

BUSINESS TAXES

B&O TAX EXEMPTIONS - PUBLIC ACTIVITIES

82.04.311 TOBACCO SETTLEMENT AUTHORITY

Description: Exemption from state B&O tax is provided for the Tobacco Settlement Authority. The Authority purchases certain rights under the Master Settlement Agreement and issues revenue bonds to pay outstanding obligations of the state in order to make funds available for health and other programs.

Purpose: To recognize that the Authority is a public instrumentality of the state and is not engaged in conducting an enterprise activity.

Category/Year Enacted: Government. 2002

Primary Beneficiaries: The Authority and indirectly the citizens of the state.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 543	\$ 552	\$ 561	\$ 570
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

82.04.312 WATER SERVICE, SMALL DISTRICTS

Description: This statute exempts from B&O tax amounts received for the provision of water services by: (1) water-sewer districts established under Title 57 RCW which have fewer than 1,500 connections; (2) irrigation districts established under Title 87 RCW which have fewer than 1,500 connections; and (3) qualified satellite systems pursuant to RCW 70.116.134 which have fewer than 200 connections. To qualify, the rates charged by these districts must exceed 125 percent of the statewide average water rate, as determined by the Dept. of Health. The district must spend at least 90 percent of the value of the exemption on repair, equipment, maintenance and upgrading of their water system. The exemption is currently scheduled to expire on July 1, 2004.

Purpose: To assist small water providers whose systems are not economically efficient to operate. This is a corollary to RCW 82.16.042, because normally water providers pay public utility tax.

Category/Year Enacted: Government. 1997

Primary Beneficiaries: See RCW 82.16.042

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None; impact is shown under public utility tax.

BUSINESS TAXES

82.04.395 PRINTING BY SCHOOLS

Description: School districts and educational service districts are exempt from B&O tax on the value of materials printed in-house, if the materials are exclusively for district use.

Purpose: To support education. There are similar exemptions for printing by local govt. and libraries.

Category/Year Enacted: Government. 1979

Primary Beneficiaries: School districts and ESDs.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 60	\$ 63	\$ 66	\$ 69
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

82.04.397 PRINTING BY LOCAL GOVERNMENT

Description: The value of materials printed in-house by cities and counties exclusively for their own use is exempt from B&O tax.

Purpose: To reduce the cost for local government.

Category/Year Enacted: Government. 1979

Primary Beneficiaries: Counties, cities and towns.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 43	\$ 45	\$ 47	\$ 50
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

BUSINESS TAXES

82.04.408 HOUSING FINANCE COMMISSION

Description: Income that may accrue to the Housing Finance Commission is exempt from B&O tax. This income includes fees generated from bond issues and interest received from reserves used for the operation of the Commission.

Purpose: To support the activities of the Commission as a financial conduit for programs that provide affordable housing.

Category/Year Enacted: Government. 1983

Primary Beneficiaries: The Housing Finance Commission.

Possible Program Inconsistency: None evident; however, other state agencies are not subject to B&O tax and do not require a special exemption.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 175	\$ 181	\$ 186	\$ 192
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No.

82.04.415 SAND AND GRAVEL FOR ROADS

Description: The cost of labor and services performed in the mining, sorting, crushing, etc. of sand or gravel taken from a pit owned by or leased to a city or county is exempt from B&O tax. The sand or gravel must be either placed on a street of the city or county or sold at cost to another city or county for use on public roads.

Purpose: To reduce the costs to local governments of building and maintaining streets and roads.

Category/Year Enacted: Government. 1965.

Primary Beneficiaries: Cities and counties and the contractors who perform road work for them.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 112	\$ 118	\$ 125	\$ 132
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

BUSINESS TAXES

82.04.418 GRANTS FOR LOCAL GOVERNMENT

Description: A deduction from B&O tax is provided for governmental grants received by municipal corporations and political subdivisions of the state.

Purpose: To avoid taxing the non-enterprise activities of local governments and to support the social welfare services that the grants assist.

Category/Year Enacted: Government. 1983

Primary Beneficiaries: Local jurisdictions that carry out social welfare programs.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Amounts included under B&O tax deduction, RCW 82.04.4297.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

82.04.419 LOCAL GOVERNMENT BUSINESS INCOME

Description: Exemption from B&O tax is provided for local governments, including school and fire districts, with the exception of income from utility or enterprise activities.

Purpose: To reflect the legislative policy of not taxing government activities, except for proprietary activities such as the provision of utility services.

Category/Year Enacted: Government. 1983

Primary Beneficiaries: Local governments.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 8,130	\$ 8,372	\$ 8,621	\$ 8,877
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

BUSINESS TAXES

82.04.4201 SALE/LEASEBACKS FOR R.T.A.

Description: State B&O tax does not apply to lease payments or options to purchase at the conclusion of a lease in conjunction with a sale/leaseback arrangement involving a regional transportation authority (RTA) pursuant to RCW 81.112.300.

Purpose: The sale/leaseback arrangement (technically a lease/leaseback) is a financing mechanism to facilitate the acquisition of personal property by the RTA. It is anticipated that this procedure will be used to acquire the rolling stock for the high capacity transit system, currently being developed by Sound Transit. Under this arrangement, the personal property is leased by Sound Transit to an institutional equity investor which will, in turn, lease the equipment back to Sound Transit. The principal benefit to the investor is that it may depreciate the property for federal income tax purposes (which Sound Transit could not do). For Sound Transit the major benefit is that there should be a difference between the two leases, resulting principally from the timing of the payments, which will yield an up-front net benefit of about 6-8 percent of the cost of the equipment.

Category/Year Enacted: Government. 2000

Primary Beneficiaries: Sound Transit and the institutional investor.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Although the lease payments merely represent a financing mechanism to facilitate the sale/leaseback arrangement, income derived from leases of tangible personal property would ordinarily be subject to B&O tax. However, since there is only one investor involved in these transactions, the amount of lease payments which would otherwise be subject to B&O tax cannot be disclosed for confidentiality reasons.

82.04.600 PRINTING BY LIBRARIES

Description: Printing done by libraries is exempt from B&O tax, if the material is printed in library facilities and is used exclusively for library purposes. This statute also includes cities, counties and school districts, but these are covered by other statutes, RCWs 82.04.395 and .397.

Purpose: Reflects the legislative policy of not taxing nonproprietary activities of public entities.

Category/Year Enacted: Government. 1979

Primary Beneficiaries: Libraries and library districts.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 4	\$ 4	\$ 4	\$ 5
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.