### Revenue Impact of Revenue Alternatives

#### September 2023 Forecast

**Note:** Estimates provided do not reflect a policy position by the Department of Revenue and are solely to assist you in exploring revenue alternatives.

Prepared by Research & Fiscal Analysis - January 2024

**REV ALTS NOTES**

**Preferential B&O Tax Rates:**

- Increase retailing B&O tax rate from 0.471% to 0.484% - RCW 82.04.250(1)
- Increase manufacturing rate for petroleum fuels to 1%
- Reduce benefit of preferential B&O tax rates by 25%, excluding radioactive waste clean-up
- Lower the first mortgage interest deduction so that internet banks do not qualify
- Impose service B&O tax on gross income from long-term real estate rentals
- Impose a tax on digital advertising
- Eliminate all preferential B&O tax rates, excluding radioactive waste clean-up
- Repeal preferential B&O tax rate for meat processors
- Repeal preferential B&O tax rate for prescription drug wholesalers
- Repeal B&O tax deduction for first mortgage interest
- Impose service B&O tax on gross income from long-term real estate rentals
- Repeal B&O tax deduction for in-state portion of interstate transportation
- Repeal preferential B&O tax rate for meat processors
- Tax on Digital Advertising – Eliminating DAS Exclusion

**BUSINESS & OCCUPATION TAX - Tax Base Expansion**

- Increase B&O tax rate:
- Increase retailing B&O tax rate from 0.471% to 0.484% - RCW 82.04.250(1)
- Increase manufacturing rate for petroleum fuels to 1%
- Reduce benefit of preferential B&O tax rates by 25%, excluding radioactive waste clean-up
- Lower the first mortgage interest deduction so that internet banks do not qualify
- Impose service B&O tax on gross income from long-term real estate rentals
- Impose a tax on digital advertising
- Eliminate all preferential B&O tax rates, excluding radioactive waste clean-up
- Repeal preferential B&O tax rate for meat processors
- Repeal preferential B&O tax rate for prescription drug wholesalers

**BUSINESS & OCCUPATION TAX - Rate Increases**

- Increase retailing B&O tax rate from 0.471% to 0.484% - RCW 82.04.250(1)
- Increase manufacturing rate for petroleum fuels to 1%
- Reduce benefit of preferential B&O tax rates by 25%, excluding radioactive waste clean-up
- Lower the first mortgage interest deduction so that internet banks do not qualify
- Impose service B&O tax on gross income from long-term real estate rentals
- Impose a tax on digital advertising
- Eliminate all preferential B&O tax rates, excluding radioactive waste clean-up
- Repeal preferential B&O tax rate for meat processors
- Repeal preferential B&O tax rate for prescription drug wholesalers

**RETAIL SALES/USE TAX - Tax Base Expansion (except services)**

1. Repeal sales tax exemption for food products baked and sold onsite (82.08.0293(2)(c)(ii)(C)); 82.12.0293(2)(c)(ii)(C))
2. Repeal sales and use tax exemptions for OTC drugs purchased with a prescription
3. Extend sales tax to admissions charges
4. Extend sales tax to janitorial services

**RETAIL SALES/USE TAX - Rate Increase**

- Increase state rate from 6.5% to 6.6%
- Increase state rate from 6.5% to 7.0%
- Increase graduated estate tax rate
- Increase retailing B&O tax from 0.471% to 0.484%
- Increase state rate from 6.5% to 7.0%

**Estate tax is deposited in the Education Legacy Account.**

**REV ALTS NOTES**

1. Revenues represent state general fund impacts only, unless otherwise noted.
2. These proposals assume passage by March 7, 2024, allowing a full nine months to implement. This date is tentative, and the impact is dependent on actual bill language.
3. Estate tax is deposited in the Education Legacy Account.

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**Table: Revenue Impact of Revenue Alternatives**

<table>
<thead>
<tr>
<th>#</th>
<th>Description of Alternative</th>
<th># of Impacted Taxpayers</th>
<th>Effective Date</th>
<th>FY 2024</th>
<th>FY 2025</th>
<th>2023-25 Biennium</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>2025-27 Biennium</th>
<th>FY 2028</th>
<th>FY 2029</th>
<th>2027-29 Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Increase state rate from 6.5% to 6.6%</td>
<td>233,000</td>
<td>1/1/2025</td>
<td>$0.0</td>
<td>$91.7</td>
<td>$91.7</td>
<td>$244.2</td>
<td>$253.1</td>
<td>$497.3</td>
<td>$261.4</td>
<td>$275.1</td>
<td>$598.1</td>
</tr>
<tr>
<td>2</td>
<td>Increase state rate from 6.5% to 7.0%</td>
<td>233,000</td>
<td>1/1/2025</td>
<td>$0.0</td>
<td>$456.6</td>
<td>$456.6</td>
<td>$1,215.8</td>
<td>$1,299.6</td>
<td>$2,475.4</td>
<td>$1,314.4</td>
<td>$1,369.2</td>
<td>$2,683.7</td>
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<tr>
<td>3</td>
<td>Repeal sales tax exemption for food products baked and sold onsite (82.08.0293(2)(c)(ii)(C)); 82.12.0293(2)(c)(ii)(C))</td>
<td>1,000</td>
<td>1/1/2025</td>
<td>$0.0</td>
<td>$13.6</td>
<td>$13.6</td>
<td>$33.4</td>
<td>$34.2</td>
<td>$67.6</td>
<td>$35.1</td>
<td>$35.9</td>
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<tr>
<td>4</td>
<td>Repeal sales and use tax exemptions for OTC drugs purchased with a prescription</td>
<td>2,000</td>
<td>1/1/2025</td>
<td>$0.0</td>
<td>$19.2</td>
<td>$19.2</td>
<td>$48.3</td>
<td>$49.6</td>
<td>$97.9</td>
<td>$52.1</td>
<td>$54.7</td>
<td>$106.7</td>
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<tr>
<td>5</td>
<td>Extend sales tax to admissions charges</td>
<td>15,000</td>
<td>1/1/2025</td>
<td>$0.0</td>
<td>$19.2</td>
<td>$19.2</td>
<td>$47.4</td>
<td>$49.9</td>
<td>$96.9</td>
<td>$51.2</td>
<td>$53.1</td>
<td>$104.3</td>
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<tr>
<td>6</td>
<td>Repeal exemption for audio/video programming (RCW 82.08.0293(5))</td>
<td>40</td>
<td>1/1/2025</td>
<td>$0.0</td>
<td>$39.3</td>
<td>$29.3</td>
<td>$66.1</td>
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<td>$128.2</td>
<td>$58.3</td>
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<td>$113.1</td>
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<tr>
<td>7</td>
<td>Narrow the bad debts deductions for retail sales tax and B&amp;O tax</td>
<td>46,000</td>
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<td>$0.0</td>
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<tr>
<td>8</td>
<td>Extend retail sales tax to custom software</td>
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<td>9</td>
<td>Extend retail sales tax to temporary staffing services</td>
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<td>$123.8</td>
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<td>$339.9</td>
<td>$355.7</td>
<td>$695.6</td>
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<tr>
<td>10</td>
<td>Extend retail sales tax to janitorial services</td>
<td>17,000</td>
<td>1/1/2025</td>
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<td>$31.1</td>
<td>$31.1</td>
<td>$77.9</td>
<td>$81.5</td>
<td>$159.4</td>
<td>$85.3</td>
<td>$89.3</td>
<td>$174.6</td>
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</tbody>
</table>

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**BUSINESS & OCCUPATION TAX - Tax Base Expansion**

11. Increase B&O tax rate:
12. Increase state rate from 6.5% to 6.6%
13. Increase state rate from 6.5% to 7.0%
14. Impose service B&O tax on gross income from long-term real estate rentals
15. Impose a tax on digital advertising
16. Eliminate all preferential B&O tax rates, excluding radioactive waste clean-up
17. Repeal B&O tax deduction for first mortgage interest
18. Impose service B&O tax on gross income from long-term real estate rentals
19. Narrow the first mortgage interest deduction so that internet banks do not qualify
20. Impose a tax on digital advertising
21. Impose a tax on digital advertising – select advanced computing businesses
22. Tax on Digital Advertising – Eliminating DAS Exclusion

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**BUSINESS & OCCUPATION TAX - Rate Increases**

23. Increase graduated estate tax rate
24. Impose service B&O tax on gross income from long-term real estate rentals
25. Impose a tax on motor/urban transportation and log hauling - increase to 3.852%
26. Impose a tax on in-state portion of interstate transportation

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**OTHER TAXES**

- Estate Tax:
  - Increase graduated estate tax rate
  - Public Utility Tax:
    - 10% surtax on all PU tax rates
    - PU tax on motor/urban transportation and log hauling - increase to 3.852%
    - PU tax deduction for in-state portion of interstate transportation

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