Mitigation: Destination-based Sales Tax

Part IV: How Revenue Gains and Losses Are Turned Into a Payment Amount

Dec 4, 2008

Background

A taxing jurisdiction may receive revenues from several different sales tax components. To determine the total gain or loss in revenues for the jurisdiction, we must find a way of adding these components together. The result is the estimated net impact in revenues, which is the goal of this analysis.

Aggregated vs. Non-aggregated vs. Voluntary-only Components

The Mitigation Advisory Committee recommended a formula for adding components together. Its recommendation was to base the summing process on the original sourcing study that was performed in 2002. The Department accepted the recommendation. This formula classifies gains and losses into two categories: aggregated and non-aggregated.

Aggregated Components
Basic
Optional
Juvenile Facilities
Criminal Justice
Rural

Non-Aggregated Components
Transit
Communications
Public Facilities Districts
King County Food and Beverage
Public Safety
Metro Parks
Regional Theatres
Mental Health
Football
Baseball
Regional Transit Authority
Rental Car - Any County
Rental Car - King County
Rental Car - Regional Transit

Voluntary-Only Components*
Annexation Services
Health Sciences

*any other taxes effective after Jun 30, 2008 will go in this section

Aggregated components are simply added together. If a jurisdiction has a gain in one tax component and a loss in another, these two effects offset each other. In other words, calculating the total gain or loss in revenues for the aggregated components is as easy as adding all the gains and losses together.

For non-aggregated components, only losses are taken into consideration. No gains to those components offset the losses. The purpose of this is to allow special revenues, like those used to pay bond obligations, to be individually mitigated. So, to calculate mitigation, we ignore any component-level revenue gains from the non-aggregated components.

Voluntary-only components are those with implementation dates of July 1, 2008 or later. A jurisdiction will not be compensated for losses to these components because they did not exist prior to the implementation of destination-based sales tax. However, they do affect the mitigation payment amount. All revenues from voluntary sellers are included in the voluntary offset, including revenues from these components. That is why these components are referred to as “voluntary-only” - they factor only into the voluntary offset.

Reaching the Mitigation Payment

Revenue gains and losses are added together in a special way to prevent non-aggregated component losses from offsetting aggregated or non-aggregated component gains. Specifically, we use the following formula to determine the net gain or loss in revenues:

If the sum of aggregated components is less than $0 (a loss):

(sum of aggregated components + sum of non-aggregated component losses) + voluntary offset

If the sum of aggregated components is greater than or equal to $0 (a gain):

(sum of non-aggregated component losses) + voluntary offset

Let us use an example to make this idea as clear as possible. Suppose Mossyrock had the following gains and losses (they do not actually receive all of these taxes, this is for illustrative purposes).

Aggregated components:

Location Code	Jurisdiction Name	Basic & Optional	Criminal Justice	Aggregated Net Gain or Loss
2104	Mossyrock	(1,000)	500	(500)

Non-aggregated components:

Location Code	Jurisdiction Name	Emergency Communications	Mental Health/ Chemical Dependency	Public Safety and Health	Non-Aggregated Gains	Non-Aggregated Losses
2104	Mossyrock	(100)	(500)	200	200	(600)

Voluntary offset:

Location Code	Jurisdiction Name	Basic & Optional	Criminal Justice	Emergency Communications	Mental Health/ Chemical Dependency	Public Safety and Health	Voluntary Offset
2104	Mossyrock	100	50	50	100	100	400

Now we combine the aggregated, non-aggregated, and voluntary offset amounts into a single measure of the net impact of revenues:

Location Code	Jurisdiction Name	Aggregated Net Gain or Loss	Non-Aggregated Component Gain	Non-Aggregated Components Loss	Voluntary Offset	Calculated Revenue Gain or Loss	Mitigation Payment Amount
2104	Mossyrock	(500)	200	(600)	400	(700)	700

We apply our formula here and arrive at a net loss of $700. The aggregated component loss was added to the non-aggregated component loss to get -$1,100. The voluntary offset of $400 was then added to get us to the total of -$700. The mitigation payment amount completely compensates Mossyrock for this loss.

The Department, as recommended by of the Mitigation Advisory Committee, will apply a $25 threshold to Mitigation payments. Net revenue losses of less than $25 will not be mitigated. The Department often does not make payments when the administrative cost of doing so is less than the amount of the payment. A typical threshold is $25.