

***Research Report 2005-1***  
**SUMMARY OF 2005 TAX LEGISLATION**

**Washington State Department of Revenue**  
**Research Division**  
**May, 2005**

This report summarizes major revenue and tax legislation in Washington that was approved during the regular session of the 2005 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 2005 TAX LEGISLATION - Sources Impacting Dept. of Revenue Only  
Fiscal Years 2006 and 2007; 2005-07 Biennium

<b>GENERAL FUND</b>		<u>FY 2006</u>	<u>FY 2007</u>	<u>2005-07 Biennium</u>
2SHB 1240	Automated processing of REET; one time advance (GF portion)		\$51,571,000	\$51,571,000
EHB 1241	Driver's license required to transfer vehicle title; tax compliance	\$704,000	\$1,407,000	\$2,111,000
HB 1315	Real estate excise tax; collection of tax on controlling interests	\$2,769,000	\$2,769,000	\$5,538,000
HB 1502	Property tax exemption; property damaged by disasters	(\$15,000)	(\$31,000)	(\$46,000)
ESHB 2221	B&O tax exemption for fruit & vegetable processors	(\$3,345,000)	(\$3,750,000)	(\$7,095,000)
ESHB 2314	Omnibus tax bill; aggregate GF impact (see FN for detail)	\$42,620,000	\$45,070,000	\$87,690,000
SSB 5101	PUT credit for customer-generated power via renewable resources		(\$127,000)	(\$127,000)
2SSB 5154	Leasehold tax exemption; Ft. Vancouver	(\$11,000)	(\$15,000)	(\$26,000)
E2SSB 5111	B&O rate reduction for solar energy systems	(\$24,000)	(\$48,000)	(\$72,000)
SSB 5623	Sales tax exemption for R.T.A. maintenance contracts	(\$428,000)	(\$677,000)	(\$1,105,000)
2SSB 5663	Sales tax exemption for ag. field burning equipment	\$667,000	(\$2,000,000)	(\$1,333,000)
SB 5794	Cigarette tax agreement; Puyallup tribe - GF total	\$7,974,000	\$9,278,000	\$17,252,000
SB 5857	B&O tax deduction; govt. grants for community health centers	(\$109,000)	(\$133,000)	(\$242,000)
ESSB 6090	Budget (Sec. 138); revenue enhancement for DOR - 14 FTEs	\$6,100,000	\$9,100,000	\$15,200,000
SB 5948	Unclaimed property; sale of investments with auto. reinvestment	\$13,222,000	\$1,006,000	\$14,228,000
SSB 5999	B&O exemption; local parking & business improvement areas	(\$68,000)	(\$77,000)	(\$145,000)
ESB 6003	Commute trip reduction; B&O and PUT tax credits		(\$500,000)	(\$500,000)
ESB 6003	Commute trip reduction; transfer from multi-modal acct.		\$500,000	\$500,000
SB 6097	Tobacco product tax; rate reduction/enforcement provisions	\$1,958,000	\$2,214,000	\$4,172,000
<b>NET GENERAL FUND IMPACT</b>		<b>\$72,014,000</b>	<b>\$115,557,000</b>	<b>\$187,571,000</b>

**OTHER FUNDS**

ESHB 1013	B&O tax on parimutuel wagering for problem gambling acct.	\$427,000	\$606,000	\$1,033,000
2SHB 1240	Automated processing of REET; one-time advance (7.7% portion)		\$4,300,000	\$4,300,000
EHB 1241	Driver's license required to transfer vehicle title; multi-modal acct.	\$20,800	\$41,500	\$62,300
HB 1315	Real estate excise tax; collection of tax on controlling interests	\$231,000	\$231,000	\$462,000
HB 1958	Earmarked fish tax on sea cucumbers/urchins continued	\$6,000	\$25,000	\$31,000
SHB 2085	\$1 fee on new replacement tires reimposed	\$3,973,000	\$4,421,000	\$8,394,000
ESHB 2314	Omnibus tax bill - education legacy acct.	\$88,497,000	\$86,092,000	\$174,589,000
ESHB 2314	Omnibus tax bill - violence reduction/drug enforcement acct.	\$575,000	\$731,000	\$1,306,000
ESHB 2314	Omnibus tax bill - health services acct.	(\$1,063,000)	(\$200,000)	(\$1,263,000)
ESHB 2314	Omnibus tax bill - water quality acct.	(\$61,000)	\$14,000	(\$47,000)
SB 5794	Cigarette tax agreement; Puyallup tribe - total for other funds	\$383,000	\$373,000	\$756,000
ESB 6003	Commuter trip reduction credit increased; trans. from multimodal		(\$500,000)	(\$500,000)
ESSB 6050	Transfers portion of state REET from public works asst. account to a newly created city-county assistance account	(\$9,400,000)	(\$10,800,000)	(\$20,200,000)
		\$9,400,000	\$10,800,000	\$20,200,000
ESB 6096	Estate tax reimposed; receipts to education legacy trust acct.	\$39,900,000	\$98,700,000	\$138,600,000
SB 6097	Tobacco products tax; rate reduction/enforcement provisions	\$184,000	\$208,000	\$392,000

*Department of Revenue, Research Division, May 25, 2005*

# OMNIBUS TAX BILL

## **ESHB 2314                      Changes for various state excise taxes (Chapter 514, Laws of 2005)**

This bill contains a variety of new and amended tax laws pertaining to various state tax programs. Each is described briefly below and a concluding table summarizes the estimated impact on state revenues for each of the components during the 2005-07 biennium. Overall, the net impact of the bill is to increase state revenues by \$262 million for the first biennium.

### Sales/Use Tax on Extended Warranties

The definition of retail sale in RCW 82.04.050 is amended to extend sales/use tax to charges for extended warranties. Essentially, these are agreements where, for a fee, the seller agrees to replace or repair tangible personal property that becomes defective during the period covered by the warranty. Extended warranties can cover motor vehicles, appliances, and other types of items. The purchase of repair or replacement parts, or installation or repair services, for the purposes of satisfying the purchaser's obligations under a warranty, is not subject to sales or use tax.

The new tax on extended warranties is effective on July 1, 2005.

### Sales Tax Exemption for Self-Service Laundries

Section 1 of the bill also amends the definition of retail sale to broaden the exemption for laundry facilities. Currently, only coin-operated machines located in apartments, dormitories, etc. which are for the exclusive use of tenants are exempt from tax. Under this amendment all self-service laundry facilities will be exempt from sales tax. Since these charges will no longer constitute a retail sale, the provider of the self-service laundry facilities will become subject to B&O tax under the service classification. (NOTE: sales tax will continue to apply to dry cleaners and similar facilities where the customers do not actually operate the machines.)

The exemption for self-service laundries is effective on July 1, 2005.

### Exemptions for Delivery Charges for Direct Mail

Sections 114-116 establish a new B&O tax deduction and retail sales/use tax exemptions for delivery charges associated with direct mail as defined in Section 110. Direct mail means printed materials that are distributed to a large group of recipients, e.g., advertising circulars. As long as the charges for delivery are separately stated on the billing to the person who contracted for the printing and delivery of such items, then they qualify for the deduction and exemptions.

These exemptions take effect on May 17, 2005.

### Increase in Liquor Liter Tax

Section 201 levies an additional tax of \$1.33 per liter of liquor that is sold at state liquor stores and agencies. Currently, taxes totaling \$2.44 apply to each liter of liquor (plus liquor sales tax of 20.5 percent for sales to consumers). The existing \$2.44 liter tax applies to sales to both consumers and resellers (Class H licensees); the new \$1.33 tax applies only to sales to consumers. Receipts from the additional tax are to be distributed as follows:

General fund	97.5%
Health services account	2.3%
Violence reduction/drug enforcement account	0.2%

The intention of the small distributions to the latter two accounts is to hold them harmless as the overall rate of the tax increases. (Because of assumed "elasticity" of liquor consumption, the taxable purchases are presumed to decline in response to an increase in the total tax rate.)

The increase in the liquor liter tax is effective on July 1, 2005.

### B&O Exemption for Boarding Homes

Section 301 of the bill totally exempts from state B&O tax the receipts of nonprofit boarding homes. Such homes are occupied by at least seven adults aged 65 or more (unless the resident requires care as a result of disability) and provide board and domiciliary care to the residents. Boarding homes are licensed by the state pursuant to Chapter 18.20 RCW. Legislation in 2004 reduced the applicable B&O tax from 1.5 to 0.275 percent, and provided a deduction for Medicaid receipts. This bill entirely exempts nonprofit boarding homes from business taxation. This exemption is effective on July 1, 2005.

### B&O Tax Exemption for Cancer Centers

Part IV of the bill addresses the taxation of comprehensive cancer centers, which are recognized by the National Cancer Institute and which qualify as a tax-exempt nonprofit organization for federal income tax purposes. A new B&O tax exemption is established for income received by a cancer center to the extent that it also qualifies for federal income tax exemption. Also, new sales and use tax exemptions are provided for purchases of medical supplies, chemicals or materials that are used for research purposes. The sales/use tax exemption does not extend to construction, office or building equipment, administrative supplies or vehicles. These exemptions are effective on July 1, 2006.

### B&O Tax Credit for Property Taxes Paid by Aircraft Manufacturers

Section 501 modifies the B&O tax credit provided by RCW 82.04.4463 for property taxes paid by aerospace manufacturers. Credit for property taxes paid with respect to new buildings or the renovation or expansion of existing buildings is allowable only if the building is used exclusively in the manufacturing of commercial aircraft or their components. The credit for property taxes

paid on manufacturing machinery and equipment acquired after December 1, 2003, will be calculated based on the fraction of time the facility is used for aerospace manufacturing.

This provision is effective on January 1, 2006.

#### Leasehold Tax Exemption for Amphitheater

Section 601 of the bill provides a new leasehold excise tax exemption for the public or entertainment areas of an amphitheater which is located on publicly-owned land and which has a seating capacity of at least 17,000. A private entity must be responsible for the cost of construction of the facility, but both the private lessee and the public lessor must regularly sponsor events at the amphitheater. The exemption contains population restrictions which effectively require the facility to be located in Clark County. This exemption is effective on July 1, 2005.

#### Sales Tax Deferral for Auto Museum

Section 701 of the bill adds a new section to Chapter 82.32 RCW that establishes a deferral of retail sales tax for a nonprofit organization that is engaged in construction of a facility to be used primarily as a museum for historic automobiles. The museum must contain at least 500 motor vehicles and be open to the public. Unlike certain other sales tax deferral programs, the amount of deferred sales taxes must be repaid over a ten year period; the deferral does not convert to an outright exemption. Repayments will commence five years following completion of the facility with ten annual payments of the amount deferred. Interest is not required as long as the facility meets the program requirements. The program is not effective until July 1, 2007, and applications for the deferral must be submitted to the Department by the end of 2008. Therefore, the impact on sales tax revenues will not occur until the 2007-09 biennium.

#### Quality Maintenance Fee for Nursing Homes Reduced

In 2003 the Legislature enacted a nursing home quality maintenance fee consisting of \$6.50 for each patient day of service provided to non-Medicare residents of the facility. Section 801 reduces the rate of the fee as noted below and repeals it altogether as of July 1, 2011:

2005-07 biennium	\$5.25
2007-09 biennium	\$3.00
2009-11 biennium	\$1.50

This part of the bill is effective on July 1, 2005.

#### Incentives for Commercial District Revitalization

Part IX of ESHB 2314 constitutes the "Washington Main Streets Act." It establishes new tax credits for businesses to encourage revitalization efforts in the downtown and neighborhood commercial districts of smaller and mid-sized cities. Starting on January 1, 2006, business may apply for state B&O and public utility tax credits based on the amount of contributions they



make for revitalization efforts. Specifically, the credit cannot exceed 50 percent of the amounts contributed to the main street trust fund which is to be administered by the Dept. of Community, Trade and Economic Development or 75 percent of the amounts contributed to a revitalization program operated by a nonprofit organization.

The total of all credits for contributions given to any one revitalization program is limited to \$100,000 annually, and the total of all credits statewide is capped at \$1.5 million per year. The maximum credit per taxpayer is \$250,000 per year. Cities with a population greater than 190,000 are not eligible for the program; this makes the state's three largest cities ineligible for the program. Tax credits must be used in the year following approval by the Department and may not be carried forward to future years. CTED will assist the Department in determining which programs are eligible to receive contributions that qualify for the tax credits.

These sections of the bill are effective on July 1, 2005, but the tax credit applications may not be submitted until January 1, 2006. Thus, the initial impact on state revenues will not occur until the second half of fiscal year 2007.

#### B&O Credit for High Technology Firms Revised

Part X of the bill amends the B&O tax credit for certain high technology businesses provided by RCW 82.04.4452. Since 1994, firms in five specific industries have been able to credit against B&O tax liability a portion of their expenditures on research and development activities. Section 1003 of the bill corrects a change to the calculation procedure that was made in 2004 dealing with the determination of the firm's average tax rate. Accordingly, this section is retroactive to June 10, 2004. Starting in calendar year 2007, businesses are allowed to calculate the credit based on the higher of the average tax rate or a fixed percentage. Thus, the credit will be calculated based on the following:

- 6/10/2004 - 12/31/2006      the firm's average tax rate;
- 1/1/2007 - 12/31/2007      the firm's average tax rate or 0.75%, whichever is greater;
- 1/1/2008 - 12/31/2008      the firm's average tax rate or 1.0%, whichever is greater;
- 1/1/2009 - 12/31/2009      the firm's average tax rate or 1.25%, whichever is greater;
- 1/1/2010 and after          1.5%.

Nonprofit organizations that conduct R&D in eligible high tech areas are allowed the same credit calculation as proprietary firms. Previously, their credit was based on a lower tax rate of 0.484 percent.

Part X also makes changes to the annual survey requirement for participating firms. It allows extensions for filing the reports to the Department; requires electronic filing of necessary information, and clarifies which information is subject to public disclosure, and provides for

interest but not penalties on any additional tax that may be owing as a result of the revised calculation of the average tax rate noted above.

Compared with the reduction in the state revenue forecast for this tax credit which occurred after last year's changes in the program, this bill actually results in an increase in state revenue collections, partially due to correcting the 2004 error.

#### Additional 60 Cent Cigarette Tax

Part XI of the bill increases the total rate of the state cigarette tax from \$1.425 to \$2.025 per pack. The majority of receipts of the additional 60 cent rate are deposited into a new education legacy trust account to be used for the student achievement fund, expanding access to higher education and other educational programs. Existing funds that received cigarette tax receipts also receive a portion of the new tax with the intention of holding them harmless. (Because of assumed "elasticity" of cigarette consumption, taxable purchases are presumed to decline in response to an increase in the total tax rate thus adversely impact existing revenue collections.)

Sections 1103-1104 revise the formula for distributing funds to school districts from the student achievement fund, including a portion of the state property tax levy and the new 60 cent cigarette tax.

The sections dealing with the increased cigarette tax rate are effective on July 1, 2005.

#### Estate Tax Revisions

On February 3, 2005, the State Supreme Court ruled that Washington's estate tax should be based on current federal law. The Department had taken the position that the state estate tax statutes were linked to the Internal Revenue Code as it existed on January 1, 2001, and therefore the subsequent phase-out of the federal tax by Congress did not pertain to Washington's tax. The effect of the Court's ruling is that Washington's estate tax does not apply to estates of decedents on or after January 1, 2005.

In response, the Legislature enacted Engrossed Senate Bill 6096 which imposes a new stand-alone estate tax for Washington. Section 1201 of ESHB 2314 amends ESB 6096 to broaden the farm deduction to allow a deduction for estates of farmers who leased but did not own any farmland or not enough farmland to qualify for the deduction provided by ESB 6096. Under the amendment in this bill, the value of tangible personal property used primarily for farming purposes on a farm may be deducted from the taxable value of the estate, even if the decedent farmer did not own the land.

Section 1201 is effective on May 17, 2005.

**REVENUE IMPACT OF ESHB 2314  
2005-07 Biennium - \$000**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>2005-07 Biennium</u>
<u>General Fund</u>			
Sales tax on extended warranties	\$ 17,307	\$ 20,105	\$ 37,412
Exemption for self-service laundries	(1,217)	(1,247)	(2,464)
Exemption for delivery of direct mail	(158)	(178)	(336)
Liquor liter tax increased by \$1.33	22,206	24,979	47,185
B&O exemption for boarding homes	(171)	(214)	(385)
B&O & sales/use tax ex.; cancer centers	--	(1,468)	(1,468)
B&O tax credit for property taxes paid by aircraft manufacturers	(91)	(273)	(364)
Leasehold tax exemption, amphitheater	(35)	(40)	(75)
Sales tax deferral; auto museum	--	--	--
Phase-out of nursing home fee	(6,027)	(6,575)	(12,602)
Business tax credits; revitalization	--	(750)	(750)
Revision in B&O high tech credit	10,900	10,600	21,500
Additional \$0.60 cigarette tax	(94)	131	37
SUBTOTAL	\$42,620	\$45,070	\$87,690
<u>Education Legacy Account</u>			
Additional \$0.60 cigarette tax	88,497	86,092	174,589
<u>Violence Reduction/Drug Enf. Account</u>			
Liquor liter tax increased by \$1.33	570	629	1,199
Additional \$0.60 cigarette tax	5	102	107
<u>Health Services Account</u>			
Liquor liter tax increased by \$1.33	(582)	(669)	(1,251)
Additional \$0.60 cigarette tax	(481)	469	(12)
<u>Water Quality Account</u>			
Additional \$0.60 cigarette tax	(61)	14	(47)
TOTAL NET IMPACT - ALL FUNDS	\$130,568	\$131,707	\$262,275

## OTHER HOUSE BILLS

**HB 1019**                      **Senior citizens exemption extended to disabled veterans**  
**(Chapter 248, Laws of 2005)**

The property tax exemption for senior citizens and disabled persons is broadened to include veterans with 100 percent service connected disabilities, as determined under federal law. The program provides varying levels of tax relief based on income for persons aged 61 and up and those who are unable to work because of disability. There is no actual impact on state property tax revenues, but an estimated \$142,000 of state levy will be shifted to other taxpayers in fiscal year 2006 (one-half of a full year) and \$278,000 in FY 2007 (full year). For local levies there will be an actual reduction in levies of \$136,000 annually, and shifts of tax burden amounting to roughly \$800,000 per year. The bill takes effect on July 24, 2005 and will first affect taxes due and payable in 2006.

**ESHB 1031**                      **New B&O tax on gambling and parimutuel wagering**  
**(Chapter 369, Laws of 2005)**

A new B&O tax is levied upon certain gambling activities to fund a new problem gambling account. The funds are dedicated to public awareness and education programs relating to problem and pathological gambling. The new B&O tax applies to the operation of contests of chance (e.g., social card games, bingo, raffles, punchboard games and pull-tabs, but not state lottery games or amusement games), if the operator has gross income of \$50,000 or more annually. Also, the tax applies to parimutuel wagering at horse racing events. The initial tax rate is 0.1 percent through June 30, 2006 and then rises to 0.13 percent starting on July 1, 2006.

The tax is anticipated to generate about \$1,033,000 for the 2005-07 biennium. The bill is effective on July 1, 2005.

**SHB 1158**                      **County Treasurer administrative changes**  
**(Chapter 502, Laws of 2005)**

This bill contains a variety of amendments pertaining to programs administered by County Treasurers. The following provisions are of interest to the Department.

Section 3 deals with unclaimed property and amends RCW 63.29.020 to provide that Chapter 63.29 RCW doesn't apply to excess proceeds held by counties, cities, towns, and other municipal or quasi-municipal corporations from foreclosures for delinquent property taxes, assessment and other liens.

Section 6 adds a new section to RCW 84.56. People who offer a document to an auditor for recording that results in real property boundary line adjustments are to present a certificate of

payment from the county treasurer. All current and delinquent taxes and assessments must be paid. Taxes not yet levied and certified are to be collected as an advance tax under RCW 58.08.040.

Section 7 amends RCW 84.56.020 and provides a new exemption from interest and penalties on delinquent property taxes owed by active duty military personnel serving outside the United States during a time of armed conflict.

Section 9 amends RCW 84.69.020 to prohibit property tax refunds on payments made in error by a third party payee (mortgage companies or tax services).

There is no direct impact on state or local revenues associated with this bill. SHB 1158 takes effect on June 17, 2005, and Section 7 applies to property taxes levied in 2004 for collection in 2005.

**SHB 1189                      Property tax levy for veterans' relief  
(Chapter 250, Laws of 2005)**

This legislation formalizes the requirement for counties to establish a veteran's assistance program for the benefit of indigent veterans and their families. There is no direct impact on tax laws. However, Section 6 of the bill does amend RCW 73.08.080 which has provided a county levy of up to \$0.27 to finance the county veterans' assistance fund. It clarifies the uses of these funds, including for assistance programs per RCW 73.08.010; for burial/cremation costs of indigent veterans; and costs of administering the fund.

There is no impact on state revenues for this bill which is effective on July 24, 2005.

**2SHB 1240                      Collection procedures for real estate excise tax  
(Chapter 480, Laws of 2005)**

This bill provides funding to assist counties in the development of an automated system for the electronic processing of real estate excise tax affidavits. The Department of Revenue will administer a \$3.9 million grant program for counties to be used during fiscal year 2006 to develop, implement and maintain such a system.

Starting on July 1, 2006, counties will be required to transmit the state real estate excise tax they have collected to the State Treasurer sooner than under current law. Presently, the tax is due to the state on the 20th day of the month following collection by the county. This bill stipulates that the receipts must be paid to the state by the end of the same month (last working day). The transfer for June, 2006 will be made on July 20 and the transfer for July, 2006 collections will occur on July 31.

Section 2 of the bill increases to \$5 an existing \$2 fee that applies to each real estate transaction that is exempt from tax or with a tax liability of less than \$2. It also establishes a new fee of \$5

that will apply to each real estate transaction and an additional \$5 fee on all taxable transactions. These new fees can be imposed until June 30, 2010. Receipts from these fees are to assist the counties in the development, implementation and maintenance of an automated system for processing of the affidavits.

In addition, the bill increases the county's administrative fee for collecting the state real estate excise tax from 1.0% to 1.3% starting on July 1, 2006.

Because of the one-time advance in the transmittal date, there will be an increase in state tax receipts during FY 2007. The amount is estimated to be \$51.6 million.

2SHB 1240 becomes effective on July 1, 2005.

**EHB 1241                      Washington drivers license required to register a vehicle  
(Chapter 323, Laws of 2005)**

This legislation reflects a joint tax enforcement program by the Washington State Patrol, the Departments of Revenue and Licensing, and local law enforcement agencies. The intention is to curtail tax avoidance by residents of this state who maintain driver's licenses from other states and use these to avoid tax by posing as a nonresident.

The bill requires that starting with vehicle registrations in January 2006, the owner of a vehicle who is transferring the title to Washington must present a Washington's driver's license. In addition, failure to register a vehicle in this state is changed from a misdemeanor with a maximum penalty of \$330 to a traffic infraction with a penalty of \$529.

It is estimated that these requirements will increase compliance with retail sales and use tax amounting to about \$1.4 million annually for the first several years and then declining to roughly \$840,000 annually thereafter. Because of the effective date, the expected additional state general fund revenue is \$2.1 million for the 2005-07 biennium. The bill is effective on August 1, 2005 but will impact vehicle registrations starting on January 1, 2006.

**SHB 1299                      Repealing outdated and unused tax preferences  
(Chapter 443, Laws of 2005)**

This bill repeals eleven sections or subsections in state tax law that provide exemptions, deductions, credits, differential tax rates, etc. for various taxes. Included are the following:

- Property tax exemption for leased property used for agricultural fairs.
- PUD privilege tax exemption for N-reactor at Hanford.
- B&O tax rate for manufacturing and selling of nuclear fuel assemblies.
- Sales/use tax exemptions for motor vehicle fuel used in research and testing of aircraft.
- B&O tax credit for up to one-half of the cost of cogeneration facilities.
- Insurance premiums tax credit for firms with foreign customers.

- B&O tax deduction for health insurance pool assessments.
- Sales tax exemption for wearing apparel.
- Sales/use tax exemption for certain fruit, vegetable and fish processing equipment.
- Use tax exemption for naval aircraft training equipment.
- Waiver of property tax penalties associated with the Y2K computer conversion.

Also, statutes relating to the previous sales tax deferral for new manufacturing firms are repealed. Statutes authorizing the deferral itself were repealed in 1995.

These statutes were identified in the Department's 2004 Tax Exemption study as having no fiscal impact. Accordingly, there is presumed to be no revenue impact associated with this legislation. SHB 1299 becomes effective on July 1, 2006.

**HB 1303                      Metropolitan park districts; special bond refinance levies  
(Chapter 226, Laws of 2005)**

This bill allows metropolitan park districts to accept land transferred from other jurisdictions. Section 2 amends RCW 35.61.300 to specifically provide for a special property tax levy by such districts with the proceeds being used to refinance any existing voter-approved indebtedness incurred by the prior jurisdiction.

There is no impact on state revenues for this bill which took effect on April 28, 2005.

**HB 1315                      Real estate excise tax; tax on controlling interests  
(Chapter 326, Laws of 2005)**

The transfer of controlling interest in an entity that owns real property is subject to real estate excise tax. The tax is reported directly to the Department of Revenue, rather than to the county. This bill creates a more effective way for the Department to discover and track such transfers because Section 2 requires that these transfers be reported annually to the Secretary of State. Section 3 makes failure to report such transfers subject to real estate excise tax collection provisions and a tax evasion penalty.

The bill also makes consistent public disclosure requirements for transfers involving controlling interests. Information on county real estate excise tax affidavits relating to the sale of real property is considered as public information. This bill provides the same treatment for transfers of controlling interests.

Availability of the annual reports on controlling interest transfers is expected to increase real estate excise tax collections by the Department. An additional \$3.0 million annually in state tax is anticipated. Local jurisdictions should gain about \$1.1 million in locally levied real estate excise taxes. HB 1315 is effective on July 24, 2005.

**ESHB 1397****Vehicle emission standards; DOR involved in study  
(Chapter 295, Laws of 2005)**

This legislation implements California emission standards which will apply to motor vehicles registered in Washington. Once the Department of Ecology has promulgated rules pursuant to Section 2 of the bill, no vehicle with fewer than 7,500 miles may be registered, leased, rented or sold in this state unless it meets increased standards for carbon dioxide emissions. Other than administering the two-year exemption for high mileage, alternative fuel vehicles provided by 2SSB 5916, the Department of Revenue has no direct responsibility for implementing the emission requirements. However, the Department is required to participate in preparing an annual report to the Legislature on the progress of meeting the emission standards. OFM has the principal responsibility for preparing the reports with input from DOL, DOR, and DOE.

**HB 1401****Property tax exemption; sprinkler systems installed in nightclubs  
(Chapter 148, Laws of 2005)**

This bill requires building code officials to compel owners of buildings or structures containing nightclubs to install approved automatic sprinkler systems throughout the assembly and common areas of the structure. Prior to installation of an automatic sprinkler system, the property owner of a nightclub may apply to the assessor for a special property tax exemption. The exemption is for ten years and is based on the increase in assessed value the sprinkler system adds to the structure, not the cost of the sprinkler system. Sprinkler systems are classified as real property and are incorporated into the depreciation of the entire building.

There is no impact to state revenues from this legislation; some shift of tax burden to other taxpayers could occur. The impact on local property tax levies is anticipated to be minimal. The bill is effective on July 24, 2005 but will first apply for taxes due in calendar year 2008 because of the requirement in Section 1 which requires the building code council to adopt rules which will take effect by December 1, 2007.

**HB 1407****B&O tax deduction for "mad cow" disease scheduled to expire  
(Chapter 150, Laws of 2005)**

In 2004 the Legislature approved a B&O deduction for certain meat processors. Firms that slaughter and process beef products were allowed to deduct income associated with such products, as long as the export bans on beef imposed by Japan, Mexico and South Korea remain in place. These export bans were imposed as a result of concern about the potential of the "mad cow" disease to affect Washington beef.

This legislation stipulates that the deduction will expire at the end of 2007 and meat processors will again be fully taxable on income derived from beef products starting on January 1, 2008, whether or not these export bans remain in place at that time. Thus, the bill represents a potential revenue increase during the second half of fiscal year 2008, depending upon what is assumed about the continued existence of the export bans. HB 1407 is effective on July 24, 2005.



**HB 1502**                      **Property tax exemption; property damaged by disasters**  
**(Chapter 56, Laws of 2005)**

Property that is destroyed and property that is reduced in value by more than 20 percent by a natural disaster after the assessment date may receive a tax reduction during the year in which the destruction or damage occurred. (Tax relief is not provided to property that is destroyed or damaged voluntarily.) The natural disaster area may be declared by the Governor or the county legislative authority. The amount of taxes abated is proportional to the number of days remaining in the calendar year after the destruction or reduction occurs. The abatement provision expired at the end of 2004 and is restored by this bill.

Since abatement is allowed for the year of the destruction or disaster, there is no time for a shift in the taxes as normally would happen with a reduction in value one year and a shift in tax liability the next. Thus, there is a revenue loss to the state and to local districts in the current year. Based on the past history of natural disasters in the state, the loss to the state levy in FY 2006 is estimated to be \$15,000 and \$31,000 in FY 2007. The estimated local revenue loss is \$55,000 in FY 2006 and \$111,000 in FY 2007. HB 1502 takes effect on July 24, 2005.

**SHB 1509**                      **Property tax exemption for widows/widowers of veterans**  
**(Chapter 253, Laws of 2005)**

This legislation establishes a new program that is patterned after the existing property tax exemption for senior citizens/disabled persons. However, it is structured somewhat differently and will appear in a different (new) chapter within the property tax statutes. The bill creates a property tax exemption in the form of a grant to widows or widowers of veterans who are over the age of 62 or who are unable to work because of disability, who have not remarried, who have combined disposable income of not more than \$40,000 annually, and who survive a veteran who:

- Died as the result of a service-related disability;
- Was rated 100 percent disabled for at least 10 years before death;
- Was a prisoner of war and 100 percent disabled for at least 1 year before death; or
- Died while on active duty or in active military training status.

The grant will equal the regular and special property taxes imposed on the value of the difference between the value of the residence eligible for exemption under the existing senior citizens/disabled persons program and its value according to the following schedule.

<u>Disposable Income of Survivor</u>	<u>Assessed Value</u>
Less than \$30,000	1st \$100,000
\$30,000 - \$35,000	1st \$ 75,000
\$35,000 - \$40,000	1st \$ 50,000

Section 6 of the bill requires that the Department consult with the county assessors and treasurers in counties where claims for this exemption have been filed. Jointly, the Department and the local officials will decide the appropriate mechanism for paying the grant (e.g., whether to pay

the owner directly or to reimburse the taxing districts). In either case, the cost of the grants will be borne by the state, similar to the manner in which the senior citizens property tax deferral operates. The Department will request the necessary funds in its biennial budget request. Section 8 of the bill appropriates \$93,000 for FY 2006 and \$183,000 for FY 2007 to fund this program for the first biennium.

As noted by the expenditures amounts, the impact of the exemption is estimated at \$276,000 for the 2005-07 biennium. These amounts include reimbursement for all regular levies, including the state levy. Thus, while the state levy will initially be impacted by the exemption, the amount will be reimbursed by the state itself and thus no net loss in property taxes will be incurred by the state. (Of course, the state will be required to come up with funding for the amount of the appropriation.) SHB 1509 is effective on July 24, 2005 and will first apply to taxes due and payable in 2006.

**HB 1554**                      **Definition of gross income for current use program**  
**(Chapter 57, Laws of 2005)**

The definition of gross income for purposes of the property tax current use assessment programs in Chapter 84.34 is amended. The wholesale value of agricultural products which are donated to nonprofit food banks or feeding programs has been added to the definition of gross income for agricultural uses.

There is no impact on state revenues. HB 1554 is effective on July 24, 2005.

**HB 1555**                      **Special assessments for certain local jurisdictions**  
**(Chapter 181, Laws of 2005)**

This legislation clarifies the valuation base for special assessments issued by certain local districts. It amends Chapter 85.38 RCW dealing with drainage or diking districts and RCW 17.28.255 dealing with mosquito control districts. The language clarifies that any assessments issued against forest, farm, or open space lands under Chapter 84.33 or 84.34 RCW shall be measured by the assessed value determined under the current use program if the special assessment is applied to the property value. There is no impact on state revenues or property taxes in general. This bill is effective on July 24, 2005.

**ESHB 1631**                      **County conservation future levy**  
**(Chapter 449, Laws of 2005)**

This bill amends the property tax open space statute in regard to the 6.25 cent conservation levy that is provided for counties to preserve lands from development. The amendment requires that the county must determine if the acquisition of lands funded with the receipts of this levy would inhibit housing and employment growth. If the capacity to accommodate planned growth would be impaired, then the county must adopt reasonable measures to increase the capacity to meet

future growth. The bill also notes that salmon preservation is a goal of the conservation futures program. Also, it limits the amount of conservation futures levy which may be used for parks and recreational lands to 15 percent of the levy proceeds. Counties with a population of more than 100,000 (Benton, Clark, King, Kitsap, Pierce, Skagit, Snohomish, Spokane, Thurston, Whatcom, and Yakima) are directed to develop a process for distributing the levy proceeds over time. Also, the bill allows a one-time reallocation of unspent conservation futures levy receipts in counties with a population density of less than four persons per square mile (Ferry and Garfield) if the ordinance is approved before July 1, 2008 and the proposal is approved by the voters.

There is no impact of this legislation on the state. The bill is effective on July 24, 2005.

**ESHB 1703                      Transit fare cards exempt from unclaimed property  
(Chapter 285, Laws of 2005)**

Some transportation authorities have recently begun to issue fare cards entitling the holder to utilize public transportation services. This legislation exempts from unclaimed property provisions the value of any unused transit services which may be imbedded in such cards that are not claimed by the owner. Instead, the transit authority may hold the funds that represent the value of any such cards that may be abandoned until claimed by the owner.

These instruments have not yet been turned over to the Department as unclaimed property. It is believed that the impact of this exemption will be minimal. The bill is effective on July 24, 2005.

**SHB 1887                      Litter tax exemptions; catering & food consumed near restaurants  
(Chapter 289, Laws of 2005)**

This bill provides that the sale of food or beverages is exempt from litter tax if the items are sold for immediate consumption either indoors or outdoors at a seller's place of business or for immediate consumption indoors in an eating area that is contiguous to the seller's place of business. An exemption is also provided for sales of prepared food or beverages by a caterer where the food or beverages are to be served for immediate consumption at premises occupied or controlled by the customer and in or on individual containers designed to be used more than once. The purpose of the bill is to provide a litter tax exemption to caterers. It also clarifies that the existing food/beverage exemption applies to outdoor eating areas of the seller (e.g., a restaurant's deck or patio), as well as food sold for consumption indoors at facilities adjacent to a restaurant (e.g., a food court at a shopping mall).

The estimated impact for the bill is a reduction in litter tax revenue amounting to \$40,000 for the 2005-07 biennium. The bill is effective on July 24, 2005.

**HB 1915****Additional cigarette tax contracting with Indian tribes  
(Chapter 208, Laws of 2005)**

In 2001 the Governor was authorized to sign cigarette tax agreements with certain Indian tribes. The agreements provide that if the tribes levy taxes equivalent to the state cigarette tax and sales/use taxes, the state would not impose its taxes on these sales. The tribes may levy taxes equal to 80 percent of the state tax rates but must equal 100 percent of the state tax rates within three years. These agreements resolve a long-standing dispute between the state and tribal governments. Price differentials between tribal and non-tribal cigarette sales are reduced. This benefits the state by increasing excise tax revenues associated with taxable cigarettes and benefits the tribes by providing needed revenues for tribal government services. Current law provides for agreements with 21 tribes (plus the Puyallup tribe which is the subject of an agreement in SB 5794). This bill extends the authority for agreements to four additional tribes: the Confederated Tribes of the Colville Reservation, the Cowlitz Indian Tribe, the Lower Elwha Klallam Tribe and the Makah Tribe.

The fiscal impact has not been estimated because vendors on these four reservations do not report to the state and there is no reasonable basis for making a revenue estimate. Further, it is not known when such agreements might be signed. HB 1915 is effective on July 24, 2005.

**HB 1958****Earmarking of fish tax on sea cucumbers/urchins continued  
(Chapter 110, Laws of 2005)**

Since 1999 a higher fish tax rate has applied to the harvesting of sea cucumbers and sea urchins. The additional tax has been dedicated to special dive fishery accounts to finance programs to enhance these species. The 4.6 percent rate was scheduled to revert to 2.1 percent at the end of 2005. This bill extends the higher tax rate for an additional five years, so that the rate will not return to 2.1 percent until December 31, 2010.

There is no impact on the general fund (basic 2.1% tax rate). The additional receipts for the two dive fishery accounts are estimated at \$25,000 annually; the actual amount for the 2005-07 biennium will be \$31,000 as a result of the current expiration date. The effective date of the bill is July 24, 2005.

**SHB 2085****\$1 fee on new, replacement tires  
(Chapter 354, Laws of 2005)**

This bill imposes a fee of \$1 on each sale of a new, replacement vehicle tire. The fee does not apply to the tires which are included in the purchase of a vehicle, but only to those purchased separately from a vehicle. It does not apply to used or retreaded tires. A similar fee was levied from 1989 until 1994. The statute limits the duration of the new fee to a five year period, starting July 1, 2005.

The Department of Revenue is directed to collect the tax on the combined state excise tax return. Sellers shall report the number of tires sold, in addition to the amount of the fee that is collected and remitted. Sellers may retain 10 percent of the fee receipts pursuant to RCW 70.95.535(1) as compensation for their costs of collecting and remitting the fee. Fee receipts are considered as trust funds held by the seller until paid to the Department. If the seller fails to collect the fee, the fee becomes the liability of the seller. Receipts from the fee are to be deposited into a newly created waste tire removal account. Section 10 of the bill appropriates \$40,000 to the Department of Revenue for costs incurred in administering the tax fee during the 2005-07 biennium.

Estimated revenues for the tire fee amount to \$8,394,000 for the 2005-07 biennium. The bill takes effect on July 1, 2005.

**HB 2170                      Removal of dedication for state real estate excise tax  
(Chapter 486, Laws of 2005)**

This bill simply removes language in the state real estate excise tax statute which states that the tax is dedicated to funding of public schools. The tax receipts have been deposited in the state general fund from which the state appropriation to K-12 schools is made and this will not change. The purpose of deleting the dedication language is to increase the amount of funds that are considered as "general state revenues" and thereby increase the constitutional debt limit which determines the capacity for state bonds. By increasing the bond limit, more state assistance will be available to local school construction projects.

There is no direct impact on tax revenues resulting from this legislation; however, state bonding capacity will increase by an additional \$492 million starting in FY 2006. The bill is effective on July 24, 2005.

**ESHB 2221                      B&O exemption for fruit & vegetable processors;  
Sales tax deferral/exemption for fruit & vegetable warehouses;  
Warehouse remittance program extended to cold storage  
(Chapter 513, Laws of 2005)**

Under existing B&O tax law, firms that process fresh fruit and vegetables are eligible for a reduced tax rate (0.138 percent instead of 0.484 percent). This legislation totally exempts income derived from such activities. Specifically, the exemption applies to the canning, preserving, freezing, processing or dehydrating of fruit or vegetables which are transported outside of the state by the purchasers in the ordinary course of business. The exemption is effective on July 1, 2005.

Section 2 establishes a new reporting process for firms that take this exemption. They are required to submit an annual survey to the Department by March 31 of the following year. In addition to the amount of exemption taken, the survey must contain information on the firm's employment, wages paid and benefits provided to these employees. A report by the Department

to the Legislature is due by December 1, 2011 detailing the impact of the exemption on job creation and retention, company growth and other related factors.

A second provision of the bill establishes a deferral of state and local retail sales/use tax for eligible investment in facilities used for processing fresh fruit and vegetables, cold storage of fruit and vegetables, or for related research and development purposes. If the recipient of the deferral continues to use the facility for eligible purposes, the deferred tax need not be repaid, thus turning the deferral into an exemption. The year following certification that the project is operationally complete 12.5 percent of the deferred tax is waived. Each of the subsequent seven years an additional 12.5 percent is waived, until the entire deferred amount has been canceled. The deferral program takes effect on July 1, 2007. Applications to the Department for the deferral/exemption may be accepted until the end of fiscal year 2012.

Section 7 of the bill requires the same type of annual survey for the sales tax deferral/exemption as for the B&O exemption. Likewise, a report to the Legislature is required by December 1, 2011, summarizing the economic impacts of the program.

A third tax provision of the bill is an amendment to the existing state sales/use tax remittance program for warehouses. For "cold storage" warehouses the eligibility threshold is reduced from 200,000 square feet or more of floor space to 25,000 square feet. The acquisition of qualifying material-handling and racking equipment for cold storage warehouses will receive a 100 percent remittance of state sales/use tax, as opposed to 50 percent for all other qualifying projects. The extension of the warehouse remittance program for cold storage warehouses takes effect on July 1, 2007.

The only impact of the bill on revenues during the 2005-07 biennium will be for the B&O tax exemption of income derived from processing fresh fruit and vegetables; this amount is estimated at \$7.1 million. The sales tax exemption and remittance programs for cold storage warehouses will have an initial impact during the 2007-09 biennium.

## SENATE BILLS

**SSB 5052**                    **Apportionment of estate values among beneficiaries**  
**(Chapter 332, Laws of 2005)**

This bill pertains to the distribution of estate value among beneficiaries in situations where the decedent did not specify how the property is to be distributed. It has nothing to do with the amount of estate tax that is due. Thus, there is no impact on state revenues. The bill is effective on January 1, 2006 and will apply to estates of decedents who die on or after that date.

**SSB 5101**                    **Public utility tax credits; renewable energy**  
**(Chapter 300, Laws of 2005)**

This bill provides tax incentives for greater use of locally created renewable energy technologies such as solar and wind power. Any individual, business, or local government entity, not in the light and power or gas distribution business, may apply to the light and power business serving the area of the system each fiscal year beginning July 1, 2005 for an investment cost recovery incentive. The tax credit is allowed for each kilowatt-hour from a customer-generated electricity renewable energy system installed on the customer's property. No incentive may be paid for kilowatt-hours generated before July 1, 2005, or after June 30, 2014.

The incentive may be paid at 15 cents per economic development kilowatt-hour unless it exceeds the authorized amount for credit to the area light and power business. The incentive may also be multiplied by a factor depending on where the equipment was manufactured. Yearly incentives to one person shall not exceed \$2,000.

Light and power businesses are allowed to take a credit against the public utility tax in an amount equal to investment cost recovery incentive payments made during the prior fiscal year. The credit shall not exceed 0.25 of one percent of the business' taxable power sales due under RCW 82.16.020(1)(b) or \$25,000, whichever is greater. Credits may not exceed tax due, refunds shall not be granted in the place of credits. A light and power business may not carry over excess expenditures to subsequent fiscal years. The right to earn credits expires June 30, 2015. Credits may not be claimed after June 30, 2016.

Using existing sources of information, the Department of Revenue shall report to the Legislature by December 1, 2009 on the economic impacts of this tax incentive.

Because of the delay for taking the credit compared with when the customer produces the power, the estimated amount of public utility tax credit to be claimed during the 2005-07 biennium amounts to \$127,000. However, the impact rises to over \$3 million by the third biennium. The effective date of this bill is July 1, 2005.

**E2SSB 5111****B&O rate reduction; manufacturing of solar energy systems  
(Chapter 301, Laws of 2005)**

The state B&O tax rate for firms that manufacture or sell at wholesale solar energy systems, including photovoltaic modules or silicon components of such systems, is reduced from 0.484 percent to 0.2904 percent. The reduction in the tax rate will be effective on October 1, 2005 and will remain in effect through the end of fiscal year 2014.

The bill requires that firms which utilize this rate reduction make an annual report to the Department. The report is due by March 31 of the following year and must include data on the employment and wages paid/benefits received by the employees. A report to the Legislature by the Department is also required by the bill; it must include data on the firms who utilize this tax incentive and the impact of the program upon job creation. The report is due by December 1, 2013.

The impact on state revenues is estimated at \$72,000 for the 2005-07 biennium. The bill is effective on July 1, 2005.

**SB 5136****Fire district levies in excess of \$5.90 limit  
(Chapter 122, Laws of 2005)**

This bill allows fire districts to protect a portion of the district's property tax levy from prorationing (when the aggregate of all local regular levies exceed the statutory limit of \$5.90). Specifically, the bill provides new levy authority of up to \$0.25 for such districts when the existing levies under RCWs 52.16.140 and .160 are subject to prorationing. The new levy is outside of the \$5.90 aggregate limit for all regular local levies.

There is no impact on the state property tax levy. For taxes paid in calendar year 2004, 34 fire districts in 13 counties were subject to prorationing. The additional levy authority is estimated to generate approximately \$885,000 in additional regular levies for fire districts each year. SB 5136 is effective on July 24, 2005 and will first impact levies made for collection in calendar year 2006.

**2SSB 5154****Leasehold tax exemption for Ft. Vancouver  
(Chapter 170, Laws of 2005)**

A new exemption from state and local leasehold excise tax is added to RCW 82.29A.130. It covers properties on a federal or state historical register which are owned by a municipal corporation. The property must be wholly contained within a designated national historical reserve.

It is understood that this exemption pertains to the Fort Vancouver site in downtown Vancouver and covers parcels that were recently deeded to the city by the federal government. Existing properties at this site are already exempt from leasehold tax. These properties are being



renovated and may be rented to private parties, who would otherwise incur leasehold tax liability.

The impact on leasehold tax receipts is about \$20,000 annually - \$11,000 for the state and \$9,000 for local jurisdictions. This bill takes effect on July 24, 2005.

**SB 5175**                      **Eligibility for tax incentives for international firms  
that invest in Washington  
(Chapter 135, Laws of 2005)**

This bill adds a new section to Chapter 43.330 RCW to explain that the definition of "person" includes international companies that make investments in Washington. It also clarifies that international companies investing in Washington are eligible for the excise tax incentives provided in Title 82 RCW in the same manner as any domestic company. This provision does not add any benefit that is not already available to international companies.

There is no revenue impact to this bill which is effective on July 24, 2005.

**SSB 5177**                      **New local sales tax; transportation benefit districts  
(Chapter 336, Laws of 2005)**

Legislation in 2002 provided a variety of funding sources for local transportation projects undertaken by a regional transportation investment district. This bill provides similar authority for a transportation benefit district (TBD) which is intended to be comprised of a partnership of affected local jurisdictions. Because of the exclusion in Section 3 of the bill, TBDs must be located outside of the central Puget Sound area. Port districts and transit districts are specifically allowed to participate in the establishment of a TBD. The boundaries of a TBD must include all of the territory of each participating jurisdiction.

The revenue sources authorized for a TBD include a local sales/use tax of up to 0.2 percent, a local option vehicle license fee, and tolls for major transportation projects. Voters must approve any plan to implement or increase these funding sources; further, any increase in the cost of a project above 120 percent of the original cost estimates must be approved by the voters of the district.

The local sales tax authorized in Section 15 of the bill is limited to 0.2 percent and may be levied only for a period of 10 years, unless the voters authorize an additional 10 years. The state's administrative fee for collection of local sales taxes, currently 1.0 percent of the receipts, will apply to this tax.

There is no direct impact on state revenues. SSB 5177 is effective on August 1, 2005.

**ESSB 5396****In-lieu payments for habitat conservation lands  
(Chapter 303, Laws of 2005)**

This is a comprehensive bill dealing with habitat conservation programs. It establishes new accounts for financing specific programs (riparian protection and farmland preservation) and revises distribution formulas for these programs, as well as the formulas for the outdoor recreation and habitat conservation accounts. Sections 6-7 require new in-lieu of tax payments by the state to hold local jurisdictions harmless in situations where land is taken for habitat conservation areas, riparian areas, farmland preservation and recreation lands. The payments are to be based as if the land were in the open space, current use assessment program, plus an amount for any weed control assessments. Section 13 expands a current exception from the payment of compensating taxes due when forest land is removed from designation under Chapter 84.33 RCW.

Section 16 requires that three state agencies (Interagency Committee for Outdoor Recreation; Dept. of Fish and Wildlife and the Dept. of Natural Resources) work with counties to prepare a report on the fiscal impact of the in-lieu payments. This report is due to the Legislature by December 1, 2005.

The sections of the bill dealing with the in-lieu payments are effective on July 1, 2007.

**SSB 5414****Aircraft fuel tax rate increased  
(Chapter 341, Laws of 2005)**

Currently a tax of 10 cents applies to each gallon of fuel purchased for use in privately owned aircraft (not planes operated commercially). The tax proceeds go to the aeronautics account and are used by the Department of Transportation's Aeronautics Division. This bill increases the rate of the tax by one cent to 11 cents per gallon starting on July 1, 2005. Also, the bill clarifies the definition of air carriers who are exempt from the tax.

**E2SSB 5581****B&O tax exemption; life sciences discovery fund authority  
(Chapter 424, Laws of 2005)**

This legislation promotes life sciences research to foster innovations in the area of predictive and preventative health care. It seeks to support and promote the discovery of new cures and treatments. A new life sciences discovery fund authority is established to receive and disburse funds, including amounts received from the master settlement agreement with tobacco manufacturers, to achieve the purposes of the bill.

The only provision pertaining to taxation in the legislation is a new exemption in Section 11 which specifies that any income derived by the life sciences discovery fund authority is not subject to state B&O tax. The bill is effective on May 12, 2005.

**SSB 5623                      Sales tax exemption; regional transit authority maintenance contracts  
(Chapter 515, Laws of 2005)**

Retail sales or use tax will not be owed when a regional transit authority contracts for maintenance services with a local transit agency. This bill excludes from the definition of a "retail sale" any such sale or charge for labor, services, or tangible personal property. This applies to all maintenance services performed by a local transit agency for bus or rail equipment owned or leased by the R.T.A.

The state is expected to lose some \$428,000 in FY 2006 and \$600,000 or more annually thereafter. The bill is effective on July 24, 2005.

**2SSB 5663                      Sales tax exemption for field burning equipment  
(Chapter 420, Laws of 2005)**

Existing sales and use tax exemptions for agricultural field burning equipment are replaced by this bill. It provides exemptions for specified machinery and equipment sold to qualified farmers. The equipment subject to the previous exemption was not defined in detail, but this legislation specifically defines the types of equipment that are eligible for exemption. In addition, exemption is allowed for the cost of materials and labor and services for construction of hay sheds for qualified farmers. To qualify the farmer must have at least 50 percent of his/her tillable acreage devoted to cereal grains or field/turf grass for seed production. Further, the county in which the farm is located must have at least 15,000 acres devoted to production of cereal grains. The new sales/use tax exemptions are slated to expire on January 1, 2011.

In addition to replacing the existing sales and use tax exemptions for agricultural field burning equipment, the bill also repeals a property tax exemption and a B&O tax credit for related activities. The existing excise tax incentives had been scheduled to expire on January 1, 2006 and the property tax exemption would have expired a year later.

Because of the interaction between the existing exemptions which are repealed and the new sales/use tax exemptions, the bill is estimated to actually increase state revenues by \$667,000 in the first year. By the second year, a reduction in state revenues of \$2 million is anticipated. Overall, for the 2005-07 biennium the bill is estimated to reduce state general fund revenues by \$1,333,000.

The repealed exemptions and the new sales/use tax exemptions are effective on July 1, 2005.

**SB 5713                              Property tax exemption; multiple-unit housing rehabilitation  
(Chapter 80, Laws of 2005)**

This bill amends the statute dealing with property tax exemptions for new and rehabilitated multiple-unit dwellings in urban centers in Chapter 84.14.030 RCW. Property proposed for rehabilitation is no longer required to be vacant for 12 months prior to submitting the application

for the exemption. In addition, for property that is not vacant, the applicant must provide each existing tenant with housing of comparable size, quality and price, as well as a reasonable opportunity to relocate.

There is no impact on state revenues. SB 5713 is effective on July 24, 2005.

**E2SSB 5763                      New local sales tax for mental health/substance abuse programs  
(Chapter 504, Laws of 2005)**

Section 804 of this omnibus bill, which addresses mental health services and treatment of chemical abuse, provides a new source of revenue for county programs. A new local option sales and use tax at a rate of 0.1 percent is authorized for counties. The receipts must be devoted to providing new or expanded mental health treatment or chemical dependency services or for new or expanded therapeutic court programs. The tax would be levied pursuant to ordinance of the county legislative authority; no approval by the voters is required.

There is no direct impact on state revenues, except for the 1.0 percent of distributions which the state receives as reimbursement for the cost of collecting the local tax.

The bill is effective on July 1, 2005, but a local sales tax pursuant to this authorization would not be effective until the start of a calendar quarter after the county legislative authority has adopted an ordinance to levy the tax which provides the Department with at least 75 days of advanced notice.

**SB 5794                              Cigarette tax agreement with the Puyallup Indian Tribe  
(Chapter 12, Laws of 2005)**

This bill authorizes the Governor to enter into a cigarette tax agreement with the Puyallup Indian Tribe. Pursuant to the agreement, the tribe will impose a cigarette tax of at least \$11.75 on each carton of cigarettes. Thirty percent of the tribal tax revenue will be shared with the state on a quarterly basis with the funds deposited in the state general fund. The remaining tribal tax revenue will be used for essential tribal government services. (NOTE: other existing tribal cigarette tax agreements do not provide for any receipt of funds by the state.)

Further elements of the agreement are: the price to the consumer will be at least equal to the wholesale cost to the retailer plus the tribal tax amount; tribal stores will purchase from state-licensed wholesalers; and the tribal tax will increase or decrease by the same dollar amount as any future changes in the state's cigarette tax rate. Tribal cigarettes will be stamped and purchases by minors are prohibited. Additionally, the agreement will adequately provide for enforcement, compliance, tax administration, information sharing and dispute resolution. The Puyallup agreement may be for eight years and can be renewed. The agreement will not affect the state's participation in the master tobacco settlement with cigarette manufacturers. Information received under the agreement is to be subject to the Department of Revenue's disclosure laws, and the Liquor Control Board will continue to share authority and responsibility

for cigarette tax enforcement. Cigarettes sold pursuant to this agreement will not be subject to state and local retail sales and cigarette taxes.

The state is expected to receive between \$8.5 and \$9.5 million a year pursuant to this agreement. This legislation is effective on April 5, 2005.

**SB 5857                      B&O tax deduction; govt. income for community health centers  
(Chapter 86, Laws of 2005)**

This bill provides a deduction from state B&O tax for nonprofit community health centers (and networks comprised of these centers) for amounts received as compensation for health care services covered under Medicare, medical assistance, children's health or the state's basic health plan. Currently, nonprofit community health centers may only deduct grants received from the federal or state government for health services provided.

The impact on state general fund receipts is estimated at \$242,000 for the 2005-07 biennium. The bill is effective on August 1, 2005.

**2SSB 5916                      Sales tax ex.; hybrid vehicles & those powered by alternative fuel  
(Chapter 296, Laws of 2005)**

New exemptions from retail sales and use tax are provided for sales of passenger cars, light duty trucks and medium duty passenger vehicles which (1) are powered exclusively by a clean alternative fuel such as natural gas, propane, hydrogen or electric power; or (2) utilize hybrid technology and have a mileage rating of at least 40 m.p.g.

These exemptions take effect on January 1, 2009 and expire two years later on January 1, 2011. Thus, the only impact on state revenues will occur during the last six months of the 2007-09 biennium and the first three-quarters of the 2009-2011 biennium. The total impact on state sales tax receipts for these two years is estimated at \$18.6 million. (NOTE: implementation of this bill was contingent upon HB 1397, the so-called California vehicle emission standards, which was adopted by the Legislature.)

**SB 5948                      Unclaimed property held by local jurisdictions; other  
administrative changes for unclaimed property procedures  
(Chapter 367, Laws of 2005)**

Excess proceeds in the possession of counties, cities and other municipal corporations from foreclosures, special assessments and other liens will not have to be reported or turned over to the Department as unclaimed property.

The bill eliminates the requirement to publish names of owners of unclaimed property held by the Department. Instead of publishing the names of such persons each year in a newspaper

throughout the state, the Department is only required to publish the procedures a person must follow to learn about unclaimed property. The requirement that the Department make a film copy of the unclaimed property records that are to be destroyed and retain these for 10 years is eliminated. A provision prohibiting the Department from selling stocks or other intangible ownership interests in dividend reinvestment plans and mutual funds is repealed.

The major revenue impact of the bill is the sale of dividend reinvestment plans. There should be a large revenue gain during FY 2006 - estimated at \$13.2 million - resulting from the sale of existing intangibles maintained by the Department which feature automatic reinvestment provisions. The ongoing impact will be much smaller. In total for the 2005-07 biennium, approximately \$14.3 million in additional unclaimed property will be turned over to the general fund because of this change. The elimination of the requirement to publish names in newspapers will reduce costs for the Department by approximately \$260,000 each year.

SB 5948 takes effect on July 24, 2005.

**SSB 5999                      B&O tax exemption; local parking & business improvement areas  
(Chapter 476, Laws of 2005)**

RCW 35.87A.110 provides for local parking and business improvement areas. This bill exempts any income derived by a chamber of commerce or similar business association for administrative services received for the operation of such areas from state B&O tax and municipal gross receipts taxes.

It is believed that approximately one dozen such entities currently operate in the state. Based on a recent audit it is believed that the current state tax liability of all such activities amounts to roughly \$145,000 for the 2005-07 biennium. The bill is effective on July 24, 2005.

**ESB 6003                      Commute trip reduction; cap for business tax credits increased  
(Chapter 297, Laws of 2005)**

This bill revises the existing business tax credit for firms that provide financial assistance to employees to encourage reduction in commute trips (ride sharing, using public transportation, utilizing non-motorized transportation, etc.). One major change in the program is that firms will apply to the Department in January for expenditures made during the prior calendar year. Under current law the firms simply take the credit on their combined state excise tax return. If the total amount of credit applied for exceeds the annual statewide cap, the credit will be ratably reduced for all applicants.

The bill also increases the annual total of all B&O and public utility tax credits which may be approved from \$2.25 million to \$2.75 million. Starting in fiscal year 2006, unused credits by any taxpayer in any year may be carried forward to future reporting periods, subject to the \$2.75 million cap on all credits, but refunds of unused credits may not be paid to the taxpayer as a

refund. The maximum amount for a particular firm remains \$200,000, excluding any amounts carried forward.

The program retains a hold-harmless provision for the state general fund whereby the amount of credits taken is transferred from the multimodal transportation account to the general fund. It is assumed that the impact of the increased credits will equal the amount of the increased cap or \$500,000 annually. The provisions of this bill are effective on July 1, 2005.

**ESSB 6050                      Earmarking of real estate excise tax receipts  
(Chapter 450, Laws of 2005)**

Since 1985 (when the previous conveyance tax was repealed and incorporated into the REET) 7.7 percent of the receipts of the state real estate excise tax has been deposited into the public works assistance account and used to provide grants to local government for construction and maintenance of public facilities. This bill shifts a portion of the funds to a newly created city/county assistance account. Starting on August 1, 2005, the public works assistance account will receive 6.1 percent of the total receipts and the new city/county assistance account will get 1.6 percent.

The funds from the city/county assistance account will be distributed back to cities, towns and counties according to formulas established in the bill. The Department will calculate these distribution amounts.

The bill requires the Joint Legislative Audit and Review Committee to review the distributions of funds to local governments under this bill, in conjunction with the prior loss of motor vehicle excise tax funds. JLARC will report to the Legislature by the end of 2008. The Dept. of Revenue will be expected to provide relevant information to JLARC for their review of the program.

There is no impact on the overall collections of the real estate tax, nor the portion going to the state general fund. The bill is effective on August 1, 2005.

**SSB 6078                      Modification in Initiative 601 expenditure limit  
(Chapter 72, Laws of 2005)**

In 1993 the voters of Washington approved Initiative 601 which put in place a statutory limit on the amount of expenditure by state government. It also required that any increases in tax rates or broadening of tax bases be approved by a 2/3 vote in each branch of the Legislature. This bill modifies both of these provisions.

Pursuant to Section 2, legislation increasing state taxes that is enacted between April 18, 2005 and June 30, 2007 will require only a simple majority vote in each house of the Legislature, as long as the increased taxes do not exceed the expenditure limit.

Starting in July, 2007, the calculation of the limit will be based on the fiscal growth factor consisting of the change in state personal income averaged over the previous ten years. Previously, the growth factor was based on inflation and population changes averaged over three years.

The bill requires annual transfers from the general fund to the emergency reserve fund, consisting of any excess state revenues above the expenditure limit. Also, the bill repeals a requirement whereby earnings in the emergency reserve fund be transferred to the multimodal transportation account.

The change in voting percentage for legislation increasing taxes is effective on April 18, 2005. Changes in the calculation of the expenditure limit take effect on July 1, 2007.

**ESSB 6090                      Biennial budget; revenue enhancement for DOR  
(Chapter 518, Laws of 2005)**

Section 138 of the state operating budget for the 2005-07 biennium contains the appropriation to the Department. It contains special funding for implementation of certain new tax laws:

\$206,000	HB 1315 - pertaining to the disclosure of real estate excise tax for transfers of the controlling interest of property.
\$9,000	SSB 5101 - pertaining to a new public utility tax credit for customer-generated electricity via renewable energy resources.
\$100,000	EHB 1241 - pertaining to enforcement of the requirement of a Wash. driver's license when a person registers a vehicle.

In addition, the bill provides a special appropriation of \$2.63 million for a revenue enhancement effort. It is anticipated that this will provide funding for 14 new positions that will augment existing audit and tax enforcement efforts by the agency; the additional revenue that is anticipated is \$15.2 million for the 2005-07 biennium.

The appropriation to the Military Department (Section 151, 5) requires a study of how the enhanced 911 telephone excise tax might be extended to communications via voice over the internet protocol (VOIP). The Dept. of Revenue shall assist in this study.

The appropriation to DSHS (Section 209, 22) includes a requirement for that agency to study options to encourage private physicians to serve uninsured and Medicare/Medicaid patients. The Dept. of Revenue shall consult with DSHS in this effort.

**ESB 6096                      State estate tax reimposed  
(Chapter 516, Laws of 2005)**

Until February of 2005, Washington imposed a state tax upon estates of Washington decedents. The tax consisted of the amount of federal estate tax credit previously allowed under the federal



estate tax. Although Congress began phasing out the federal tax (and the credit for state taxes) in 2001, Washington had continued to levy the full amount as authorized by state law in accordance with the Internal Revenue Code as of January 1, 2001. However, on February 3, 2005 the State Supreme Court ruled in the Hemphill case that the state tax should be tied to the federal tax as it exists under current federal law. Thus, the state tax was essentially eliminated for deaths occurring after January 1, 2005 due to the federal phase out.

This legislation creates a new stand-alone tax on Washington estates which is not tied to federal law and is not affected by the termination of the federal estate tax. For deaths occurring on or after May 17, 2005 and before January 1, 2006 there will be a threshold of \$1.5 million before the tax applies. The threshold increases to \$2.0 million on January 1, 2006. Executors will not have to file a state estate tax return, unless the value of the estate exceeds the threshold amounts.

A deduction is provided for farm land and farm equipment if certain requirements are met. For example, at least one-half of the value of the property must have been used for farming, the decedent or the decedent's family must have materially participated in the operation of the farm, and the property must pass to a family member. However, no requirement of continued use for farming is placed on the heirs.

ESHB 2314 amends this bill to broaden the farm deduction to include estates of farmers who did not actually own the land or who did not own sufficient farmland to qualify for the deduction in ESB 6096. Also the bill provides additional administrative provisions and repeals the generation-skipping transfer tax.

The estate tax features a graduated rate structure ranging from 10.0 to 19.0 percent for any estate where the Washington taxable estate is above the filing threshold. Returns will be due within nine months after the date of death.

The new tax is projected to generate approximately \$139 million during the 2005-07 biennium. All receipts are deposited into a new education legacy trust account created in ESHB 2314. The receipts are to be devoted to the student achievement fund, expanding access to higher education and other educational improvement programs. ESB 6096 is effective on May 17, 2005 and the estate tax applies to deaths occurring on and after that day.

**SB 6097                      Rollback of 2002 tax increase for other tobacco products  
(Chapter 180, Laws of 2005)**

In the November, 2002 election the voters approved an increase in the tax on other tobacco products (other than cigarettes). The rate went from 74.9 to 129.42 percent of the wholesale price. In essence, under the increased rate sellers had to achieve a profit margin of nearly 30 percent merely to break even on sales of cigars, pipe tobacco, etc.

Under this bill the tax rate is reduced to 75.0 percent of the taxable sales price. In the case of cigars the tax is capped at 50 cents per cigar. Previously, the tax was measured by the wholesale price. Under this bill the tax is now based on the price at which manufacturers or distributors

sell products to unaffiliated distributors, retailers or consumers. Distributors and retailers of tobacco products must be licensed by October 1, 2005.

Also, the bill establishes new enforcement provisions to enhance compliance with the tax; these include:

- The Department will maintain a list of licensed distributors and retailers on its website;
- Licensed distributors are required to sell only to licensed retailers;
- Sellers must keep records of their sales;
- Criminal penalties are established for failure to obtain a license and other unlawful activities.

The combination of the lower rate and the increased enforcement are anticipated to increase state revenues by a total of \$4.5 million for the 2005-07 biennium. The bill is effective on July 1, 2005.

**ESSB 6103                      Transportation financing; gas tax increased  
(Chapter 314, Laws of 2005)**

Sections 101-102 of this omnibus transportation financing bill increase the rate of the state motor vehicle fuel tax and the special fuel tax to provide additional funding for major state and local transportation improvement projects. The rate of the gas tax will go from the current 28 cents per gallon to 31 cents on July 1, 2005, to 34 cents on July 1, 2006, to 36 cents on July 1, 2007, and finally to 37.5 cents on July 1, 2008. A portion of the increased revenues will go to local government transportation projects and the remainder to a new transportation partnership account pursuant to Section 104 of the bill.

The bill also increases a variety of truck fees based on weight and other driver-related fees. Earlier versions of the bill contained new local government taxes for transportation purposes, including an employer excise tax which could have been collected by the Department of Revenue. However, these sections were not included in the final version of the bill.