property
- ✓ Subjects airplanes to a new aircraft excise tax in lieu of property tax
- ✓ Streamlines and simplifies process for paying taxes for taxpayer and Department

Bills to watch

- *EHB 1287 - Subjecting federally recognized Indian tribes to the same conditions as state and local governments for property owned exclusively by the tribe.*
- *E2SHB 1437 – Concerning small farms under the current use property tax program for farm and agricultural lands.*

Questions?



Break

Telecommunications Refund

(presentation contains confidential tax information)

Rob Rice
Assistant Director

Protecting Confidential Tax & Licensing Information

Maureen O'Connell
Public Records Officer Designee



Protecting Confidential Tax Information

Before giving out information
ask yourself:

*“Is this confidential taxpayer
(CTI) or licensing Information
(CLI)?”*



Confidentiality Laws

- Public Records
 - ✓ RCW 42.56.230(4)
- Excise Tax
 - ✓ RCW 82.32.330
- Business Licensing Service
 - ✓ RCW 19.02.115
- Property Tax
 - ✓ RCW 84.08.210
 - ✓ RCW 84.40.020
 - ✓ RCW 84.40.340



Data-sharing or Partnership Agreements

- Data-sharing or Partnership agreements provide for sharing of information for official purposes
- Each employee with access to tax information must know and understand limitations on use of tax information
- Ask to amend the Data-sharing or Partnership agreement if data use changes or is expanded



Secrecy Clause Affidavits

- Who?
 - ✓ Each employee or agent with access to confidential tax information
- When?
 - ✓ Before access to tax information
 - ✓ Update if any personnel changes
- Where?
 - ✓ Kept on file by local jurisdiction and DOR
- Why?
 - ✓ Assure understanding of laws and penalties for violation
- How?
 - ✓ Signed and notarized



Data Security

- Keep all data secure regardless of medium
- Best practices:
 - ✓ Print only information you need
 - Don't leave documents on printers
 - ✓ Copy or download electronic data as needed
 - ✓ Communication of confidential information via e-mail is restricted including attachments
 - ✓ Secure all electronic data



Data Security

- Paper copies must be
 - ✓ secure at all times,
 - ✓ shredded once no longer needed,
 - ✓ not seen by others without authorized access, and
 - ✓ secured during transportation and destruction if destroyed off-site



Penalties for Breach of Confidentiality

RCW 82.32.330 & RCW 19.02.115

- ✓ Misdemeanor sanctions include:
 - Up to \$1,000 fine
 - Up to 90 days in jail
 - Loss of job
 - Barred from employment by state or local government for two years



Confidential Tax Information Exercise

Contact

Maureen O'Connell
Public Records Officer's Designee

(360) 705-6647

MaureenO@dor.wa.gov

Questions?



Federal Legislation

Tim Jennrich
Tax Policy Specialist

Marketplace Fairness Act

- Current law, state and local jurisdictions cannot require sellers to collect sales and use taxes unless the seller has a physical presence in a state
 - ✓ *Quill v. North Dakota*, 504 U.S. 298 (1992).
- U.S. Supreme Court in *Quill* invited Congress to relax this physical presence requirement
- In 2013, Congress responded to invitation with introduction of “Marketplace Fairness Act of 2013” S.743/H.R. 684 (the “MFA”)

What Does the MFA Do?

- Gives state and local jurisdictions right to require collection of sales and use taxes from sellers with no in-state physical presence (“remote seller”)
- Bill includes two options for pursuing collection:
 - ✓ *Streamlined option*: requires state publication of notice and full membership in the Streamlined Sales and Use Tax Agreement
 - ✓ *Non-Streamlined option*: requires states to legislatively identify the sales and use taxes/products for which collection authority is asserted and to adopt a set of federal minimum simplifications
- Does not apply to sellers with \$1.0 million or less in gross annual receipts in total remote sales in U.S. during prior calendar year (small sellers)
 - ✓ Affiliated persons are aggregated

What the MFA Does NOT Do?

Does not:

- Create nexus for any seller;
- Encourage adoption of new taxes;
- Subject sellers to non-sales or use tax types, e.g., business and occupation taxes, income taxes, etc.;
- Permit or prohibit state from licensing or regulating persons, requiring any person to qualify to transact interstate business, subjecting any person to taxes unrelated to products and services, or exercising authority over matters of interstate commerce
- Affect intrastate sales; or
- Change sourcing for products covered by Mobile Telecommunications Sourcing Act, 4 U.S.C. 116 -126 (2002)

Streamlined Option and Washington

Presents viable option:

- Full SSUTA member state;
- Few, if any additional changes, to assert collection authority;
- Path to collection authority involves few legal uncertainties; and
- Collection could commence 180 days after publishing notice
 - ✓ No earlier than first calendar quarter at least 180 days after enactment

MFA Fiscal Estimates

Estimate of State and Local Sales Tax Gain
January 1, 2014 effective date*
(All \$'s in Millions)

	2013 15 Biennium	2015 17 Biennium	2017 19 Biennium
Total WA Remote Sales Loss**	\$1,084.2	\$1,318.7	\$1,529.9
Total Potential WA Remote Sales Revenue***	\$1,019.8	\$1,240.4	\$1,439.1
Net LOCAL Sales Tax Gain****	\$100.0	\$278.5	\$351.0
Net STATE Sales Tax Gain****	\$184.2	\$567.2	\$745.7

* Assumes passage of MFA by September 30, 2013 with collections starting January 1, 2014. Remote sale losses represents 12 months of loss, gain figures represent 5 months of cash collection for FY2014 and 12 months thereafter. Estimate assumes first year compensation required for remote sellers only and compensation for all sellers begins FY2015.

** Estimate does not include remote sales by individual persons on market place platforms.

*** Small seller exception: Exempts sellers with \$1.0 million or less in annual gross receipts from total U.S. remote sales; representing 6% of total remote sales loss, (Source: 2011 Internet Top 1000 E-Retailers.)

**** Application of the assumed compliance factor.

Estimate - Local Sales Tax Gain By County

County	2013-15 Biennium	2015-17 Biennium
Adams	191,000	533,000
Asotin	243,000	678,000
Benton	2,287,000	6,365,000
Chelan	890,000	2,477,000
Clallam	947,000	2,638,000
Clark	5,114,000	14,232,000
Columbia	56,000	156,000
Cowlitz	1,100,000	3,060,000
Douglas	403,000	1,120,000
Ferry	96,000	269,000
Franklin	826,000	2,299,000
Garfield	26,000	72,000
Grant	945,000	2,631,000
Grays Harbor	788,000	2,192,000

- *Estimated revenues reflect the gain for all local jurisdictions within each county*
- *Statewide estimate for the local revenue impact was allocated to each county using a weighted average of population, personal income, and local sales tax collections for electronic retailers*
- *Estimates assume passage of federal legislation by September 30, 2013 with collections beginning January 1, 2014*

Estimate - Local Sales Tax Gain By County

County	2013-15 Biennium	2015-17 Biennium
Island	1,163,000	3,237,000
Jefferson	491,000	1,365,000
King	38,340,000	106,708,000
Kitsap	3,631,000	10,107,000
Kittitas	534,000	1,485,000
Klickitat	267,000	743,000
Lewis	809,000	2,252,000
Lincoln	124,000	345,000
Mason	657,000	1,831,000
Okanogan	514,000	1,432,000
Pacific	243,000	679,000
Pend Oreille	144,000	400,000
Pierce	10,297,000	28,658,000
San Juan	368,000	1,025,000

- Estimated revenues reflect the gain for all local jurisdictions within each county
- Statewide estimate for the local revenue impact was allocated to each county using a weighted average of population, personal income, and local sales tax collections for electronic retailers
- Estimates assume passage of federal legislation by September 30, 2013 with collections beginning January 1, 2014

Estimate - Local Sales Tax Gain By County

County	2013-15 Biennium	2015-17 Biennium
Skagit	1,528,000	4,252,000
Skamania	128,000	357,000
Snohomish	9,988,000	27,798,000
Spokane	5,644,000	15,710,000
Stevens	461,000	1,281,000
Thurston	3,453,000	9,609,000
Wahkiakum	44,000	123,000
Walla Walla	738,000	2,053,000
Whatcom	3,437,000	9,567,000
Whitman	659,000	1,833,000
Yakima	2,524,000	7,026,000

- *Estimated revenues reflect the gain for all local jurisdictions within each county*
- *Statewide estimate for the local revenue impact was allocated to each county using a weighted average of population, personal income, and local sales tax collections for electronic retailers*
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The MFA and the legislative process?

- Introduced in both U.S. House and Senate on February 14, 2013
- Passed in Senate May 6, 2013 – vote 69-27
- Moves to House for discussion, where it is widely expected to follow regular order:
 - ✓ Debate and possible amendment in the House Judiciary Committee
 - ✓ Recommendation/no recommendation for a House floor vote
- Uncertainty regarding changes made in House
 - ✓ Bill proponents are likely to seek to attach MFA to some other bill slated for a House floor vote

MFA and potential amendments

Other bills that may be offered as amendments....	Possible amendments to the language of the bill...
Business Activity Tax Simplification Act	Limitation on out-of-state audits
Internet Tax Freedom Act	Integrated multistate tax collection software
Mobile Workforce State Income Tax Simplification Act	Federal jurisdiction to hear disputes
Digital Goods and Services Tax Fairness Act	Higher small seller exception
Wireless Tax Fairness Act	One state tax rate (including blended rate)
State Video Tax Fairness Act	Exclusion for non-sales tax states
End Discriminatory State Taxes for Automobile Renters Act	Requiring for SSUTA member states to reauthorize SST
E911 Surcharge Fairness Act	Origin sourcing
Telecommuter Tax Fairness Act	Vendor compensation
Hotel intermediary legislation	Uniform product definitions
	Making foreign corporations subject to MFA
	Federal exemptions for certain products/persons

Digital Goods & Services Tax Fairness Act

- Bill introduced in 2011 that purported to prevent multiple and discriminatory taxation of digital goods and services
- Problematic from the state perspective
 - ✓ Washington and a coalition of states, local governments, and related organizations opposed bill
- Bill referred out of House Judiciary Committee, but committee chairman agreed to work to resolve state and local concerns
 - ✓ National Governors Association (NGA) entered into negotiations regarding possible compromise

Digital Goods & Services Tax Fairness Act – Cont.

- Alternative bill drafted and attached unsuccessfully as an amendment to the MFA recently passed in Senate
 - ✓ Anticipate will also be attempted in the House
- Bill addresses sourcing, bundling, and multiple and discriminatory taxation of digital products
 - ✓ Bill does not apply to:
 - state and local business and occupation taxes
 - telecommunications, ancillary, or audio video programming services (excluding pay-per-view and similar offerings)
 - ✓ Eliminates many of the worst aspects of prior bill
 - ✓ Provides more reasonable and administrable statutory framework
 - ✓ Appears to have few, if any, impacts to locally administered taxes
 - local governments are encouraged to review the bill and provide feedback

MFA Implementation

- Coordinated effort needed to implement MFA
- Preparation for implementation has begun:
 - ✓ Within the Department
 - ✓ Among Streamlined states
 - Streamlined Implementation Workgroup
 - ✓ Other states
 - Federation of Tax Administrators

Additional Resources

- Streamlined Implementation Workgroup documents
<http://www.streamlinedsalestax.org/index.php?page=alias-39>
- MFA (S.743) <http://www.govtrack.us/congress/bills/113/s743/text>
- Digital Goods and Services Tax Fairness Act, see Title II
<http://beta.congress.gov/congressional-record/2013/04/24/senate-section/article/S2971-1>

Contact Information

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Questions?



Initiative Measure No. 502: Legalized Recreational Marijuana

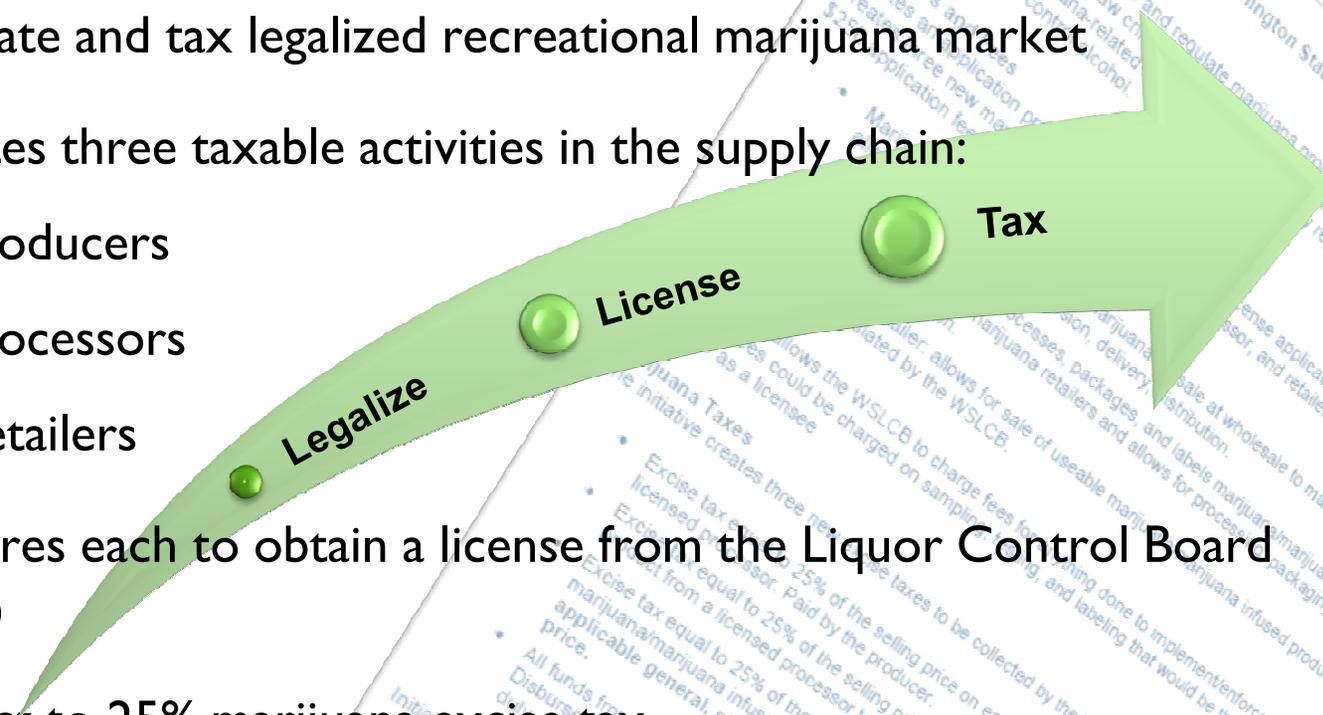
Armikka Bryant
Tax Policy Specialist

Presentation Goals

- Working knowledge of Initiative 502 (I-502)
 - ✓ Taxability of marijuana
 - Producers
 - Processors
 - Retailers
 - ✓ Licensing and fee structure
- Current B&O and retail sales tax issues

What does I-502 do?

- Regulate and tax legalized recreational marijuana market
- Creates three taxable activities in the supply chain:
 - ✓ Producers
 - ✓ Processors
 - ✓ Retailers
- Requires each to obtain a license from the Liquor Control Board (LCB)
- Subject to 25% marijuana excise tax

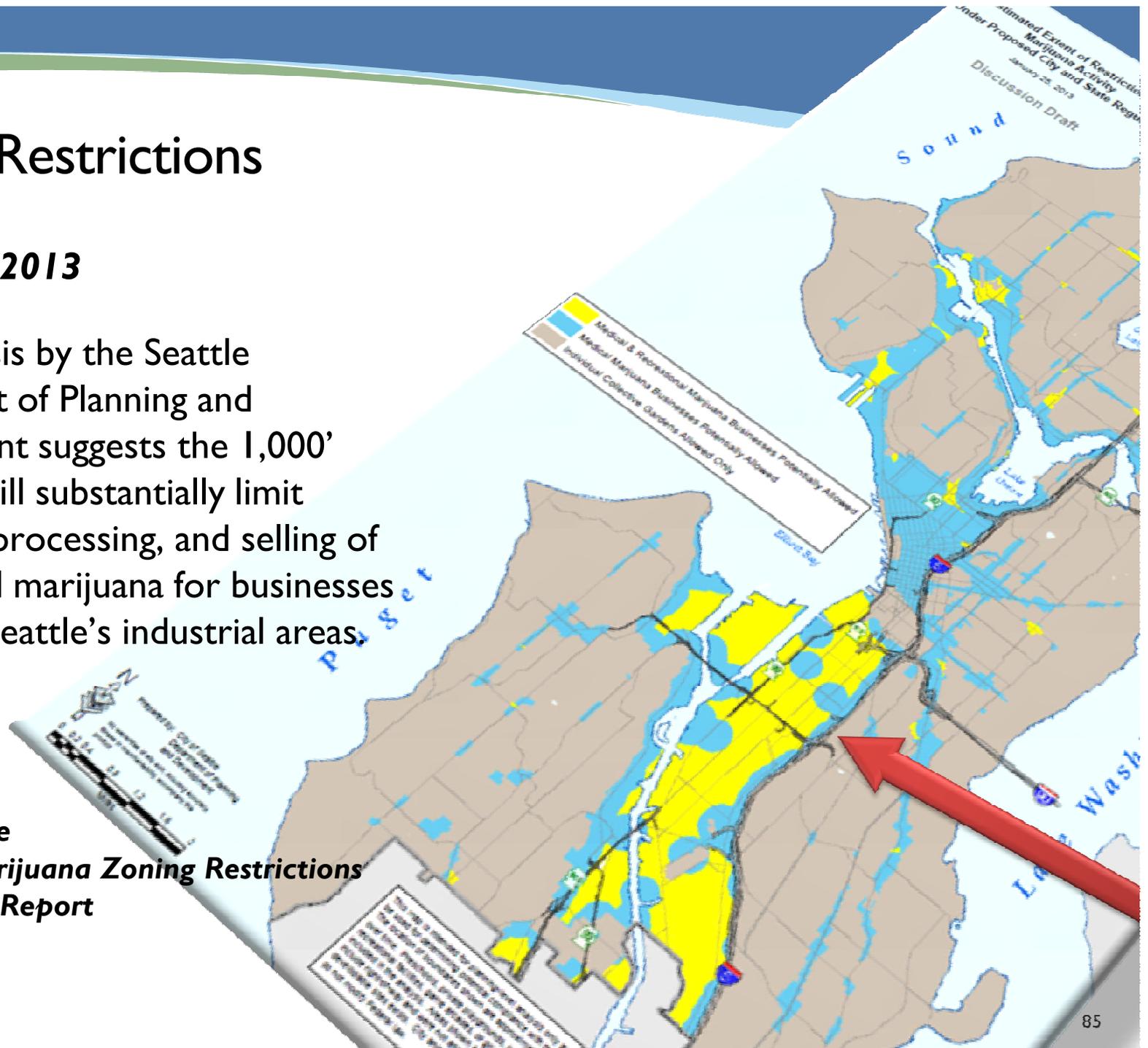


License Restrictions

March 19, 2013

Initial analysis by the Seattle Department of Planning and Development suggests the 1,000' limitation will substantially limit producing, processing, and selling of recreational marijuana for businesses outside of Seattle's industrial areas.

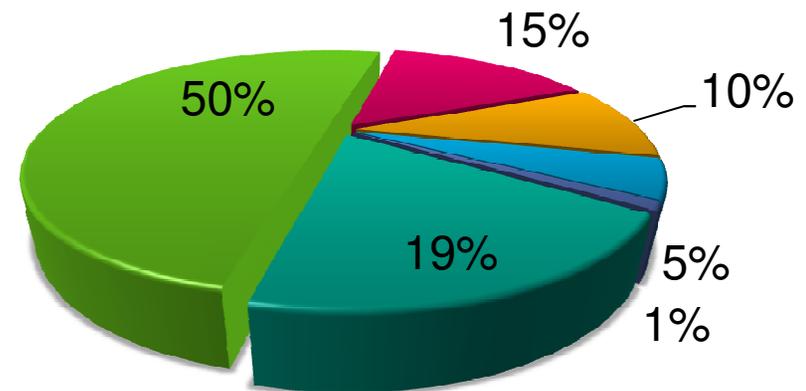
**City of Seattle
Proposed Marijuana Zoning Restrictions
Central Staff Report**



Fiscal Impact and Earmarks

- Total revenue could be as low as zero or as high as **\$1,943,936,000** over five fiscal years.
 - Washington Office of Financial Management, Fiscal Impact Statement (I-502).

- Basic Health Washington
- Marijuana Abuse Treatment
- Marijuana Abuse Education
- Other Health Care
- Other Marijuana Research
- Administration and General Fund



Producing Marijuana

- Produce (grow) marijuana for sale at wholesale to processors
- 25% excise tax paid to LCB on sales to licensed processors
- Producers must be located in Washington
- Is marijuana an “agricultural product” under RCW 82.04.213?
 - ✓ Answer pending
- Is producing marijuana exempt from B&O tax under RCW 82.04.330?
 - ✓ Answer pending



Processors

- Process, package, and label marijuana and marijuana-infused products for sale at wholesale to licensed marijuana retailers
- 25% excise tax due to LCB on sales

Processing marijuana

- Are processors classified as manufacturers under RCW 82.04.110?
 - ✓ Answer pending
- Do processors qualify for the machinery and equipment sales tax exemption under RCW 82.08.02565?
 - ✓ Answer pending

Processing marijuana

- Are marijuana processors eligible for the B&O exemption for manufacturing fresh fruits or vegetables under RCW 82.04.4266 (1)(a) or (b)?
 - ✓ No
- Do processors qualify for the processing fresh fruits and vegetables B&O preferential rate under RCW 82.04.260?
 - ✓ No

Processor's Sales to Retailer's

- Both manufacturing and wholesaling activity B&O taxes apply to Processor's sales to Retailers
- Do processors qualify for the MATC under RCW 82.04.440?
 - ✓ Answer pending

Washington State Department of Revenue
Taxpayer Account Admin.
PO Box 47476
Olympia WA 98504-7476

State of Washington
Multiple Activities Tax Credit
Schedule C

Reset This Form

NAME _____ REG NO. _____
 FIRM NAME _____
 ATTACHED TO: _____ TAX RETURN
Period

INSTRUCTIONS
 Use Part 1 **ONLY** if you have paid taxes on activities also taxable in Washington.

1. Find the Activity (A through E) which applies to your business (more than one activity may apply).
2. Enter in Column 1 the taxable amount pertaining to that activity as reported on the Combined Excise Tax Return.
3. Enter in Column 2 the amount of Washington B & O Tax due on the amount in Column 1.
4. Enter in Column 3 the amount of gross receipts tax paid to other states under the appropriate heading.
5. Enter in Column 4 the lesser of the amounts entered in Columns 2 and 3.
6. Add all amounts in Column 4 and enter in the Subtotal Box.

PART 1 - EXTERNAL CREDITS "Taxes Paid To Other States"

ACTIVITY WHICH RESULTS IN A TAX CREDIT	Column 1 Taxable Amount	Column 2 B & O Taxes Paid	Column 3 Gross Receipts Taxes Paid			Line Code	Column 4 Total Credit
			Gross Receipts Taxes Paid				
			Other U.S. States	Non-Washington Local Govts.	Foreign Countries and Territories		
A. Sales in Washington of products extracted outside of Washington							
B. Sales in Washington of products manufactured outside of Washington					67		
C. Washington manufactured products extracted outside of Washington							
D. Washington extracted...					67		

Retailers

- Allows for sale of useable marijuana, marijuana-infused products, and marijuana paraphernalia at licensed retail outlets
 - ✓ Licensed producers and processors cannot have a direct or indirect financial interest in licensed retailers
 - ✓ State B&O tax rate for retailers is 0.471%
 - ✓ Must collect and remit retail sales tax on sales of marijuana, marijuana-infused products, and marijuana paraphernalia
 - ✓ 25% excise tax due to LCB on licensed sales of marijuana and marijuana-infused products

Retail Sales to Consumers

- Are sales of marijuana-infused foods exempt under RCW 82.08.0293 – sales of food and food ingredients?
 - ✓ No
- Can qualifying non-WA residents claim the non-resident sales tax exemption under RCW 82.08.0273?
 - ✓ No

Retail Sales to Consumers

- Is the marijuana excise tax deductible from the retail selling price?
 - ✓ No
- Are vending machine sales permitted?
 - ✓ No

COGS = \$5.00
Mark Up = \$1.00
Subtotal = \$6.00

25% excise tax on \$6.00 = \$1.50
Subtotal = \$7.50

State/Local RST on \$7.50 @ .087% = \$0.65
Total Price to Consumer = **\$8.15**

Recreational Marijuana

Producer
25% Tax
Producer sells to Processor
Cost of goods sold = \$10.00
plus 25% Producer tax = 2.50
Processor pays = \$12.50

Processor
25% Tax
Processor sells to Retailer
Cost of goods sold = \$12.50
plus 25% Processor tax = 3.13
Retailer pays = \$15.63

Retailer
25% Tax
Retailer sells to Consumer
Cost of goods sold = \$15.63
plus 25% Retailer tax = 3.91
Retail price = \$19.54
plus 6.5% WA RST = 1.27

Consumer Pays \$20.81

Medical Cannabis

Dispensary sells to qualifying patient

Cost of goods sold \$10.00
plus 6.5% WA RST = .65

Consumer Pays \$10.65

Unresolved Policy Issues

State and Local

- Are any amendments necessary?
- Sales on tribal lands?
- Will samples be available?
- Are sales of seeds exempt from sales tax?
- All cash business model

Federal

- Supremacy Clause
- IRC §280E
- Federal Banking laws
- State Tax Revenues
- State Employee Culpability

Where are we now?

- Framework in place for regulating and taxing recreational marijuana
- LCB issued draft rules in May 2013
- DOR working with other state agencies to resolve remaining tax policy issues
- Washington citizens can now legally possess:
 - ✓ One ounce of useable marijuana;
 - ✓ Sixteen ounces of marijuana-infused product in solid form; or
 - ✓ Seventy-two ounces of marijuana-infused product in liquid form; and
 - ✓ Marijuana paraphernalia
- Producers will begin being licensed in August 2013
- Initiative does not repeal medical cannabis and taxes still apply to sales

Questions?



Local Tax System Replacement Project

Larry Schmitt
Program Coordinator

Local Tax Replacement Project

System calculates and distributes \$3 billion annually

Age and complexity has created:

- ✓ High risk of errors
- ✓ Cumbersome interfaces and too many manual processes
- ✓ Difficulty maintaining old technology

What are we doing?

Analyze, design, and implement a system that:

- ✓ Improves accuracy
- ✓ Increases financial controls
- ✓ Provides better information to local governments

Stakeholder Contact

- Sent surveys to 37 jurisdictions
- Combination of small and large jurisdictions located throughout the state
- 54% response rate

View and retrieve distribution information quickly and easily

Department of Revenue Washington State

"Working together to fund Washington's future"

My account

Local Jurisdiction Home

- Distribution** (highlighted with a red arrow)
- Distribution Detail
- Distribution Reports
- Research/Resources
- Single Account History
- Highest Reporting Business
- Distribution by NAICS
- Ordinances, Annexations, Contract
- Ordinances
- Annexation
- Contracts
- Secrecy Clause Affidavits
- Submit
- Tax Rate Information
- Mitigation
- Manage Account
- Add/edit user permissions
- Request access to
- View business activities
- E-mail & Notices
- Secure e-mail
- Alerts
- My logon profile
- View profile
- Update profile
- Change Password
- Change security question

Jurisdiction:
Treasury Number:

Address 1
City, State Zip
[Edit](#)

October 2012 Distribution

Current Distribution Amount **7,000.00**

Distribution Detail

Current Distribution for October 2012

Tax Type	Amount
Regular	2,000.00
Optional	4,000.00
Transportation	1,000.00
Total	7,000.00

Easily see top reporting businesses

Department of Revenue Washington State "Working together to fund Washington's future"

My account

Local Jurisdiction Home

Distribution

Distribution Detail

Distribution Reports

Research/Resources

Single Account History

Highest Reporting Business

Distribution by NAICS

Ordinances, Annexations, Contract

Ordinances

Annexation

Contracts

Secrecy Clause Affidavits

Submit

Tax Rate Information

Mitigation

Manage Account

Add/edit user permissions

Request access to

View business activities

E-mail & Notices

Secure e-mail

Alerts

My logon profile

View profile

Update profile

Change Password

Change security question

Jurisdiction: Address 1
Treasury Number: City, State Zip
[Edit](#)

5 # of businesses to show [View Report](#)

1 of 1 100% Find | Next Select a format... Export

Highest Reporting Businesses Report

TRA	Business Name	Account Closed Date	09/2012	08/2012	07/2012	06/2012	05/2012
999 999 999	Company 1	07/16/2012			14,000	28,000	31,000
999 999 999	Company 2		31,500	28,000	24,500	29,000	32,000
999 999 999	Company 3	06/01/2012					21,500
999 999 999	Company 4		55,500	42,000	51,750	47,250	45,000
999 999 999	Company 5		75,000	67,500	71,000	73,000	62,500

Reporting history for a business

Department of Revenue Washington State

"Working together to fund Washington's future"

My account

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- Tax Rate Information
- Mitigation
- Manage Account
- E-mail & Notices
- My logon profile

Jurisdiction: Address 1
Treasury Number: City, State Zip
[Edit](#)

TRA: 600 600 600 [View Report](#)

1 of 1 100% Find | Next Select a format... Export

Single Account History Report

600 600 600 Sample Account Inc. Closed 8/16/12

Reported Location	Reporting Period	Distribution Period	45 Amount	46 Amount	51 Amount	52 Amount	Total Amount
9999	November 2011	January 2012	271		163		434
9999	December 2011	February 2012	33,518		20,111		53,629
9999	January 2012	March 2012	428		257		685
9999	February 2012	April 2012	44		26		70
9999	March 2012	May 2012	10	107	6		123
9999	April 2012	June 2012	7		4		11

Group current distribution information by industry/NAICS

Department of Revenue Washington State "Working together to fund Washington's future"

My account

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- E-mail & Notices
 - Secure e-mail
 - Alerts
- My logon profile
 - View profile
 - Update profile
 - Change Password
 - Change security question

Jurisdiction: Address 1
Treasury Number: City, State Zip
[Edit](#)

Single Account History Report

600 600 600 Sample Account Inc. Closed 8/16/12

Under Construction

Reported Location	Reporting Period	Disbursement Period	Amount	46 Amount	51 Amount	52 Amount	Total Amount
9999	November 2011	January 2012	271		163		434
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9999	February 2012	April 2012	44		26		70
9999	March 2012	May 2012	10	107	6		123
9999	April 2012	June 2012	7		4		11

Interested in helping?

Contact



Larry Schmitt

(360) 902-7124

LarryS@dor.wa.gov

Questions?



Use Tax – Motor Vehicle Sales

Leah Stevens & Keith Jacobson
Revenue Agents

Use Tax-Motor Vehicles

- Department of Revenue (DOR) has authorized Department of Licensing (DOL) and County Auditors to collect use tax when a person applies to transfer the certificate of ownership of a motor vehicle acquired without the payment of tax

See *RCW 82.12.045 & WAC 458-20-17802*

What we do.....

- Provide guidance to DOL, Vehicle Vessel Support (V&V) and Liaison Officers in determining value and/or exemption from Use Tax
 - ✓ V&V assists County Auditor or Sub-Agent in determining
 - Vehicle value
 - Whether taxpayer qualifies for exemption
 - ✓ V&V may contact their Liaison officer for additional assistance
 - ✓ V&V Liaison will contact DOR if further guidance needed

What we do, continued.....

We review the following for possible audit:

- Buyer-Seller Affidavit
- Report of Sale
- Sub-Agent Alerts
 - ✓ Transactions processed by Sub-Agent and later flagged because the Sub-Agent believes the person titling the vehicle provided false information or did not collect tax or the correct amount of tax due
 - Note: there has been an increase in Sub-Agent Alerts – office knows the tax is due, but chooses not to collect and instead sends the transaction to DOR

How does the audit process work?

- Random selection process
- Selected case is put into a tracking system
- Letter sent to taxpayer - letter may include
 - ✓ Use Tax Return for Use Tax/Additional Use Tax due
 - ✓ Request for additional documentation

Who to contact?

Vehicle & Vessel Support
or your Liaison Officer

Questions?



Miscellaneous Updates & Closing

Patti Wilson
Local Government Liaison

Please complete your evaluations, thank you!