

Appendix Two

ASSUMPTIONS AND METHODOLOGY

This appendix describes the information provided for each of the 503 exemptions, deductions, differential tax rates, deferrals and credits that are presented in this report. It explains some of the principal assumptions and what the data represent.

Description

The first item for each exemption is a short explanation of the exemption. It draws upon the statute, administrative rules of the Department, and discussions with personnel of the agency that collects the tax in question.

Purpose

The second section of each exemption contains a statement with the presumed legislative intent of the statute. In most instances, the law does not explicitly state the intention, so this statement is often only presumed on the part of the analyst. However, for both the description and purpose statements, legal staff of the Department's Legislation and Policy Division have reviewed the language and made suggestions as to the meaning and intent of the statute.

Category/Year Enacted

In order to produce more meaningful totals across different tax types, each exemption has been assigned to one of eleven categories (with further breakdown for nonprofit organizations). This enables the grouping of exemptions, so that exemptions that are intended to achieve a particular purpose or benefit a specific type of taxpayer can be aggregated. It is recognized that certain exemptions could be categorized in different ways; thus this process is arbitrary at best.

The year that the exemption statute was first adopted is noted. However, the report does not attempt to track all subsequent amendments to the statute. The estimates of taxpayer savings are based on the statute as it currently existed in 2003 when the analysis was done.

Primary Beneficiaries

One of the items which the authorizing statute for the study requests is an identification of the beneficiaries of the tax exemption. In most instances, the actual number of individuals or businesses that claim the exemption is unknown. However, when appropriate, the analyst has attempted to estimate the number of beneficiaries or at least describe the types of entities that utilize the exemption.

Possible Program Inconsistency

The authorizing statute also requires that any "conflicts with another state program" be identified. This has been interpreted as meaning programs where the state is devoting budgetary resources to achieve a specified goal or outcome, but the impact of the tax exemption undermines or hinders the accomplishment of those goals or outcomes. There are very few instances in which any such conflicts or inconsistencies have been identified.

Tax Savings

The estimated impact of the exemptions, in terms of accrued tax liability, is presented for each year of the current (2003-05) biennium, as well as the ensuing two year period (2005-07 biennium) for state taxes and the aggregate total for local government taxes. Each of these figures is indicated in the text of the report. Also, the totals for the current biennium are shown in the Summary Listing at the beginning of this report. For readers who wish to combine the amounts in other ways, e.g., totals for the 2005-07 biennium, a more detailed spreadsheet appears on the Department's webpage at: dor.wa.gov; the 2004 Tax Exemption Report appears under the heading of "Statistical Reports."

For property taxes which operate on a calendar year basis, the calendar year estimates are used as a proxy for fiscal years. These are simply added to fiscal year figures for the excise taxes which comprise the remainder of the report to arrive at category totals. The report includes the local tax component for those sources which both the state and local jurisdictions share (property, sales, timber, etc.). However, the report does not consider some purely local taxes, such as municipal business taxes, because the Department is not involved in administration of these sources, as well as the lack of data.

The starting point for the analysis of exemption impacts is the workpapers for previous exemption studies (the latest being the 2000 report). In some instances, there is no better or more current information available. For others, new data sources and estimation methodologies have been developed. Because of potential differing interpretations and conflicting data sources, the estimates presented in this report may differ significantly from the amounts shown previously.

The assumed tax rates used in calculating taxpayer savings are listed below.

Tax Rates

Property Tax:

Levy rates for the state levy (\$3.60 per thousand of assessed value, adjusted to full market value in each county) and the aggregate local levy rates for all other taxing districts, both reflecting the 1.0 percent limitation on regular levy revenue growth, are projected for the following calendar years:

<u>Year Due</u>	<u>State Rate</u>	<u>Local Rates</u>
2004	\$2.87	\$9.37
2005	\$2.82	\$9.40
2006	\$2.76	\$9.39
2007	\$2.70	\$9.37

Leasehold Excise Tax:

Applied to the rental value of publicly-owned property which is leased to private entities:

state rate of 6.84%

local rate of 6.0%

Excise Taxes on Vehicles:

Local motor vehicle excise tax: Seattle tax of 0.85% to finance the monorail expansion.

Aircraft excise tax: \$25 - \$125

Watercraft excise tax: 0.5% of fair market value

Timber Excise Tax:

State tax of 1.0% on timber harvested from private lands and 5.0% on public lands

Local tax of 4.0% on timber harvested from private lands

Business and Occupation Tax: (state tax only)

Major rate classifications:

Retailing	0.471%
Manufacturing	0.484%
Wholesaling	0.484%
Public/nonprofit hospitals	1.5%
Services and other	1.5%

Public Utility Tax: (state tax only)

Major rate classifications:

Water distribution	5.029%
Electric power	3.873%
Gas, sewer	3.852%
Motor/rail transportation	1.926%
Urban transportation	0.642%
All other utilities	1.926%

Insurance Premiums Tax:

2.0% for domestic and foreign insurance companies.

Refuse Collection Tax:

3.6% of charges made by solid waste collection firms.

Litter Tax:

0.015% of the value of certain litter-related products.

Petroleum Products Tax:

0.5% of the wholesale value of petroleum-based products. The tax was reimposed on July 1, 2003 and is expected to return to inactive status at the end of FY 2004.

Oil Spill Tax:

\$0.04 per 42 gallon barrel of crude oil imported into Washington via ship or barge and off-loaded at a location within the state.

Enhanced Foodfish/Shellfish Tax:

Major tax rates: 5.62% for most salmon species; 3.37% for pink/sockeye salmon; 2.25% for most other fish and shellfish.

Soft Drinks Syrup Tax:

\$1.00 per gallon of syrup used to produce carbonated beverages.

Retail Sales/Use Tax:

State rate: 6.5%

Local rates: statewide average of 1.9%

Tobacco Taxes:

Cigarette tax: \$1.425 per pack of 20 cigarettes

Other Tobacco Products: 129.42% of wholesale price

Fuel Taxes:

Motor Vehicle Fuel Tax: 28 cents per gallon

Special Fuel Tax: 28 cents per gallon/100 cubic feet

Aircraft Fuel Tax: 10 cents per gallon

Liquor Sales Taxes:

Liquor Sales Tax: 20.5% of wholesale price

Liquor Litter Tax: \$2.44 per litter

Beer Excise Tax: \$4.78 per barrel

Real Estate Excise Tax:

State rate: 1.28% of selling price

Local rates: average local rate of 0.46%