



STATE OF WASHINGTON
DEPARTMENT OF REVENUE

Research Report 2007-1

SUMMARY OF 2007 TAX LEGISLATION

**Washington State Department of Revenue
Research Division
May 2007**

This report summarizes major revenue and tax legislation in Washington that was approved during the regular session of the 2007 Legislature. The material was compiled from information developed by the Research Division and the Legislation and Policy Division in preparing fiscal notes on these bills. The summary is not intended to cover technical details or provide a legal interpretation of the bills. Instead, its primary purposes are to alert agency personnel of the changes, to assist in developing implementation programs, and to serve as a resource for historical tax research.

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STATE REVENUE IMPACT OF MAJOR 2007 TAX LEGISLATION - Sources Impacting Dept. of Revenue Only
State General Fund - Fiscal Years 2008, 2009, 2010 & 2011

<u>Bill Number</u>	<u>Brief Description</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
SHB 1002	Boats purchased by nonresidents; new use permit fee	\$568,000	\$723,000	\$838,000	\$966,000
SHB 1029	E85 motor fuel; B&O & sales tax exemptions extended			(\$118,000)	(\$135,000)
HB 1185	Reporting of timber sales data extended (receipts from penalties)	\$1,000	\$1,000	\$1,000	\$0
2SHB 1277	Expansion of local infrastructure financing program				(\$2,500,000)
HB 1443	PUT deduction; farm products shipped to port	(\$55,000)	(\$124,000)	(\$196,000)	(\$272,000)
SHB 1513	Changes in the taxation of sales of standing timber	(\$969,000)	(\$1,102,000)	(\$1,139,000)	(\$1,167,000)
HB 1549	B&O ex., wholesale sales of unprocessed milk	(\$137,000)	(\$169,000)	(\$174,000)	(\$179,000)
SHB 1566	B&O credit for new jobs in rural counties; admin. changes	(\$254,000)	(\$616,000)	(\$624,000)	(\$631,000)
E2SHB 1705*	Local sales tax for health sciences authority; state-credited	(\$1,340,000)	(\$1,700,000)	(\$1,797,000)	(\$1,899,000)
SHB 1805	Homestead exemption; exclusion of collected sales tax	\$1,524,000	\$1,344,000	\$1,344,000	\$1,344,000
SHB 1891	B&O deduction; physician administration of presc. drugs	(\$800,000)	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)
EHB 1902	Sales tax ex., labor for repair of farm machinery	(\$2,931,000)	(\$3,501,000)	(\$3,591,000)	(\$3,684,000)
ESHB 1981	Sales tax ex; electronically transmitted financial data	(\$1,218,000)	(\$1,435,000)	(\$1,543,000)	(\$1,650,000)
SHB 2158	Sales to and repair of vehicles for nonresidents	(\$302,000)	(\$639,000)	(\$707,000)	(\$738,000)
SHB 2335	Leasehold tax exemption; radio repeaters	(\$2,000)	(\$3,000)	(\$3,000)	(\$3,000)
ESHB 2352	B&O and PUT exemptions for farm services	(\$53,000)	(\$58,000)	(\$58,000)	(\$58,000)
EHB 2388	Regional centers; new state-financed projects for PFDs	(\$1,521,000)	(\$2,091,000)	(\$2,158,000)	(\$2,227,000)
SSB 5009	Sales tax exemption; biodiesel fuel used on farms	(\$65,000)	(\$65,000)	(\$65,000)	(\$65,000)
SSB 5089	Streamlined sales tax; increased sales tax receipts from remote sellers	0	\$25,700,000	\$42,000,000	\$48,300,000
SB 5468	Eliminate property tax exemption fees for nonprofit organizations	(\$106,000)	(\$111,000)	(\$111,000)	(\$111,000)
SB 5551	OTP credit on sales to fed. govt./tribes; B&O ex. for cig. stamping	(\$181,000)	(\$6,000)	(\$6,000)	(\$6,000)
E2SSB 5557	Rural county local sales tax rate increased to 0.09% (state-credited)	(\$2,137,000)	(\$2,977,000)	(\$3,104,000)	(\$3,197,000)
SSB 5568	Hotel-motel tax double-dipping for Yakima continued		(\$246,000)	(\$370,000)	(\$370,000)
SB 5572	Excise tax exemption for public authorities	(\$16,000)	(\$20,000)	(\$20,000)	(\$21,000)
SB 5607	Leasehold tax ex.; federal property on historic reserves	(\$20,000)	(\$21,000)	(\$21,000)	(\$22,000)
E2SSB 5862	Sales tax ex. for fuel used in passenger ferries	(\$9,000)	(\$10,000)	(\$10,000)	(\$11,000)
NET GENERAL FUND IMPACT		(\$10,023,000)	\$11,674,000	\$27,168,000	\$30,464,000

STATE REVENUE IMPACT OF MAJOR 2007 TAX LEGISLATION - Sources Impacting Dept. of Revenue Only
State Funds other than General Fund - Fiscal Years 2008, 2009, 2010 & 2011

<u>Bill Number</u>	<u>Brief Description</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
E2SHB 1705*	Local sales tax; health sciences authority; state-credited (Perf. Audit)	(\$2,000)	(\$3,000)	(\$3,000)	(\$3,000)
SHB 1805	Homestead exemption; exclusion of collected sales tax (Perf. Audit)	\$2,000	\$2,000	\$2,000	\$2,000
EHB 1902	Sales tax ex., labor for repair of farm machinery (Perf. Audit)	(\$5,000)	(\$6,000)	(\$6,000)	(\$6,000)
ESHB 1981	Sales tax ex; electronic financial data (Performance Audit Acct.)	(\$2,000)	(\$2,000)	(\$2,000)	(\$3,000)
SHB 2158	Sales to and repair of vehicles for nonresidents (Multimodal Acct.)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)
SHB 2158	Sales to and repair of vehicles for nonresidents (Perf. Audit Acct.)	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)
EHB 2388	Regional centers; new state-financed projects for PFDs (Perf. Audit)	(\$2,000)	(\$3,000)	(\$3,000)	(\$4,000)
SB 5551	OTP credit for sales to fed. govt./tribes (Water Quality & Health Serv.)	(\$226,000)			
E2SSB 5557	Rural county local sales tax rate increased to 0.09% (state-credited)	(\$3,000)	(\$5,000)	(\$5,000)	(\$5,000)

*Impact for E2SHB 1705 assumes local sales tax levied in Spokane County, per fiscal note.

Department of Revenue, Research Division, May 2007

HOUSE BILLS

SHB 1002 Vessels purchased by nonresident individuals; exemption for 1 year (Chapter 22, Laws of 2007)

This legislation establishes new sales/use tax exemptions for vessels purchased by nonresidents of Washington. Presently, RCW 82.08.0266 and 82.08.02665 allow residents of other states or countries to purchase vessels in this state and use the vessel in Washington waters for up to 45 days without incurring sales tax liability. RCW 82.12.0251 provides a use tax exemption to nonresidents who bring tangible personal property, including vessels, into this state temporarily as long as the property is not used for a nontransitory business activity in this state. Also, RCW 88.02.030 allows nonresidents to enter the state with their vessels and remain for up to six months in any 12 consecutive month period without having to register the vessel with the Department of Licensing.

In lieu of these existing exemptions, SHB 1002 provides alternative sales and use tax and vessel registration exemptions for nonresident individuals in respect to vessels of at least 30 feet in length. These new exemptions allow nonresidents to stay in Washington for up to one year without incurring a sales or use tax liability or registration obligation with respect to their vessel. The use tax exemption provided by the bill applies to the use of vessels:

- Purchased in this state from a vessel dealer where the buyer has claimed the sales tax exemption by purchasing a use permit from the dealer;
- Purchased in this state from a person other than a vessel dealer, and the buyer has purchased a use permit from a vessel dealer within 14 days of purchase; or
- Acquired outside of this state, and the nonresident has purchased a use permit from a vessel dealer within 14 days of the date that the vessel was first brought into this state.

To be entitled to an exemption under this legislation, the buyer must purchase and display a use permit from a vessel dealer. Vessel dealers are not required to sell use permits. However, if a vessel dealer sells use permits to buyers claiming a sales tax exemption, the vessel dealer must sell use permits to nonresidents claiming a use tax exemption. The fee for the permit is \$500 for vessels from 30 to 50 feet in length and \$800 for vessels longer than 50 feet. Fee receipts must be paid by the vessel dealer to the Department of Revenue and will be deposited in the state general fund. The legislation requires that the vessel dealer file tax returns electronically with the Department.

Use permits are not renewable. Further, a nonresident individual who claims an exemption provided in this bill may not bring his or her vessel back to Washington waters for 24 months following expiration of the use permit without incurring a use tax liability.

There is assumed to be minimal impact for the sales/use tax exemptions because few nonresidents currently maintain their vessels in Washington beyond the current 45-day limit. Thus, the impact of this bill reflects the new use permit fee, which is estimated to increase state general fund revenues by \$1.3 million for the 2007-09 Biennium. The positive impact rises to \$1.8 million and \$2.3 million for each of the following two biennia.

The state operating budget for the 2007-09 Biennium contains an appropriation for the Department for administrative costs totaling \$165,000 to implement this legislation. SHB 1002 takes effect July 1, 2007.

**SHB 1029 E85 motor fuel
(Chapter 309, Laws of 2007)**

Current law provides a deduction from B&O tax for sales of biodiesel and alcohol fuel and sales/use tax exemptions for equipment used to dispense such fuel. The exemptions are scheduled to expire July 1, 2009.

This bill amends the definition of alcohol fuel and replaces it with "E85 motor fuel," which is defined as a blend of ethanol and hydrocarbon with the ethanol comprising 75 percent to 85 percent denatured fuel ethanol by volume. The purpose of the definitional change is to conform Washington law with new national standards. Also, the expiration date of the B&O tax deduction and sales/use tax exemptions is extended six years to July 1, 2015.

The reduction to state revenues is estimated at \$103,000 for the initial year, rising to \$177,000 in Fiscal Year 2013. SHB 1029 is effective July 22, 2007.

**SHB 1091 Innovation partnership zones
(Chapter 227, Laws of 2007)**

This bill authorizes the Department of Community, Trade and Economic Development to designate Innovation Partnership Zones (IPZs). These zones are intended to promote research-based firms. In order to qualify as an IPZ, the area must include: (1) research capacity in the form of a university or community college, a nonprofit institution creating commercially applicable innovations, or a national laboratory; (2) a dense proximity of globally competitive research-based industries or firms with innovation strategies linked to the research capacity within the IPZ; and (3) training capacity within the IPZ or readily accessible to the IPZ. The administration of the zone may be performed by a local economic development council, a port district, a workforce development council, or a city or county.

An IPZ may qualify for funding under the local infrastructure financing tool (LIFT) program or the rural counties local sales and use tax under RCW 82.14.370. (Note: Neither of these funding sources was amended by the bill, nor does the bill impact how the funds from these sources can be used. This provision was added to the bill to highlight some of the existing economic development funding available if an IPZ meets the existing requirements of those funding sources.)

SHB 1128**Biennial state operating budget for 2007-09; DOR study requirements
(Chapter 522, Laws of 2007)**

Section 136 of the omnibus budget bill contains the appropriation for the Department of Revenue. Subsection (3) of the Department's appropriation requires a study of the taxation of electronically delivered products.

The Department, assisted by a committee, is required to review:

- The provision of explicit statutory definitions for electronically delivered products;
- The current excise tax treatment of electronically delivered products in the state of Washington and other states as well as the tax treatment of these products under the Streamlined Sales and Use Tax Agreement;
- The administration, costs, and potential recipients of the sales and use tax exemptions provided in chapter 182, Laws of 2007 (ESHB 1981) for electronically delivered standard financial information purchased or used by investment management companies and financial institutions; and
- Alternatives to the excise taxation of electronically delivered products.

A preliminary report is due November 30, 2007, and the final report must be submitted to the legislative fiscal committees by September 1, 2008. The budget provides \$75,000 to finance this study.

The budget bill is effective May 15, 2007, but the appropriation amounts generally reflect Fiscal Years 2008 and 2009.

HB 1166**County Treasurers; administrative practices
(Chapter 295, Laws of 2007)**

This bill addresses several functions performed by County Treasurers, which are summarized below:

- Requires that payments made from a county treasurer's Metropolitan Park District Fund be made by electronic funds transfer or through warrants issued in accordance with specified requirements;
- Property acquired by a county via a tax foreclosure ("tax title lands") must be held in trust for the taxing districts;
- Tax title lands are to be removed from the tax rolls and are exempt from taxation, most special assessments, and property owner association dues or fees;
- Counties are authorized to obtain liens on real property for delinquent charges (including interest, penalties, and costs of foreclosure) related to the acquisition, development, or improvement of open spaces, parks, recreation areas, specified public facilities, and highways;
- Provides that mobile homes, manufactured homes, and park model trailers are among the types of personal property that may be subject to an accelerated demand for payment of property taxes or seizure, if the taxes on the property are delinquent and the treasurer has

reasonable grounds to believe that the property is about to be removed from the county, destroyed, sold, or disposed of.

There is no impact on state revenues associated with the changes. The bill is effective July 22, 2007.

**HB 1185 Reporting of timber sales data extended
(Chapter 47, Laws of 2007)**

Purchasers of private timber are presently required to report data relating to the purchase to the Department of Revenue if they buy more than 200,000 board feet in a given transaction. The sales information is used to determine stumpage values, which the Department must update semi-annually for purposes of establishing the base of the timber excise tax. The requirement to report this data was adopted in 1994 and was scheduled to expire three years later. However, the information is so useful that the reporting requirement has subsequently been extended every three years. It is now again scheduled to expire on July 1, 2007. This bill extends the expiration date by three years to July 1, 2010.

The bill does not directly impact tax revenues. However, penalties do apply to timber purchasers who fail to report. These penalties are estimated to total \$1,000 annually. HB 1185 takes effect July 1, 2007.

**2SHB 1277 Expansion of the local infrastructure financing tool (LIFT) program
(Chapter 229, Laws of 2007)**

In 2006 the Legislature adopted a new program designed to encourage private investment in community revitalization areas. The central feature is the use of increased tax revenues associated with the private investment to finance the cost of local public improvement projects. Within certain limitations, various local revenues are matched by the state. This is accomplished through a local sales and use tax that is credited against the state sales and use tax. In this way, the impact of the local sales and use tax does not fall on consumers but is borne by the state general fund. The 2006 legislation targeted three demonstration projects in the Bellingham, Spokane, and Vancouver areas and devoted a maximum of \$5 million in state support for these demonstration projects and other projects authorized by the Community Economic Revitalization Board (CERB) through a competitive application process in 2007. State funding for projects may continue for up to 25 years.

This bill increases the cap on state contributions from \$5 million to \$7.5 million per year. The increased funds are targeted to new competitive projects that may be approved by the CERB during a new application process in 2008. The bill also makes administrative changes, such as allowing use of LIFT funds for pay-as-you-go project costs in addition to retirement of general

obligation and revenue bonds. The increased cap is assumed to apply to local improvement projects funded as early as Fiscal Year 2011.

The bill is effective July 22, 2007, and applies both prospectively and retroactively.

**2SHB 1280 School district levies for technology
(Chapter 129, Laws of 2007)**

This legislation permits expanded uses of school district capital project funds to include modernization of technology systems. This allows the use of capital funds for costs of purchasing computer programs, subscriptions, software licenses, and computer upgrades for district operational purposes as well as instructional uses. However, the district must transfer the amounts expended for these purposes from its capital funds to the district's general fund.

Section 3 of the bill amends the statute that permits excess property tax levies for school districts. Currently, levies for maintenance and operation (M&O) purposes are limited to a maximum of four years and only one such levy may be in force at a given time. There is no restriction on the number of capital levies which may be approved by the voters and collected in a given year. The amendment in this section clarifies that levies for construction, modernization, or remodeling of facilities, including the technology uses identified in this bill, are not subject to the restriction which applies to M&O levies.

**E2SHB 1303 Reduction in fossil fuels; analyses of alternative fuels
(Chapter 348, Laws of 2007)**

This comprehensive legislation is directed toward reducing the state's reliance on fossil fuels and ameliorating the impact of future climate change on the Pacific Northwest. None of the bill relates directly to the Department of Revenue. However, it does call for several studies which will consider taxation and incentives to encourage the use of alternate fuels.

Section 401. The Department of Community, Trade and Economic Development and the Department of Ecology are responsible for analyzing the potential for electrification of vehicles in Washington. Tax and fee incentives to encourage hybrid vehicles may be included in the study. The analysis or a report is due to the Legislature by March 1, 2008.

Section 402. Washington State University is directed to analyze the availability of biofuels in this state and to estimate biofuel feedstock sources. The study will analyze market incentives to encourage the in-state production of biodiesel and ethanol, including production tax credits. An interim report is due by December 1, 2007, with a final report due a year later.

**SHB 1381 Technical corrections
(Chapter 54, Laws of 2007)**

This Department of Revenue request legislation contains a variety of amendments to excise and property tax statutes to reflect administrative practice, reconcile conflicting previous amendments, delete obsolete references, and provide greater clarity of the application of tax laws. The bill is consistent with Department practice. Accordingly, there is no revenue impact. SHB 1381 is generally effective July 22, 2007.

**SHB 1409 Forest practices; submission of permit information
(Chapter 236, Laws of 2007)**

This legislation relates to transferring authority for regulating forest practices from the state Department of Natural Resources (DNR) to the appropriate county or city. Local jurisdictions that assume responsibility for overseeing forest practices must adopt ordinances that establish minimum standards, administrative provisions, and procedures for collection of fees.

This bill does not impact any state or local tax. However, the Department of Revenue does rely upon forest practice applications submitted to DNR in administering the state and local timber excise tax. Subsection (7) of section 1 of the bill requires that any local jurisdictions that assume responsibility for regulation of forest practices must report information contained in approved forest practices permits to the Department of Revenue.

**HB 1443 Public utility tax deduction; shipping of farm products to port
(Chapter 330, Laws of 2007)**

This bill provides a state public utility tax (PUT) deduction for gross income derived from the transportation of agricultural commodities from points of origin in this state to interim storage facilities in this state for transshipment, without intervening transportation, to a marine export facility for shipment by vessel outside of this state. The deduction only applies if:

- More than 96 percent of all of the types of agricultural commodity delivered by the person claiming the deduction and by all other persons to the dealer's interim storage facilities during the preceding calendar year was shipped by vessel in original form to interstate or foreign destinations; and
- Any of the agricultural commodity that is transshipped from interim storage facilities to export facilities will be received at storage facilities operated by the same agricultural commodity dealer and will be shipped from such facilities, without intervening transportation, by vessel, in their original form, to interstate or foreign destinations.

This bill allows the Department of Revenue to continue a long-standing administrative practice of allowing a PUT exemption for the hauling of grain by truck to interim storage facilities for transshipment by barge or rail to export port facilities for subsequent transportation by vessel to interstate or foreign destinations. However, since the Department has determined that this practice is not supported by statute and would have been discontinued in the absence of this

legislation, there will be an impact on state revenues as a result of this bill. The reduction in revenues is estimated at \$124,000 in Fiscal Year 2009, rising to nearly \$300,000 by Fiscal Year 2013. HB 1443 takes effect July 22, 2007.

HB 1450 **Property tax exemption for low-income rental housing**
(Chapter 301, Laws of 2007)

In 1999, exemption from property tax was adopted for real and personal property owned or used by nonprofit entities in providing rental housing to very low-income families. To qualify, at least 75 percent of the units must be occupied by very low-income households, and the project must be financed or otherwise assisted by a federal or state housing program that is administered by the Department of Community, Trade and Economic Development or receive funding via a property tax levy for affordable housing. Section 1 of this bill makes changes in the types of required funding for the rental property.

Valuations for property tax purposes are generally based on the true and fair value of the parcel according to its highest and best use. In most instances this means market value as determined by the county assessor. Section 2 of the bill amends RCW 84.40.030 to specify that the highest and best use of a parcel cannot be in conflict with zoning or land use or planning laws or other governmental restrictions. Further, when valuing rental property, the assessor is directed to consider the impact of any agreement between the owner of rental housing and a government agency that restricts the owner's income, appreciation, or liquidity, and the impact of government restrictions on operating expenses or ownership rights.

There is no impact on state property tax receipts from these changes. HB 1450 is effective July 22, 2007.

2SHB 1488 **Study of oil spill program funding**
(Chapter 346, Laws of 2007)

This legislation mandates a study of the funding of the state's oil spill prevention and response programs by the Joint Legislative Audit and Review Committee (JLARC). Major funding of these programs is currently provided by the existing cumulative five cents per barrel oil spill taxes, which apply to each barrel of crude oil or petroleum products that is imported via Washington's navigable waters. While the study does not specifically address this tax, it does require the development of options to allocate the cost of the state programs to the major risk categories. The results of the JLARC study are due by September 1, 2008.

SHB 1508 **B&O tax exemption; resale of natural/manufactured gas**
(Chapter 58, Laws of 2007)

This Department of Revenue request legislation provides a B&O tax exemption for firms that resell natural gas or manufactured gas if the amount of gas sold does not exceed 20 percent of the

total amount of gas that the firm consumes in the United States in any calendar year. The exemption recognizes that these firms, which are consumers of natural or manufactured gas, occasionally must resell some of the gas that they had planned to use, or are required to sell gas to balance pipeline capacity requirements and are not effectively engaged in the business of selling gas. The impact of the exemption on B&O tax revenues is believed to be minimal. SHB 1508 takes effect July 22, 2007.

**SHB 1513 Excise taxation of forest products businesses
(Chapter 48, Laws of 2007)**

Under current law, sales of standing timber are subject to state and local real estate excise tax (REET), but the income from such transactions is not subject to B&O tax. Small timber harvesters (harvesting not more than two million board feet a year) with taxable income of less than \$100,000 are exempt from the B&O tax. Last year the B&O tax on major sectors of the timber and wood products industries was reduced in a two-year phased reduction to 0.2904 percent as of July 1, 2007.

This legislation extends last year's B&O tax rate reduction for the timber and wood products industries to the sale of standing timber if the buyer is required to sever the timber within 30 months of the date of the original contract. The bill also exempts these sales of standing timber from REET. Other types of sales of standing timber remain subject to REET.

The bill makes technical corrections and revises and provides additional definitions for purposes of last year's B&O tax rate reduction for the timber and wood products industries. In addition, small harvesters that take advantage of the B&O tax rate reduction will no longer be required to file an annual accountability survey with the Department of Revenue.

The bill also changes the B&O tax exemption for small harvesters with gross annual income of less than \$100,000 to a deduction of \$100,000 for all small harvesters.

The net impact of these changes is estimated to reduce revenues approximately \$1.1 million annually. Local jurisdictions will experience reduced local REET collections of about \$330,000 per year. This legislation is effective July 1, 2007.

**HB 1543 Rural county local sales tax; use of funds
(Chapter 250, Laws of 2007)**

Since 1998, rural counties – defined as those with an average population density less than 100 residents per square mile or one smaller than 225 square miles – have been authorized to impose a local sales and use tax to finance public facilities. All 32 eligible counties currently levy the tax at the maximum rate of 0.08 percent. The tax is credited against the state sales and use tax, so the impact of the tax is not felt by consumers.

This bill allows use of the tax receipts to finance personnel in a local economic development office. In addition, the bill revises requirements to report on projects financed with these funds to the State Auditor. (Note: This latter requirement was also included in E2SSB 5557.)

There is no impact on revenues associated with these changes. The bill is effective July 22, 2007.

**HB 1549 B&O tax exemption; wholesale sales of unprocessed milk
(Chapter 131, Laws of 2007)**

RCW 82.04.332 currently provides a B&O tax exemption for persons who purchase and resell wheat, oats, dry peas, dry beans, corn, lentils, triticale, canola, rye, or barley. This bill amends RCW 82.04.332 to extend the exemption to persons who buy and resell unprocessed milk. Currently, such sales are subject to the 0.484 percent wholesaling B&O tax rate. The reduction to B&O tax receipts is estimated to be \$137,000 in Fiscal Year 2008 and rises to \$190,000 by Fiscal Year 2013. The bill takes effect July 22, 2007.

**SHB 1566 Modification of new jobs B&O tax credit
(Chapter 485, Laws of 2007)**

This Department of Revenue request legislation modifies a B&O tax credit for the creation of new manufacturing or research and development jobs in rural counties or community empowerment zones. The credit was established in 1986. To be eligible for the credit a business' number of average full-time qualified employment positions must be at least 15 percent greater in the calendar year for which the credit is sought than the number of positions at the same facility in the immediately preceding calendar year. The amount of the credit is either \$2,000 or \$4,000 for each new qualified employment position, depending on the wages and benefits of the qualified employment position. An application for the credit must be made before the hiring of qualified employment positions. A business claiming the credit is required to submit a report to the Department of Revenue by January 31 following the year the application for credit was allowed. The Department uses the report to determine whether the business is meeting the requirements for the credit.

This bill:

- Changes the time period for determining a firm's increase in qualified employment positions from a calendar year basis to a four calendar quarters basis;
- Amends the definition of "qualified employment position" to allow for positions that are seasonal or temporarily vacant;
- Allows the Department to accept applications for up to 90 days after the hiring of the qualified employment position;
- Corrects a statutory reference; and

- Changes the due date for the report from January 31 following the year the application for credit was allowed to the last day of the month immediately following the end of the four consecutive full calendar quarter period for which a credit is earned.

These changes will allow more firms to qualify for the tax credit and thus have some impact on B&O tax receipts. The annual impact is estimated to reduce tax receipts by \$616,000 for the first full fiscal year. These changes are effective January 1, 2008.

**HB 1674 Cigarette tax contracts authorized for Hoh and Spokane tribes
(Chapter 320, Laws of 2007)**

In 2001 the Legislature authorized the Governor to enter into contracts with certain Indian tribes regarding the taxation of cigarettes. The statute provides certain parameters for these contracts. Under the contracts the state will not impose its cigarette tax and the state and local sales and use taxes will not apply to the sales of cigarettes by Indian retailers in Indian country, if the tribe imposes a tribal cigarette tax. The initial tax must be at least 80 percent of the state cigarette and sales and use taxes, increasing to 100 percent within three years of enacting the tax. The agreements also require that the revenues from the tribal tax be devoted to essential tribal services. Currently the statute authorizes the state to enter into contracts with 25 tribal governments; 18 such contracts are in force (not counting the unique agreement with the Puyallup tribe, which is authorized under different statutory provisions).

This Department of Revenue request legislation adds two tribes to the list of those for which the Governor may enter into cigarette tax contracts: the Hoh and Spokane tribes.

There is no direct impact on state revenues. The bill is effective July 1, 2007.

**E2SHB 1705 New local sales tax; health sciences and services authority
(Chapter 251, Laws of 2007)**

Counties other than King County and cities and towns in those 38 other counties are authorized to create a new health sciences and services authority, subject to approval by the state Higher Education Coordinating Board. There can be only one such authority within the state. The purpose of the bill is to promote bioscience-based economic development and to advance new therapies and procedures to combat disease and promote public health.

Section 11 of the bill authorizes the local jurisdiction creating an authority to levy a new local sales/use tax of up to 0.02 percent. This tax is credited against the state sales tax, so the impact is borne by the state general fund – not consumers. Authority for this local sales and use tax expires at the start of 2023.

The impact of the local sales and use tax would naturally depend upon where and when such an authority might be formed. The fiscal note for this bill assumed that Spokane County would be the one entity to form the authority and, therefore, the local sales and use tax would apply

throughout the county. Based on this assumption, the initial full year of impact on the state general fund is an estimated reduction of \$1.7 million. Most of the bill is effective July 22, 2007.

**SHB 1805 Homestead exemption; exclusion of collected sales tax
(Chapter 429, Laws of 2007)**

Under existing law a homestead exemption protects the first \$40,000 of a debtor's assets from execution, attachment, or seizure in most instances. Tax warrants issued by the Department of Revenue for unpaid taxes do not attach to the homestead or to any amount of proceeds in excess of the homestead exemption. The Department must record a judgment with the county auditor's office in order to attach the excess proceeds above the homestead exemption.

This legislation extends the homestead exemption to manufactured homes and increases the amount of the exemption to \$125,000. It also excludes sales/use taxes that were collected on behalf of the state and local jurisdictions but not remitted to the Department from the protection of the homestead exemption. Further, any Department of Revenue tax warrant filed in Superior Court becomes a lien on the value of the taxpayer's property in excess of the homestead exemption amount at the time the warrant was filed in Superior Court.

The exclusion of collected but unremitted sales tax from the homestead exemption and the lien provisions for the Department's tax warrants are expected to increase state revenue collections by approximately \$1.3 million annually. SHB 1805 is effective July 22, 2007.

**2SHB 1811 Property tax exemption for nightclub sprinkler systems
(Chapter 434, Laws of 2007)**

This bill amends a 2005 property tax exemption which is intended to encourage the installation of fire-prevention sprinkler systems in nightclubs. Sections 1 and 2 revise the statutory requirements for the building code council to adopt rules requiring the installation of such systems; the deadline is extended two years to December 1, 2009. Section 3 amends the property tax exemption statute to assure that lessees who purchase and install such systems will receive the ten-year exemption on the increased property value. The benefit of the exemption must inure to the lessee. The owner and the lessee of the real property may not both receive the property tax exemption in the same year for the same automatic sprinkler system. The bill also provides a cut-off date for the property tax exemption; new applications will no longer be accepted after the end of 2009.

There is no impact on state revenues and, at most, minimal shifts of property taxes to taxable property would occur. The impact on local taxing districts is minimal. The Governor vetoed the emergency clause, so the bill is effective July 22, 2007.

SHB 1891**B&O deduction for administration of prescription drugs
(Chapter 447, Laws of 2007)**

Income received by physicians and clinics from the infusion or injection of prescription drugs for patients is presently subject to B&O tax under the service and other activities classification. The measure of the tax includes amounts received via a federal or state subsidized health care program. However, public and nonprofit hospitals are allowed to deduct compensation for health care services covered under the federal Medicare program and state medical assistance or basic health plans, including charges associated with the administration of drugs for patients.

This bill provides a B&O tax deduction for amounts received by physicians and clinics for prescription drugs for injection or infusion by licensed physicians or their agents, as long as the charges for the drugs: (1) are separately stated on the invoice or bill; (2) do not exceed the current federal reimbursement rate for Medicare; and (3) are covered or required under a health care service program subsidized by the state or federal government.

The estimated reduction in state B&O tax receipts is approximately \$1.2 million annually. The state operating budget for the 2007-09 Biennium contains an appropriation for the Department for administrative costs totaling \$31,000 to implement this legislation. This bill takes effect October 1, 2007.

EHB 1902**Sales tax exemption for repair of farm machinery and equipment
(Chapter 332, Laws of 2007)**

In 2006 the Legislature established new retail sales and use tax exemptions for sales to farmers of replacement parts for qualifying farm machinery and equipment. Generally, a farmer must have gross sales of agricultural products of at least \$10,000 to qualify for the exemption.

This bill broadens the exemptions to include installation services for replacement parts, as well as repairs to the machinery and equipment when no replacement parts are installed. Also, the definition of qualifying farm machinery and equipment is broadened to include farm vehicles. To establish eligibility, farmers must submit a copy of their federal income tax return to the Department of Revenue with their application. In lieu of providing a copy of the federal tax return, this bill allows a farmer to simply submit a declaration, under penalty of perjury, that the farmer is an eligible farmer. Also, the eligibility threshold is amended so that the \$10,000 criterion applies to the value of harvested agricultural products in situations where the products are not sold. The bill makes various other changes intended to clarify provisions, simplify administration of the exemption for the Department, and to make it simpler for taxpayers to comply with the requirements of the exemption.

The impact on state sales tax revenues associated with expanding the exemption to include charges for installing replacement parts and for repair of qualifying machinery and equipment when no parts are installed will amount to roughly a \$3.5 million reduction annually. EHB 1902 is effective July 22, 2007.

**E2SHB 1910 Property tax exemption for targeted, multi-unit housing
(Chapter 430, Laws of 2007)**

This legislation amends statutes throughout chapter 84.14 RCW which provides a property tax exemption for eligible new, rehabilitated, or converted multi-unit housing facilities within residential targeted areas in urban centers. The focus of many of the revisions relate to affordable housing for low-income families.

Presently the program allows exemption for up to ten years for new housing construction or the increased value of a building due to rehabilitation. Under the bill, the exemption is limited to eight years, unless at least 20 percent of the residential units are rented to low or moderate income families, in which case the exemption is extended to 12 years.

The bill also extends the program to more cities. Currently, only cities of at least 30,000 population qualify, unless they are the largest city in a county planning under the Growth Management Act (GMA). This bill reduces the population threshold to: (1) 15,000; (2) the largest city in a county planning under the GMA if there is no city with at least 15,000 people; or (3) a city with at least 5,000 people located in a county subject to the GMA provisions in RCW 36.70A.215 regarding "buildable lands."

Beginning in 2007, cities participating in this exemption program must submit an annual report to the Department of Community, Trade and Economic Development regarding tax exempt properties.

There is no impact on state revenues, although shifts of state and local levies to other taxpayers could occur. The Governor vetoed the emergency clause, so the bill is effective July 22, 2007.

**ESHB 1981 Sales tax exemption; electronically transmitted financial data
(Chapter 182, Laws of 2007)**

This legislation provides sales and use tax exemptions for the purchase or use of electronically delivered standard financial information by an investment management company or financial institution. Standard financial information includes financial market data, bond ratings, credit ratings, and deposit, loan, or mortgage reports. Excluded are reports provided as part of abstract, escrow, title insurance, or credit bureau services.

The loss in tax revenues is estimated at \$1.2 million for the first year (ten months of collections), rising to \$1.9 million by Fiscal Year 2013. There is no impact on B&O tax because such sales will remain subject to tax under the retailing classification. The exemptions become effective August 1, 2007.

HB 1994 **Unclaimed property; exclusion of small overpayments**
(Chapter 183, Laws of 2007)

This bill concerns intangible property held by a governmental entity or court for more than two years. If the property remains unclaimed by the owner, the holder is required to supply information to the Department of Revenue each year to assist in efforts to return the property to the rightful owner.

This bill allows courts to retain overpayments of ten dollars or less made in connection with any litigation, including traffic, criminal, or noncriminal matters. The overpayments must be deposited in the local current expense fund.

There is no impact on revenues; the bill is effective July 22, 2007.

SHB 2008 **Timber excise tax agreement with Quinault Nation**
(Chapter 69, Laws of 2007)

Over the past decade the state has entered into contracts relating to cigarette taxation with many of the Indian tribes located in this state. Generally, under these agreements the state will not impose its cigarette tax and the state and local sales and use taxes will not apply to sales of cigarettes by Indian retailers in Indian country, if the tribe imposes a tribal cigarette tax at a rate equivalent to the state and local tax rates.

This legislation sets up a similar arrangement with the Quinault Nation for timber excise taxation. The bill authorizes the Governor to enter into a timber harvest excise tax agreement with the Quinault Nation regarding timber harvested on fee lands within the exterior boundaries of the reservation. The bill establishes certain terms that must be included in the agreement. For example, the tribal tax rate must be equal to the state timber excise tax rate, the agreement must provide that the tribal tax be credited against the state and county timber excise taxes, and the tribal tax revenue must be used for essential government services.

State timber excise tax revenues will be used to reimburse Grays Harbor County for tribal timber excise taxes credited against the county's tax.

Timber excise tax receipts for the state/county tax have averaged \$85,000 annually in recent years. However, because it is not known whether or when such an agreement might be reached between the Governor and the Quinault Nation, the impact on state and local timber excise tax receipts is indeterminate. SHB 2088 is effective July 22, 2007.

HB 2032 **Sales tax deferral; early application**
(Chapter 243, Laws of 2007)

In 2005 the Legislature enacted a new sales and use tax deferral program for the fruit and vegetable processing industry, cold storage warehousing, and related research and development

businesses. The program authorizes the deferral of sales and use taxes on machinery and equipment, and the construction, expansion, or operation of facilities used for eligible processing, warehousing, or research and development. The deferred taxes are forgiven if the investment project meets the program criteria for eight years. In 2006, dairy product manufacturing and seafood processing were included within the deferral program.

To qualify for the deferral of taxes a person must apply to the Department of Revenue before the initiation of construction of a facility or the purchase of machinery and equipment. The effective date of the program was delayed until July 1, 2007, so a person may not apply for the tax deferral before that date.

This bill allows businesses to apply for the tax deferral before July 1, 2007. However, other provisions continue to take effect on July 1, 2007. The bill is effective April 30, 2007.

**SHB 2158 Sales to and repair of vehicles for nonresidents
(Chapter 135, Laws of 2007)**

Motor vehicles, trailers, and campers purchased by nonresidents are not subject to Washington sales tax if the vehicles are taken directly outside the state or are already licensed in another state. Section 1 of this bill specifies the type of documentation that the seller is required to obtain from the nonresident purchaser for such exempt purchases.

Persons who reside in states that impose a sales tax less than 3 percent are exempt from Washington sales tax on purchases of tangible personal property for use outside the state. The current Department of Revenue practice allows automobile repair establishments to separate the charge for parts and labor and exempt the parts for sales to qualified nonresidents. However, the Department has determined that this practice is not supportable under current law. Section 2 of this bill provides statutory authority for this current practice.

Since the current practice of allowing automobile repair establishments to separate the charge for parts and labor and exempt the parts for sales to qualified nonresidents would have ended at the beginning of 2008, there is a revenue impact for the bill. The reduction in state sales tax is estimated at \$305,000 for six months of Fiscal Year 2008 and \$642,000 for all of Fiscal Year 2009. Local sales taxes will be reduced by roughly \$190,000 per year. SHB 2158 is effective July 22, 2007.

**ESHB 2164 Targeted multi-unit residential facilities; UW Tacoma campus
(Chapter 185, Laws of 2007)**

In 1995 a new property tax exemption program was established to encourage the construction of multi-unit housing within urban areas and the rehabilitation of existing vacant and underutilized buildings for multi-family housing in urban areas. The program features a ten-year property tax exemption for the increased value resulting from new or remodeled multi-family residential

facilities within an area designated by the city. The program is authorized in cities of at least 30,000 or in the largest city in a county that plans under the Growth Management Act.

This bill prohibits a city, on or after July 1, 2007, from designating an area within the campus facilities master plans of the branch campuses of the University of Washington as a residential targeted area for purposes of the ten-year property tax exemption program for new or rehabilitated multi-family housing in urban areas. In addition, an application may not be approved on and after July 1, 2007, if any part of the proposed project site is within the campus facilities master plan of a branch campus of the University of Washington.

There is no impact on the state property tax levies, and the impact on shifting of local levies is considered to be minimal. The bill is effective July 1, 2007.

**SHB 2335 Leasehold tax exemption; amateur radio repeaters
(Chapter 21, Laws of 2007)**

This bill provides a leasehold excise tax exemption for leasehold interests in publicly owned property used for the placement of amateur radio repeaters, if the repeaters are made available to, or are used in support of, public agencies for emergency communications.

The estimated reduction in state leasehold excise tax is approximately \$3,000 annually. Local leasehold excise tax will also be reduced by about \$3,000 annually. The bill is effective July 22, 2007.

**ESHB 2352 B&O and PUT exemptions for farm services
(Chapter 334, Laws of 2007)**

Farmers who produce crops or livestock for sale at wholesale have never been subject to the B&O tax on such sales. However, persons who perform custom farming or other farm-related services for others are generally subject to B&O tax. Transportation services provided to farmers are generally subject to the state public utility tax (PUT). This legislation enacts temporary B&O and PUT exemptions for certain persons performing custom farming and other farm-related services.

The B&O tax exemption covers custom farming services provided for farmers if the provider of the custom farming services is an eligible farmer or is an entity that is at least 50 percent owned by an eligible farmer. For purposes of this exemption, an eligible farmer is a person who, at the time that the custom farming services are provided, is eligible for the sales tax exemption for replacement parts for, and installation or repair services rendered in respect to, qualifying farm machinery and equipment. Exempt custom farming services include the performance of specific farming operations relating to the growing, raising, or producing of agricultural products via the use of farm machinery. Custom application of fertilizer, chemicals, and biologicals is excluded from the definition of custom farming services.

Also included in the B&O tax exemption is income derived from farm management services, contract labor services, and services provided with respect to animals that are agricultural products, if the services are provided to a farmer or person performing custom farming services. In addition, the exemption only applies if the provider of the services is related to the farmer or person performing custom farming services.

The PUT exemption applies to the hauling of agricultural products or farm machinery or equipment for farmers or for persons engaged in performing custom farming services. The exemption requires that the hauler and the farmer or person performing custom farming services be related. The reduction in state general fund revenues is estimated at \$58,000 annually. ESHB 2352 takes effect August 1, 2007, and expires December 31, 2020.

**EHB 2388 Public facilities districts; local sales tax to fund new projects
(Chapter 486, Laws of 2007)**

Public facilities districts (PFDs) are municipal corporations authorized to construct, improve, or remodel certain types of facilities such as convention, conference, or special events centers. Under current law, PFDs created on or before July 1, 2006, may impose a sales and use tax within the boundaries of the district. The rate of tax may not exceed 0.033 percent. The tax is a credit against the state sales and use tax, which effectively shifts the funding to the state general fund.

This bill allows a city located in a county with a population greater than one million (King County) to create a PFD if the city population is greater than 80,000 but less than 115,000, and the city commences construction of a regional center before July 1, 2008. That PFD can impose a local sales and use tax of 0.033 percent, which is credited against the state sales and use tax.

Additionally, a PFD created before September 1, 2007, located in a county or counties with no other PFDs as of July 22, 2007, that commences construction of a new regional center before January 1, 2009, is authorized to impose a 0.033 percent sales and use tax, which is credited against the state sales and use tax. The population within the boundaries of the PFD must be greater than 70,000.

The bill also allows existing PFDs with a population of greater than 90,000 and less than 100,000, located in a county with a population less than 300,000, to impose a new local sales and use tax if certain criteria are met. The new local tax is credited against the state sales and use tax. The maximum tax rate is either 0.025 percent or 0.020 percent, depending on when the PFD was created.

The purpose of this bill is to allow the following jurisdictions to create PFDs and impose local sales and use taxes to fund specific projects:

- The City of Kent for a new events center;
- Lewis County for an equestrian center;
- Yakima Regional PFD to rehabilitate the Capital Theater in Yakima; and

- Cowlitz County PFD to rehabilitate the Columbia Theater in Longview.

Assuming that only the four projects listed above qualify (there are possible other jurisdictions and other projects that could meet the criteria specified in the bill), the amount of local tax credited against the state sales and use tax will be slightly in excess of \$2 million annually. EHB 2388 is effective July 22, 2007.

**EHJR 4204 Approval of special property tax levies for schools
(Filed with Secretary of State)**

Under the state Constitution, school districts are authorized to levy property taxes upon voter approval. Such taxes are not subject to the constitutional requirement that the aggregate of all tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of such property.

Property taxes for school districts can be approved in two ways. The first method requires a 40 percent voter turnout. If the number of voters who turn out for the election exceeds 40 percent of those who participated in the last general election in the district, then the levy is approved if at least 60 percent of the voters vote "yes." The second method does not require a 40 percent voter turnout. In this case, a levy is approved if the number of "yes" votes is a number at least equal to 24 percent (60 percent of 40 percent) of the total number of votes cast in the last general election in the district. School districts may submit a levy proposition to the voters at a special or regular election but not more than twice in 12 months.

This constitutional amendment will appear on the November 2007 general election ballot. If adopted by the voters, it will amend Article VII, section 2(a) of the State Constitution to provide for a simple majority of voters to authorize excess school district levies for maintenance and operation or the construction, modernization, or remodeling of school facilities, regardless of the number of voters voting in the election.

SENATE BILLS

**SSB 5009 Sales tax exemption expanded; biodiesel fuel used on farms
(Chapter 443, Laws of 2007)**

Last year new sales and use tax exemptions were adopted for diesel or aircraft fuel used in farming. The bill expands those exemptions to include biodiesel fuel. In addition, any fuel blend is exempt, but only if all of the component fuels of the blend would qualify for this exemption if they were sold as separate products. (Note: Motor vehicle fuel or a blend containing motor vehicle fuel does not qualify for exemption.) The reduction in state revenues is estimated at \$65,000 annually. The bill is effective May 11, 2007.

**SB 5042 Unclaimed property held by insurance liquidators
(Chapter 80, Laws of 2007)**

This is a bill dealing with regulating the business of insurance. Section 12 of this bill relates to unclaimed funds that are held by insurance company liquidators. Currently, RCW 48.31.155 requires that such funds be transferred to the State Treasurer. The bill amends this statute to provide that unclaimed funds from the liquidation of an insurer be turned over to the Department of Revenue as unclaimed property. The Department will hold the funds for return to the person who is entitled to the funds, if he is located. This amendment is consistent with current practice of the Insurance Commissioner and the Department. The bill is effective July 22, 2007.

**SSB 5089 Adoption of streamlined sales and use tax agreement
(Chapter 6, Laws of 2007)**

This legislation enables Washington to join with other states which levy retail sales and use taxes in order to implement a more uniform system of sales and use taxes across the states. In recent years, Washington has modified its sales and use tax statutes to adopt certain elements of the Streamlined Sales and Use Tax Agreement (SSUTA). This legislation completes the process and allows Washington to become a full member of the agreement along with the other 15 states that have adopted the agreement to date.

The overall purpose of the agreement is to make it easier for multistate retailers to collect and report sales tax on transactions which cross state boundaries. The act is intended to reduce the cost and administrative burdens on retailers and encourage vendors located in other states to voluntarily collect the tax on purchases by residents of this state made via mail order or the Internet. In addition to increased sales tax receipts, this will make the system more equitable for retail stores located within Washington that must compete with remote sellers who have previously often not collected sales tax on sales to Washington residents.

The principal feature of SSB 5089 is the adoption of destination-based sourcing of sales tax receipts. The SSUTA requires that, for items delivered to customers, the location of the transaction be considered the location where the buyer receives the goods. Under existing law Washington has generally attributed such sales to the location from which the goods were shipped, unless actual work was done at the buyer's location (e.g., installation of carpet). This change will have no effect on the state sales tax. But it will impact certain local sales tax receipts. Generally, cities with warehouses from which products are shipped will tend to lose local sales tax receipts. Jurisdictions with a greater share of residents will likely experience commensurate gains.

The legislation contains a mitigation program to help local jurisdictions that will suffer losses in local sales tax revenues as a result of destination-based sourcing. Section 903 mandates the transfer of \$31.6 million at the start of Fiscal Year 2009 from the state general fund to a special mitigation account to be used to compensate jurisdictions that experience revenue reductions as a result of destination-based sourcing. The Department is required to analyze local sales tax receipts for each jurisdiction prior to and after the effective date of this legislation. The estimated losses for each jurisdiction will be offset by the local sales tax which the jurisdiction receives from businesses that voluntarily register to collect sales tax under the SSUTA. The net of the loss and gain will determine the amount of mitigation payments each jurisdiction will receive.

The bill contains financial assistance for small retailers impacted by the sourcing changes in the bill. Small retailers are defined as having less than \$500,000 in gross income, at least 5 percent of their income derived from deliveries away from their place of business, and at least 1 percent of their income from deliveries to destinations other than to the one they report the most local sales tax to. Small retailers are relieved of penalty and interest from errors due to the sourcing changes. In addition, relief is provided for small retailers to allow them to either:

- use a certified service provider for up to two years, at no cost, for sales tax administration; or
- claim a credit against state sales tax liability in the amount of the costs of complying with the sourcing changes. The total credit that any small retailer can claim cannot exceed \$1,000 and may be carried forward until used.

Section 301 of the bill contains provisions for monetary allowances for retailers to encourage participation in the SSUTA. The monetary allowances provided in the bill do not extend to existing retailers who already are registered and reporting Washington sales tax.

The remainder of the bill amends various statutes dealing with telecommunications services, durable medical equipment, bundled transactions, and other areas to make Washington law consistent with the agreement. None of these amendments is anticipated to cause a major impact on revenue collections.

Most of the bill becomes effective on July 1, 2008, including the sourcing provisions.

The net impact on revenue collections is summarized below. The increased state sales tax receipts expected from remote sellers has not been reduced by the cost of the local government mitigation funds but has been reduced by the amount of financial assistance granted to small vendors.

<u>Fiscal Year</u>	<u>State Sales/Use Tax*</u>	<u>Local Sales/Use Tax</u>
FY 2008	0	0
FY 2009	\$25,700,000	\$11,600,000
FY 2010	42,000,000	14,000,000
FY 2011	48,300,000	15,400,000
FY 2012	53,600,000	17,000,000
FY 2013	59,200,000	18,700,000

*Net of assistance to small retailers.

**SSB 5207 Study of freight congestion
(Chapter 514, Laws of 2007)**

The Legislative Joint Transportation Committee is directed to study funding mechanisms to relieve freight congestion and improve the movement of cargo. The study will identify taxes and fees paid by the freight industry and the projects that are financed by these revenues. It will analyze needed improvement in Washington's rail and highway infrastructure. Funding mechanisms to be studied include a container-based fee and other port-related user fees. The Department of Revenue is not specifically included in this study. A consultant will prepare a draft report by December 15, 2007, and final recommendations are due by the start of the 2008 legislative session.

**SB 5434 Clarification of exemptions for import and export sales
(Chapter 477, Laws of 2007)**

This Department of Revenue request legislation provides business and occupation and retail sales tax exemptions for goods in the process of being imported to or exported from this state.

The principal legal restriction on the state's taxation of goods in import or export commerce is the Import-Export Clause of the United States Constitution. The Department adopted a rule, WAC 458-20-193C (Rule 193C), to implement the perceived restrictions imposed by the Import-Export Clause. Rule 193C was last amended in 1986. Court cases have cast serious doubt on the continued validity of the rule.

Since the bill merely codifies current practice, there is no direct impact on state tax revenues. SB 5434 is effective July 22, 2007.

SSB 5435**Review of exemptions from public disclosure
(Chapter 198, Laws of 2007)**

A new group is established to examine exemptions to public disclosure. The Public Records Exemptions Accountability Committee will consist of 13 members appointed by the Governor, the Attorney General, the State Auditor, and legislative leadership. Members will serve four-year terms on the Committee. The Committee will review each exemption and make a recommendation for retaining or repealing the exemption to the Governor, the Attorney General, and the Legislature.

The Department of Revenue is not involved in this process. However, because of the importance of the excise tax confidentiality statute, RCW 82.32.330, and its central role in Washington's voluntary system of tax reporting, the Department will monitor the review process and provide input relating to confidential taxpayer records.

SB 5468**Tax administration
(Chapter 111, Laws of 2007)**

This Department of Revenue request legislation addresses three different programs administered by the Department. The general purpose is to make working with the Department easier for taxpayers and thereby help to increase voluntary compliance with tax laws.

ELECTRONIC COMMUNICATION

Sections 101 through 113 allow the Department to send assessments, notices, or other information to taxpayers electronically, but only if authorized in writing by the taxpayer.

PENALTY WAIVER FOR STATE-ASSESSED COMPANIES

Sections 201 through 203 enable the Department to waive penalties imposed for failing to timely file information reports with the Department of Revenue by companies that are centrally assessed for property tax purposes by the Department, including utilities, railroads, and airlines. Under the bill the Department may waive the penalty if there is good cause for the taxpayer's inability to report timely. When a taxpayer is unable to show good cause for its failure to report on time, the Department may still waive or cancel the penalty if the company: (a) fully complies with the reporting provisions within 30 days of the due date; and (b) has timely complied with the reporting provisions for the two previous calendar years.

PROPERTY TAX EXEMPTIONS FOR NONPROFIT ORGANIZATIONS

The remainder of SB 5468 deals with the reporting requirements for nonprofit organizations seeking or receiving a property tax exemption under chapter 84.36 RCW. Presently, nonprofits eligible for an exemption on property they own or use must submit an initial application with an accompanying fee of \$35 to the Department, which administers property tax exemptions for nonprofit entities. Each year nonprofit organizations receiving a property tax exemption must

submit an annual renewal declaration and pay a fee of \$8.75. As part of the annual exemption renewal process, nonprofit organizations receiving a property tax exemption under RCW 84.36.020, 84.36.030, or 84.36.050 must also provide a report about the organization's income, disbursements, and use of the property the prior calendar year, as well as other information necessary to support continuance of the exemption. Sections 301 through 305 of the bill eliminate all fees, give nonprofits the option of submitting annual renewal declarations and supporting documents electronically, and make the requirement that the Department physically inspect the property of nonprofit organizations seeking or receiving an exemption discretionary.

The only revenue impact associated with this legislation is the loss of the property tax fee revenue. This will reduce state general fund receipts by an estimated \$106,000 for Fiscal Year 2008 and \$111,000 annually thereafter. The bill becomes effective July 22, 2007.

**ESB 5498 Revising voter-approved funding sources for local taxing districts
(Chapter 380 Laws of 2007)**

Presently, regular (i.e., non-voter approved) property tax levies of local taxing districts are limited annually to an increase that is the lesser of 1 percent or the rate of inflation, up to the statutory maximum regular levy rate. The levy limit may be superseded by voter approval, which is sometimes referred to as a "lid lift." Counties, cities, and towns may currently seek multi-year lid lifts for a higher rate of increase for up to six consecutive years. All other local taxing districts are currently limited to a one-year lid lift. The additional property tax revenues generated by a lid lift cannot be used to supplant existing funds used for the purposes for which the increased levy was made.

RCW 82.14.450 currently authorizes counties to impose a 0.3 percent sales and use tax. At least one-third of the tax must be used solely for criminal justice purposes. Revenues generated by this tax cannot be used to supplant existing funds used for the purposes for which the tax was imposed.

This bill gives all taxing districts the ability to seek voter approval of a lid lift for up to six consecutive years. The bill also defines the term "existing funds" for purposes of the non-supplant provisions applicable to lid lifts and the local sales and use tax authorized under RCW 82.14.450.

This bill has no impact on state revenues; it is effective July 22, 2007.

**SB 5512 Clarification of hospital benefit zone statutes
(Chapter 266, Laws of 2006)**

In 2006 a new program was instituted to provide funding for local public improvements needed in an area where a hospital, having received a certificate of need by the Department of Health, will be located. The area targeted for this program is Gig Harbor. The program allows the use of certain increased local tax revenues resulting from investment within a locally designated

hospital benefit zone to be used for financing public improvements. Also, certain local revenues are matched with a limited amount of state funding. The state matching funds are provided through authorization of a local sales and use tax that is credited against the state sales and use tax. This local tax is not an additional tax on consumers. Instead, the impact of the tax is borne by the state general fund.

This bill makes certain technical corrections and other administrative changes to the Hospital Benefit Zone program. It allows hospital benefit zone funds to be used for pay-as-you-go project costs and payment of general obligation bonds in addition to revenue bonds. The bill also adds a deadline for challenging the formation of the zone and requires the local government sponsoring a hospital benefit zone to provide an annual report to the State Auditor.

There is no revenue impact for this legislation. The bill is effective July 1, 2007, and its provisions are retroactive to July 1, 2006.

**SB 5551 Tax credits/exemptions for tobacco sellers
(Chapter 221, Laws of 2007)**

This legislation was requested by the Liquor Control Board and concerns the administration and enforcement of cigarette, other tobacco, and liquor laws. The bill was amended to provide a credit against the tax on tobacco products other than cigarettes (commonly referred to as the "other tobacco products" tax or the "OTP" tax) for tax paid on products sold to the federal government or to Indian tribes or certain tribal entities. The bill was also amended to provide a new B&O tax exemption for compensation received by cigarette wholesalers and retailers for affixing tax stamps to packages of cigarettes.

The major impact of the bill on revenues is associated with the OTP credit for sales to the federal government. The reduction in revenues from the credit is expected to be about \$400,000 in OTP and sales taxes during Fiscal Year 2008. Due to anticipated changes in taxpayer behavior, there is no impact expected from the credit in subsequent fiscal years. The B&O tax credit will represent an ongoing reduction of approximately \$6,000 annually. SB 5551 takes effect July 22, 2007.

**E2SSB 5557 Increase in rural county local sales tax rate
(Chapter 478, Laws of 2007)**

Since 1998, rural counties, defined as those with an average population density less than 100 residents per square mile or one smaller than 225 square miles, have been authorized to impose a local sales and use tax to finance public facilities. All 32 eligible counties currently levy the tax at the maximum rate of 0.08 percent. The tax is credited against the state sales tax. Consequently, the consumer does not see an increase in the amount of tax paid.

This bill increases the maximum rate of the tax from 0.08 percent to 0.09 percent. It also revises requirements for counties to report on projects funded by these tax receipts to the State Auditor.

(Note: This requirement was also included in HB 1543.) In addition, the bill stipulates that the taxes may not be used for justice system facilities.

The reduction to the state general fund is estimated at approximately \$3 million annually. The bill takes effect August 1, 2007.

SSB 5568 **Local lodging taxes for Yakima County**
(Chapter 189, Laws of 2007)

The state-shared local lodging tax allows cities and counties to receive 2 percent of the 6.5 percent state sales tax on accommodations at lodging facilities in their jurisdictions. In most instances, counties are required to allow the city-imposed tax to be credited against the county's tax, thereby avoiding a double impact on the state general fund. Current state law allows Yakima and King counties to receive their full 2 percent tax on lodging in the cities of Yakima and Bellevue, which also impose a 2 percent lodging tax. This benefit for Yakima and King counties was authorized because these counties had pledged hotel-motel tax revenue against bonds prior to the effective date of the credit mechanism. In the case of Yakima County, the benefit expires January 1, 2013, and the county must then allow a credit against its tax for the tax imposed by the city of Yakima.

This bill allows Yakima County to continue receiving its full 2 percent tax on lodging in the city of Yakima until January 1, 2021, for bonds issued after January 1, 2007. The county may only use lodging tax revenue for constructing or improving county-owned facilities for agricultural promotion or, after January 1, 2009, other authorized tourism-related facilities. The county must perform an annual financial audit of organizations receiving lodging tax revenue on the use of the revenue.

The reduction to state revenues will amount to approximately \$370,000 annually. SSB 5568 takes effect July 22, 2007.

SB 5572 **Excise tax exemptions for public authorities**
(Chapter 381, Laws of 2007)

Local governments may establish limited purpose public corporations, commissions, or authorities for purposes of administering federal funds or grants. These quasi-municipal entities are commonly referred to as public development authorities (PDAs) and typically operate low-income housing facilities. A PDA may affiliate itself with a for-profit limited liability company, partnership, or single asset entity for which the PDA may be the managing member, general partner, or controlling entity. The for-profit entity typically owns the underlying project, and the PDA manages the project. The few PDAs that have entered into these relationships have often done so to take advantage of federal income tax credits and rent subsidies. Under current law, the income derived by a PDA for providing services to the affiliated entity is subject to B&O tax. In addition, retail sales tax applies if taxable retail sales are made between the entities.

This legislation enacts new B&O, sales, and use tax exemptions for tangible personal property and services sold by a PDA to its affiliated entity. The estimated reduction in state tax receipts is approximately \$20,000 annually. The bill is effective July 22, 2007.

**SB 5607 Leasehold tax exemption; federal property on historic reserves
(Chapter 90, Laws of 2007)**

This bill expands an exemption from leasehold excise tax which was enacted in 2005 for leased property at Ft. Vancouver in Clark County or at Ebey's Landing on Whidbey Island. The present exemption applies to leasehold interests in property owned by a municipality that is listed on a federal or state register of historical sites and is contained wholly within a national historic reserve. The bill extends the exemption to include leasehold interests in property that is owned by the federal government.

This bill applies to two properties: the Pearson Air Museum at Ft. Vancouver and the Engle Family Farm on Whidbey Island. The total reduction in state leasehold excise tax is estimated at approximately \$21,000 annually; the local tax impact is about \$18,000. SB 5607 becomes effective July 22, 2007.

**SSB 5647 Use of local lodging tax funds for tourism facilities
(Chapter 497, Laws of 2007)**

Cities and counties are authorized to levy a tax of 2 percent on accommodations at lodging facilities within their jurisdictions. The local tax receipts are credited against the state sales tax. The tax receipts may be used to finance tourist-related facilities and for the promotion of tourism. The purpose of these expenditures is to attract visitors to the jurisdiction from outside of the immediate local area.

This bill amends the lodging tax statutes to clarify that the tax receipts may be devoted to operational expenses associated with special events, in addition to just the promotional costs. Also, local governments may use the funds to support tourism-related facilities owned by public entities or nonprofit organizations, including business organizations, destination marketing organizations, main street organizations, lodging associations, chambers of commerce, and other tourism-promotion entities. Authorization of the broader use of the funds will expire on June 30, 2013.

The bill requires local jurisdictions to file annual accountability reports on the use of funds for festivals, special events, and tourism-related facilities owned by a 501(c)(3) or 501(c)(6) nonprofit. The annual report must indicate the total revenue associated with festivals, special events, or tourist facilities, as well as other data to determine the local economic impact of these expenditures. Further, the Joint Legislative Audit and Review Committee must prepare a report to the Legislature by September 1, 2012, which assesses the overall economic impact of these expenditures.

SB 5732 **Early payment of property taxes**
(Chapter 105, Laws of 2007)

Presently, county treasurers may not receive property tax payments or issue tax receipts before February 15 of the year in which the taxes are due. This bill eliminates the February 15 prohibition on the receipt of tax payments or the issuance of tax receipts. The bill authorizes county treasurers to accept tax payments and issue receipts for such payments once they have completed the tax roll for the current year and the required notification has been made. A treasurer may provide such notification in writing either electronically or by other means. This bill does not affect the due dates for payment of property taxes or special assessments.

ESSB 5836 **Taxing district boundaries; annexed property**
(Chapter 285, Laws of 2007)

Generally, the boundaries of counties, cities, and other taxing districts, for purposes of property taxation, are established on March 1 of the year in which property taxes are levied (for taxes payable the following calendar year). The boundaries of fire and library districts that include any territory that was annexed to a city are established as of June 1 for property tax purposes.

Property tax is calculated on a calendar year basis and is due the year after the year in which the levy was made. Consequently, when territory is annexed into a city from a fire or library district, the property tax due on the annexed territory will not change until new tax calculations are made based on the city's levy at the beginning of the calendar year following the annexation. If the annexation occurs after June 1, the property tax due will not be based on the city's levy until the start of the second calendar year following the annexation. In such cases the effect of the annexation is that for a period of time the annexed property will be receiving services from the city while paying property taxes to the fire or library district.

This bill changes the date that taxing district boundaries are established for property tax purposes to August 1 for all taxing districts. It also provides that when territory that is part of a fire or library district is annexed to a city or town, any taxes on annexed property that were levied, but not collected, must be paid to the annexing city or town. If the property annexed by the city or town was in a fire or library district while there was outstanding bonded indebtedness, the bonded indebtedness of the fire or library district remains an obligation of the taxable property annexed to the city or town. Cities or towns annexing fire or library district property must notify the district of the annexation.

The bill does not affect state revenues. It is effective July 22, 2007.

**E2SSB 5862 Passenger ferries; exemption for fuel
(Chapter 223, Laws of 2007)**

This bill contains several provisions relating to ferries and a proposed passenger-only ferry route across Puget Sound. It includes two provisions relating to taxes. Section 6 amends a property tax levy statute for the financing of passenger ferry service by extending the allowable uses of the tax proceeds to include improvement of ferry vessels and dock facilities, shuttle services between a ferry terminal and parking facilities, and other landside improvements directly related to passenger-only ferry service. Sections 9 and 10 extend sales/use tax exemptions relating to motor vehicle fuel and special fuel to include fuel purchased by a public transportation benefit area or a county-owned ferry or county ferry district for passenger-only ferries. Because such fuel is not used on the public highways, it is currently subject to retail sales and use tax but is not subject to motor vehicle fuel tax or special fuel tax. The reduction to state tax revenues is estimated at about \$10,000 annually. This bill is effective April 27, 2007.

**SB 5926 Review of construction industry; underground economy
(Chapter 288, Laws of 2007)**

A task force is created to look into possible unreported and underreported payroll in the construction industry. Although the focus of the inquiry is upon employment, there could be some impact on tax revenue associated with this sector. The task force will consist of legislators and representatives of construction firms and laborers. In addition, the Departments of Revenue, Labor and Industries, and Employment Security are directed to cooperate with the task force, and each agency will have a nonvoting representative on the task force. A report is due to the Legislature by January 1, 2008. SB 5926 is effective May 2, 2007.

**2SSB 5995 Economic development commission; use of DOR files
(Chapter 232, Laws of 2007)**

Various changes are made to the Washington State Economic Development Commission which was created in 2003, including adding two new positions, specifying that the Chair is to be appointed by the Governor, and providing for a new executive director position. Among the specified duties of the Commission, an evaluation of the state's economic development system is required periodically starting in 2012. Section 5(5)(c) of the bill states that this evaluation may include data matches with tax files maintained by the Department of Revenue.

**ESSB 6001 Climate change; reduction in greenhouse gases
(Chapter 307 Laws of 2007)**

This legislation establishes state goals for reduction in greenhouse gas emissions. A target reduction is set so that by 2050 emissions will be below one-half of the level that prevailed in 1990. The bill directs the Governor to develop policy recommendations for achieving this goal and report to the Legislature by 2008. Among the items for consideration are regulatory and tax

policies for electric utilities. By the end of 2007 the Governor is also directed to report to the Legislature on the feasibility of creating tax incentives to encourage electric facilities to reduce carbon dioxide emissions. The analysis must consider alternative types of tax incentives and determine which might be the most effective.

**E2SSB 6044 Derelict vessels; surcharge on boat registrations
(Chapter 342 Laws of 2007)**

With few exceptions, persons owning or operating a vessel on the waters of this state must register the vessel. A \$2 derelict vessel removal fee is collected at the time of registering a vessel and is deposited into the derelict vessel removal account. Section 7 of this bill establishes an additional fee of \$1 to supplement the derelict vessel program, starting with registrations on January 1, 2008. The new fee receipts will be deposited into the derelict vessel removal account and will be used to remove derelict vessels that are less than 75 feet in length. The additional \$1 fee will be imposed for six years and expires on January 1, 2014.

Section 8 of the bill requires the Department of Natural Resources to consult with the Departments of Revenue and Licensing to determine a way of financing the removal of other derelict vessels that are not subject to the \$1 fee (commercial vessels that are not subject to the excise tax, boats longer than 75 feet, etc.). A report is due to the Legislature by November 1, 2007, by these three agencies, detailing ways of more equitably financing this program.