

## **Appendix II**

### **ASSUMPTIONS AND METHODOLOGY**

This appendix describes the information provided for the exemptions, deductions, differential rates, deferrals and credits considered in this report. As explained earlier, this 2012 report discusses in detail only those exemptions which realistically represent foregone state revenue (due to ESHB 1346 from the 2011 Legislative Session). Thus, although the introductory listing of exemptions includes 640 separate tax exemption statutes, the text provides detail on only 452 of these.

The following explains some of the principal assumptions underlying the study and describes what the data represent for these 452 exemptions.

#### 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 in the agency that collect 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 Office of Legislation and Policy 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 existed in the summer of 2011 when the analysis was done.

#### Primary Beneficiaries

One of the items specifically requested in the authorizing statute for the study 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 (2011-13) biennium, as well as the ensuing two year period (2013-15 biennium) for state taxes and the aggregate total for local government taxes. Because the 2012 report considers only those exemption statutes which truly represent foregone governmental revenues, the taxpayer savings generally equates to a reduction in revenues but slight differences may exist due to compliance factors. Note, however, that the estimates do not consider effective dates of possible repeal legislation. Fiscal Year 2012 estimates reflect a full year of impact.

Each year of the estimate 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, a more detailed Excel spreadsheet which lists each of the exemption statutes and the estimated taxpayer savings for each year is also included as Appendix III.

Property taxes operate on a calendar year basis; for these 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 and because there are no adequate data indicating the impact of these local tax exemptions.

The starting point for the analysis of exemption impacts are the workpapers for previous exemption studies - the latest being the 2008 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 more current 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, according to the June, 2011 forecast:

<u>Year Due</u>	<u>State Rate</u>	<u>Local Rates</u>
2012	\$2.17	\$9.33
2013	\$2.16	\$9.57
2014	\$2.05	\$9.49
2015	\$2.06	\$9.71

Note, however, that very few property tax exemptions are included in this 2012 report, because repeal of these exemptions in most instances would merely result in a redistribution of the tax burden under the existing limitations on levy rates, rather than an actual increase in revenues for state and local taxing districts.

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: tax of 0.3% by the Regional Transit Authority (RTA, i.e., Sound Transit) to finance a high-capacity rapid transit system.
- 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

(Note: the state tax on public lands is being phased down from 5.0% to 1.0% with the balance being shifted to counties.

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% (1.8% from 5/1/2010 through 6/30/2013)

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.

Hazardous Substances Tax: 0.7% of the wholesale value of defined hazardous items. Note: Although the majority of the revenue goes to the local toxics account; the entire tax is considered as a state tax.

Petroleum Products Tax: 0.5% of the wholesale value of petroleum-based products. The tax was re-imposed for nine months during Fiscal Year 2010 but is again in hiatus. It is not expected to be re-imposed during the forecast period for this study.

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. (The one cent rate is in hiatus.)

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, except sea cucumbers and urchins.

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 2.5%

Brokered Natural Gas Use Tax: 3.852% on gas not purchased from a public utility and delivered to the consumer via pipeline for use in Washington

Tobacco Taxes:  
Cigarette tax: \$3.025 per pack of 20 cigarettes  
Other Tobacco Products: 95.0% of selling price

Fuel Taxes:  
Motor Vehicle Fuel Tax: 37.5 cents per gallon  
Special Fuel Tax: 37.5 cents per gallon or 100 cubic feet  
Aircraft Fuel Tax: 11 cents per gallon

Liquor Sales Taxes:  
Liquor Sales Tax: 20.5% of wholesale price  
Liquor Liter Tax: \$3.77 per liter  
Beer Excise Tax: \$8.08 per barrel

Real Estate Excise Tax:  
State rate: 1.28% of selling price  
Local rates: average local rate of 0.46%

Estate Tax: graduated rates from 10% to 19% on taxable estates above \$2 million.