

JULY 2018 - JUNE 2019

ANNUAL REPORT



VISION

Achieve the highest level of voluntary compliance.

MISSION

Fairly and efficiently collect revenues to fund public services.

VALUES

*Integrity, Cooperation, Accountability,
Respect, and Excellence.*

Serving the public is our commitment

Since its inception in 1967, the Washington State Department of Revenue has been tasked with collecting tax dollars that help fund vital public services throughout the state. Currently, the department administers 60 categories of taxes that help fund education, human services, health care, public safety, natural resources, and other services offered to our communities. The chart on the accompanying page breaks down where tax dollars are collected and how they fund Washington's public services.

Serving the public is one of our foremost goals. With 1,200 employees scattered throughout the state and numerous out-of-state auditors based around the country, there's a lot of activity within our ranks. We hire the best and brightest professionals, and ensure they keep up-to-date on the most current laws and customer service issues in order to better serve the public. We have attorneys, CPAs, engineers, tax professionals, communications professionals, information services professionals, foresters, tax specialists in a variety of sectors, and dozens of customer service professionals.

Collectively, our diverse team at the Department of Revenue is committed to serving you, our customers.

In this annual report you will see a variety of projects we were involved in during the last fiscal year (July 2018 – June 2019). You can read about our many accomplishments, and also discover how much of what we do helps provide services to our employees and our taxpaying customers.

If you have any questions or comments about this report, we welcome your feedback. Feel free to drop me a line at VikkiS@dor.wa.gov.

Sincerely,


Vikki Smith



Revenue at a glance

Revenue collected (FY19)

State revenues (in billions):

| | |
|--------------------------|--------|
| Retail sales and use tax | \$11.9 |
| Business and occupation | \$4.4 |
| State property tax levy | \$3.4 |
| Other state taxes | \$3.4 |

Local revenues:

| | |
|--------------------------|-------|
| Retail sales and use tax | \$5.3 |
| Other local revenues | \$0.4 |

Total collections **\$28.8**

Reporting/active businesses

Active reporting (as of 7/1/19):

| | |
|-----------|---------|
| Monthly | 149,240 |
| Quarterly | 220,136 |
| Annual | 235,088 |

Total **604,464**

Audits 4,701

Voluntary compliance 97.5%

Staffing

FTEs 1,206.1

Efficiencies

Cost per \$100 collected (FY19) 62¢

In the past 20 years, we've increased:

| | |
|-----------------------|--------|
| Revenue collected | 136.1% |
| Registered businesses | 31.2% |
| FTEs | 23.9% |

Agency budget 2017-2019 biennial (in millions):

| | |
|--------------|----------------|
| FY18 | \$160.2 |
| FY19 | \$164.4 |
| Total | \$324.6 |

Tax revenue collected and what it provides

- \$11.9 b — State retail sales and use tax
- \$5.3 b — Local retail sales and use tax
- \$4.4 b — Business and occupation tax
- \$3.4 b — Other state taxes and fees
- \$3.4 b — State share property tax
- \$0.4 b — Other local taxes



Customer service



Meet our executive team

Vikki Smith, Director

Director Vikki Smith heads up the Washington State Department of Revenue. During her nearly 50-year career at Revenue, Vikki has worked her way through the ranks in positions of increasing responsibility and authority, headed up several divisions and led massive improvements that have helped Revenue develop into a pioneer of technology, innovation and efficiency. As the director, Vikki oversees a staff of 1,200 employees and a \$164 million budget.

John Ryser, Deputy Director

John Ryser is Revenue's Deputy Director, overseeing Revenue's Lean, Enterprise Risk and Internal Audit programs. John has a long history with Revenue, starting his career in the Taxpayer Account Administration division and moving on to the Audit division. He has served as Audit's Assistant Director and as the agency's Senior Assistant Director of Operations.

Gil Brewer, Senior Assistant Director of Tax Policy

Gil oversees the agency's Research and Fiscal Analysis, Interpretations and Technical Advice, Legislation and Policy, Property Tax, and Administrative Review and Hearings divisions, and is responsible for the development of Revenue's tax policy. Gil has worked for Revenue for more than 14 years and has held various positions, including Tax Policy Specialist, Legislative Liaison, and Assistant Director of the ITA division. He also has more than 15 years of prior policy-related work with governments in Maine, Hawaii and Micronesia.

Alyson Fouts, Senior Assistant Director of Operations

Alyson is the agency's Senior Assistant Director of Operations and oversees the Audit, Compliance, Taxpayer Services, and Taxpayer Account Administration divisions. Alyson started her career with Revenue in 1990 in the Taxpayer Account Administration division and worked in several policy and operation roles including Assistant Director of Taxpayer Services.

Heidi Geathers, Senior Assistant Director of Administrative Services

As the Senior Assistant Director of Administrative Services at Revenue, Heidi oversees the Information Services, Business and Financial Services, and Human Resources divisions, and Revenue's Information Governance program. Heidi has worked both in the private and public sectors. Before coming to state government, Heidi spent 20 years in the banking industry gaining a keen understanding of customer-centric ideals and practices.



Vikki Smith
Director



John Ryser
Deputy Director



Gil Brewer
*Senior Assistant Director of
Tax Policy*



Alyson Fouts
*Senior Assistant Director of
Operations*



Heidi Geathers
*Senior Assistant Director of
Administrative Services*

Streamlined business licensing process benefits all

Revenue's BLS partners with 98 cities

State lawmakers unanimously approved legislation in 2017 that requires cities to offer a combined licensing service for local businesses. As part of that legislation, every Washington city that issues business licenses is required to use one of two licensing systems before 2023. Currently, more than 90% of businesses apply for and renew their licenses online, and the Department of Revenue's Business Licensing Service (BLS) serves as one of the options for their one-stop licensing needs.

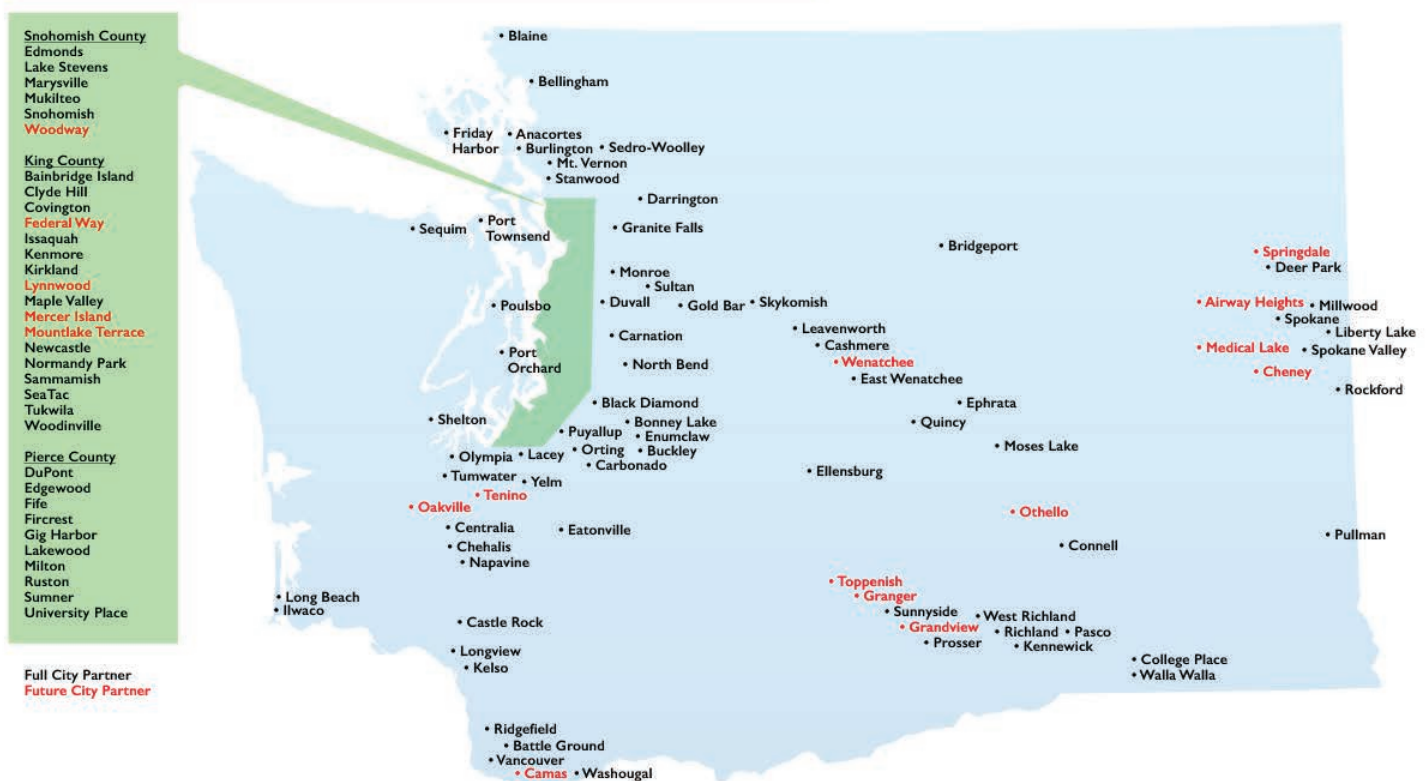
The majority of cities will join the BLS program by the Dec. 31, 2022 deadline. Some Puget Sound area cities will choose to maintain their local online tax and licensing portal, known as "FileLocal." The deadline for participating in this option is July 1, 2020.

As of June 30, 2019, 98 cities had partnered with Revenue's BLS program. BLS has secured commitments for 70 more cities to complete partnership by June 30, 2021.

The benefits of using the BLS system are many. The BLS one-stop option saves local businesses time when applying for or renewing city and state licenses. City staff members experience a much faster turnaround along with detailed reporting, and increased compliance – all with no added costs. The treasurer of Vancouver, the state's fourth-largest city said, "With BLS, we are able to identify our businesses and their employees more easily, and our revenue increased 15% in the first year."



98 BLS City Partners as of June 20, 2019



Agency creates Business Advisory Council

During fiscal year 2019, Revenue formed a Business Advisory Council (BAC). The council was formed to facilitate dialogue between the department and representatives of Washington's business community, focused on tax policy and operational issues and how they affect taxpayers.

Meeting on a quarterly basis, the BAC's purpose is to:

- Provide ideas, input and perspectives to the department, and help Revenue better understand how different administrative options affect taxpayers.
- Assist the department in identifying efficiencies in the administration of state taxes and fees and to offer constructive feedback regarding current or proposed tax policy.
- Be a forum for direct stakeholder feedback.

Revenue researched the experience of other states that had formed similar advisory groups, including Indiana, New Jersey, Massachusetts and Vermont. All four states have noted the creation of their respective advisory councils has benefited taxpayers.

Washington's 16-member BAC contains a diverse membership that includes stakeholders from various backgrounds, policy professionals, representatives of large and small businesses, associations, tax practitioners, economists, community leaders, and new business development groups. Revenue's director, Vikki Smith, chairs the BAC.

After completing the group's first year, Vikki said, "The BAC members clearly offer a different perspective. In fact, I feel their feedback shaped some of our agency-requested legislation."



Teamwork benefits businesses across the state

Revenue continues to build a Lean culture, a standardized method to increase efficiency and provide more value for customers while using employee skills and talents. In 2019, the Department held several workshops to improve processes and provided a series of Lean trainings to 260 employees across the agency. The Lean Leadership course is helping 123 leaders enhance their Lean leadership skills. At least half of the participants in these trainings were in field offices. After participating in Lean training, 87% of field staff agreed they now look for ways to apply process improvement tools in their daily work, a 26% increase over last year.

One highlight

The Department of Revenue and Department of Labor & Industries (L&I) collaborated on a project to improve the business licensing process for businesses that apply for a license at an L&I field office.

Each month, about 500 business owners apply for a business license at an L&I office. Businesses going to a field office to apply for a business license often need a license quickly.

In 2016, Revenue implemented its new business licensing system, changing the application process. As a result, L&I could no longer process applications. So paper applications were mailed and payments transferred to Revenue weekly. The prior process had a 20% error rate. It took 7 – 10 business days to process a paper business license application when a customer submitted it at an L&I field office, compared to the goal of six business days.

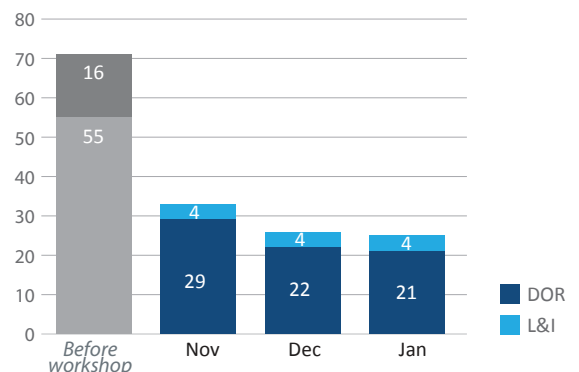
After the cross-agency workshop, results included:

- Streamlining the process and providing clear and defined explanations of the workflow.
- Encouraging customers to apply online at the field office so L&I employees can help customers through the online application.
- Decreasing the online application processing time from 16 minutes to four minutes.



Employees from Department of Revenue and Labor and Industries.
From left to right back row: Nathan Petty, Antoinette Griffin, Herb Reeves, Cassie Laureano, Tanya Dassow, Kim Johnson, Rick Flores. From left to right front row: Ebonee Richards, Kambria Dumesnil, Carmen Borja, Cyndee Baugh, Lanorra Broussard Not Pictured: Alyson Fouts

Average minutes staff spent completing applications online



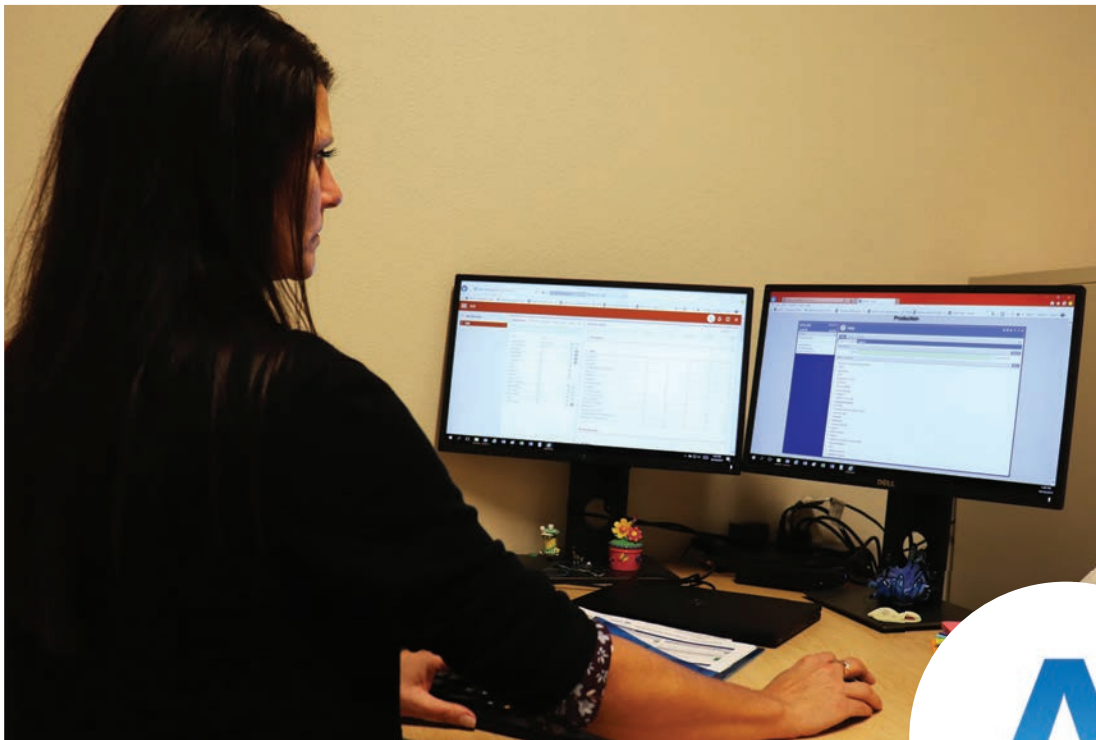
Revenue replaces aging tax and business licensing systems

The Department of Revenue plays a pivotal role in the state's economic vitality and business climate. In Fiscal Year 2019, the agency collected \$28.8 billion in state and local taxes, while processing more than 331,000 business license applications and renewals. To maintain that critical level of service, the department used a phased approach over several years to implement a new web-based system referred to as ATLAS (Automated Tax and Licensing Administration System).

ATLAS provides an integrated system to enable more online services and create an easier environment for businesses to register and comply with business licensing and tax obligations. The new system also ensures the department continues fulfilling its mission while transforming its business processes to align with industry best practices.

The initial rollout took place in 2016 with the launch of ATLAS and My DOR that encompassed business licensing services. Rollout two was introduced in early 2018 and became the portal for all of Revenue's secure services, including taxes. Taxpayers can now access their tax account and business license information in one location, My DOR. The third phase of the TLSR rollout came late in 2018. This final phase of the project integrated several miscellaneous tax applications and introduced Quick Bill Pay and online filing options for No Business Returns and Consumer Use Tax Returns.

During this final rollout, the agency also launched improvements related to the usability of the online Business License Application from a customer perspective. This extended system functionality includes the ability to fully administer deferral application processing, audits, and billings. The result: increased efficiency and improved accuracy of related data and information.

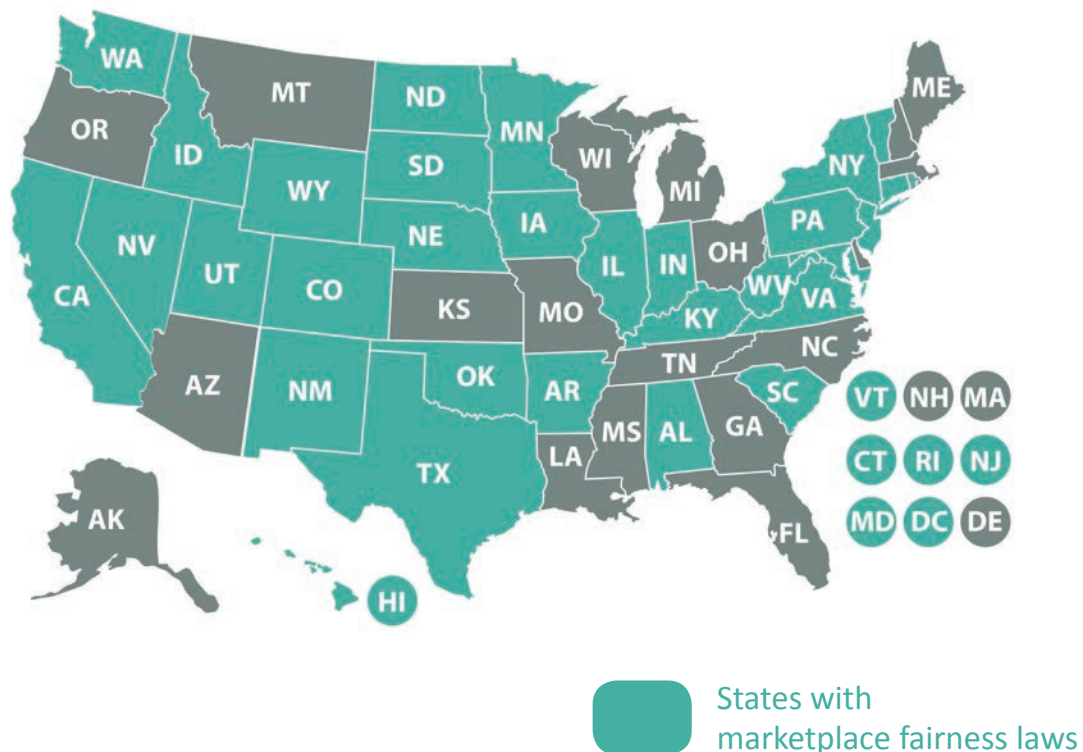


Implementing marketplace fairness

Last summer, the United States Supreme Court ruled 5-4 in *South Dakota v. Wayfair, Inc.* The decision upheld South Dakota's sales tax requirement for businesses to collect retail sales taxes, if they met a minimum threshold. This ruling impacts every state that collects sales tax – nearly every state in the country, including Washington.

Shortly after the ruling, Washington state announced a new remote seller nexus threshold for retail sales tax. Out-of-state businesses without a physical presence in this state are now required to register and collect sales tax if they have retail sales of more than \$100,000. The new threshold for sales tax went into effect Oct. 1, 2018 and is determined by using the current or preceding calendar year gross retail sales into the state. Starting Jan. 1, 2020, that threshold will be calculated using all gross income. To date, more than 4,000 businesses have been flagged as marketplace accounts.

How does this affect Washington state? For fiscal year 2020, the projected revenue is just over \$546 million. By fiscal year 2023, those projections jump to nearly \$764 million.



Task Force simplifies local business & occupation tax formula

Mandated by the state Legislature, the Department of Revenue facilitated a seven member task force to simplify the administration of municipal business and occupation tax apportionment. Some businesses have tax obligations to multiple municipalities, to avoid levying multiple local B&O taxes on the same income, businesses are directed to apportion (divide) their taxable income between the taxing jurisdictions where they engage in business. The task force developed recommendations in three critical areas:

- Simplify the two-factor apportionment formula for local business & occupation (B&O) taxes.
- Develop a method for assigning gross receipts to a local jurisdiction using a market-based model.
- Focus on methods that rely on information typically available in commercial transaction receipts and captured by common business recordkeeping systems.

DOR chaired the task force, which also included three voting members representing the business community and three voting members representing cities that impose a local B&O tax. Revenue served as a non-voting member.

The task force met regularly over a 14-month period. They eventually reached a unanimous consensus and submitted their recommendations to the Legislature prior to the Oct. 31, 2018 deadline. During the latest legislative session, the task force recommendations were adopted into new legislation (Substitute House Bill 1403, Chapter 101, Laws of 2019).

Changing and simplifying the two-factor apportionment model

The new legislation, resulting from the task force's recommendations, simplifies the service-income factor of the two-factor apportionment model. The new methodology applies a market-based model to the service-income factor by redefining "customer location" as the location where a business's services are ordered from. Previously, the service-income factor used a "customer location" component based on where a business had physical contacts with customers.



Process improvements benefit customers

Revenue continuously strives to improve efficiencies in all aspects of customer service. One area that Property Tax division employees knew needed attention was registering students in the technical training classes offered in partnership with the Washington State Association of County Assessors.

Property Tax typically coordinates more than 20 classes annually, serving about 700 county assessors and their staff. Based on results from a customer survey, division employees focused on improving customer service and streamlining the process. The goal was to decrease the time students receive registration acknowledgment from 20 days to three days, and reducing class confirmation notices from 30 days to 15 days.

With those goals in mind, key improvements included:

- Eliminating 80% of process rework loops.
- Requiring all registrations be submitted to a shared email address.
- Improving course announcement content.



Revenue employees from the Property Tax division used Lean techniques to improve their process. From left to right: Mike Braaten (project lead), Sarah Mutnick (facilitator), Beth Leech (facilitator), Jeri Lux, Tabetha Twombly. Not pictured: Danielle Grindle (sponsor).



Total time
expected to be
saved by staff:

481 hours



Reduction in time to send
out acknowledgement
letters:

17 days



Decreased
internal error
rates by:

50%

Multilingual outreach

Helping taxpayers understand their tax obligation is an ongoing challenge. For the many Limited English Proficient (LEP) business owners, that challenge is magnified. The Department of Revenue uses a variety of methods to inform and educate the LEP public, including translating documents, providing speakers, delivering workshops, and sharing information through a variety of outlets.

Over the last fiscal year, Revenue translated several tax documents into Spanish and Russian, and presented Spanish-language workshops on three occasions to more than 100 participants. In addition, language specialists from the agency attended a number of stakeholder events including the annual Latino Legislative Day at the Capitol, the Asian Pacific American Legislative Day at the Capitol, and the Korean American Grocers Association (KAGRO) annual tradeshow. Using the talents of more than 40 employees who are proficient in 17 different languages, Revenue provides individual translation and interpretation services when needed.

Another multilingual outreach project that has been successful in assisting LEP Spanish business owners is providing translated instructions for three critical documents: the Business License Application, Business Change Form, and City Addendum. This tool is used by our front counter staff to explain in Spanish the requirements for each document.



A celebration of culture outside the capitol building for Latino Legislative Day.



Agency diversity efforts

Revenue's multilingual outreach efforts align with the internal agency diversity initiatives, specifically those administered by the department's Inclusion, Diversity and Equity Committee. Employee-led and management-supported, the IDEC offers information and resources on the agency's intranet site to further expand inclusion and enhance the agency's culture of respect. IDEC also co-sponsors with agency leaders an annual fundraiser – The International Food Extravaganza. This savory gastronomical celebration brings together people from all divisions to experience culture and cuisine while raising money for charities.



IDEC members celebrate Pride Month.



Revenue employees celebrate the Flavors of East Africa for the International Food Extravaganza.



Reuniting lost property with owners

The Department of Revenue administers the state's Unclaimed Property program, a free service that reunites property and assets with its rightful owners. More than \$1 billion in unclaimed properties have been turned over to Revenue since 1955.

Washington state law requires businesses and other organizations (called Holders) to review their records each year to determine whether they hold any funds, securities, or other property that has remained unclaimed for the required abandonment period. Holders file a report annually and transfer the property to the state. Property is usually considered unclaimed after three years, however that time varies based on the type of property.

Revenue acts as a custodian of the reported property and stores the funds in the state's General Fund indefinitely, until the owner or their heir(s) claims the property. Over the past three years, Revenue has reunited an average of \$75 million annually in unclaimed property with owners. Fiscal year 2019 reached a new record, returning more than 50% of the unclaimed property received to its rightful owners — valuing more than \$85 million. The state currently holds in excess of \$1.3 billion waiting to be claimed.

FY 2019 Unclaimed Property statistics



Holders reporting
unclaimed property
47,605



Claims paid
153,106



Dollars reported
by holders
\$159 m



Dollars paid in
claims
\$85 m

Connecting with our customers

This year, Revenue developed its customer experience goal: Build relationships. Empower success. With this goal in mind, agency staff make it a priority to connect with customers through outreach, education, and customer service improvements.

Customer education and business outreach

To help businesses understand new laws and tax reporting responsibilities, Revenue's Interpretations and Technical Advice (ITA) division creates rules and interpretive statements that are easy to understand and relevant to current business practices. This year, ITA adopted 37 rules and 15 interpretive statements.

Other highlights include:

- Adopted a new property tax rule to address the administration of the multipurpose senior citizen center exemption.
- Clarified the appropriate tax measurement (on volume or value) for products subject to the hazardous substance tax.
- Issued new guidance to address the taxability of firefighting activities and related services.

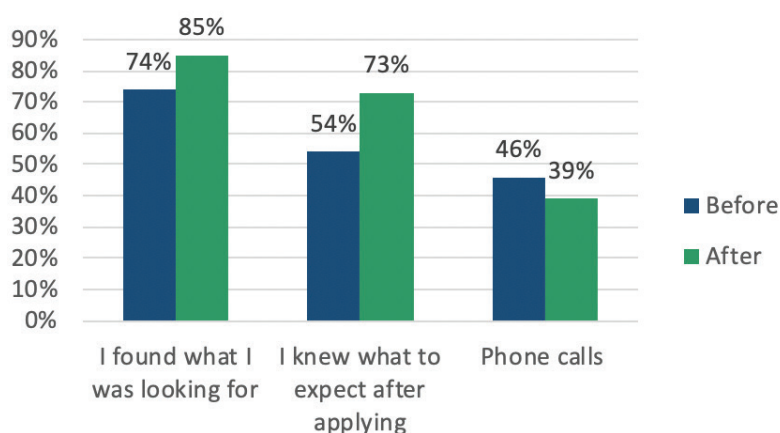
Revenue hosts new business workshops throughout the state that cover the basics of Washington state taxes. These workshops connect customers with local Revenue staff, helping to build relationships. This year the agency hosted 66 new business workshops, with 872 attendees. In addition to in-person workshops, staff hosted four live webinars with 170 attendees.

Customer experience improvements

Revenue uses surveys and usability studies to gather customer feedback and make paying taxes easier and more convenient. Recently, the Business Licensing Application (BLA) was improved using customer survey feedback. Surveys taken after the update showed obvious improvements in customer ratings in the following areas:

- Finding the information they were looking for.
- Understanding next steps.
- Reducing the need to call with questions.

Survey results: before and after BLA update



Supporting the Legislature

The 2019 legislative session may have been one of the shortest in recent years, finishing on time in 105 days, but it was a busy year for Revenue.

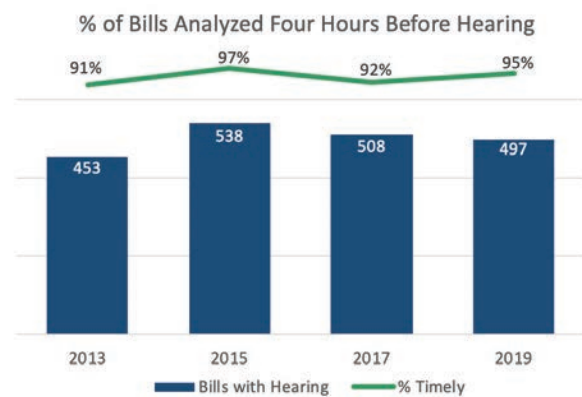
Legislation and policy

The Legislation and Policy (L&P) division tracks and analyzes bills and bill drafts to determine how they might impact the agency's tax, licensing and unclaimed property programs. They provide assistance to the Legislature, governor's office, and other stakeholders in drafting bills, as well as feedback on technical and policy issues. They also work with legislative staff, legislators and other stakeholders to resolve any concerns with proposed bills.

L&P's work doesn't end with the legislative session. L&P plays a leading role in guiding the implementation of new tax legislation.

Key statistics:

- 916 bills analyzed
- 846 amendments analyzed
- 71 constituent issues
- 378 miscellaneous legislative assignments
- 55 implementation plans developed

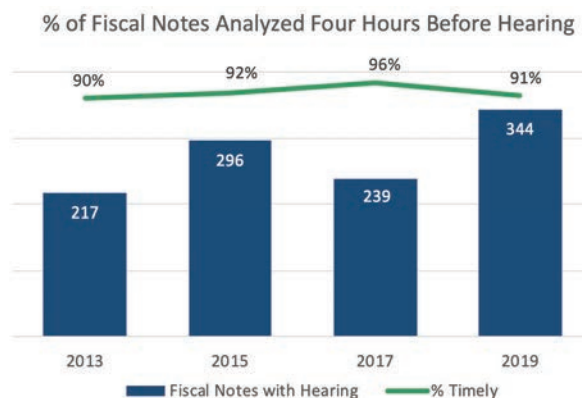


Research and fiscal analysis

The Research and Fiscal Analysis (RFA) division is responsible for preparing fiscal notes for tax and licensing legislation, providing the impact to state and local revenues and also the cost to implement. While fiscal notes are created during the legislative session, the division provides fiscal analysis and data to stakeholders throughout the year and is also responsible for the majority of the legislative reports prepared by the agency.

Key statistics:

- 482 official fiscal notes
- 163 unofficial fiscal notes
- 20 statutorily required legislative reports
- 629 revenue estimates
- 138 expenditure estimates



Washington's efforts to combat sales suppression

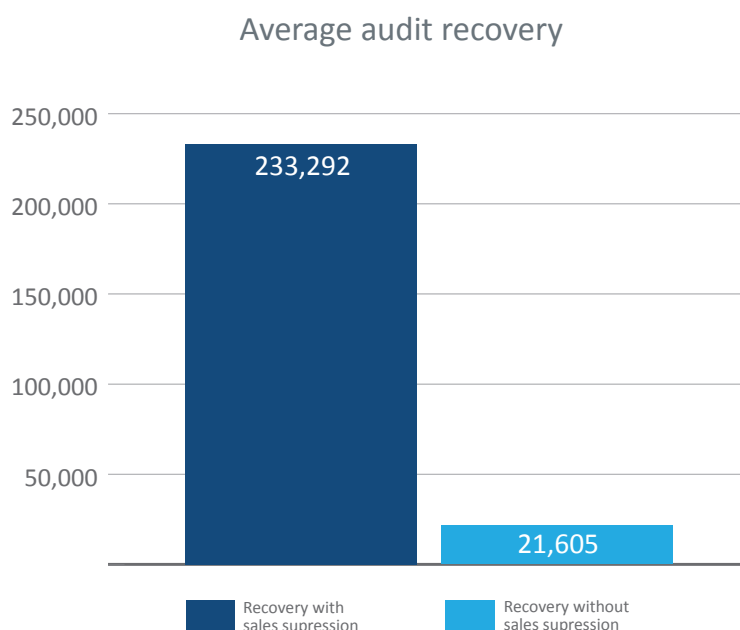
Washington state continues to be a leader in efforts to combat the use of sales suppression software, commonly known as a “zapper.” Sales suppression software is used to eliminate cash transactions in sales records, allowing a business to avoid reporting and returning sales tax to the state. The use of sales suppression software is illegal and a Class C felony in Washington state.

Washington is the only state in the country where multiple businesses have been convicted of sales suppression use. It also is the only state to require electronic monitoring (tracking a business's sales) for a business to continue operating after being convicted of using a zapper. Washington state is currently monitoring three businesses.

As shown in the graph below, audits of businesses identified as potentially using sales suppression software bring in 10 times more revenue than audits from businesses in the same industry that haven't been identified as potentially using a zapper.

Notable accomplishments this past year include:

- Contracting with a consulting firm to provide a feasibility study on potential longterm solutions to combat sales suppression.
- Co-presenting with four other states in the Federation of Tax Administrators (FTA)-sponsored two-day sales suppression training for more than 30 states.
- Providing multiple speaking engagements to other state and local agencies at their requests.
- Speaking at the Washington State University Hoops Tax Forum on sales suppression.
- Working with federal agencies on the conviction of distributors for sales suppression devices.



Tribes, state continue governmental relations

The Department of Revenue is committed to continuously working on its government-to-government relationships with the 29 tribes in Washington state. The department employs a full-time tribal liaison who leads the agency's work with tribes. Over the last fiscal year, a few of the government-to-government highlights include:

- Reconvened the Tribal Tax Advisory Group (TTAG) with a focus on making progress on some of the long-standing issues.
- Engaged in ongoing conversations with tribes about key tax policy issues.
- Worked with tribal representatives to update the agency's existing consultation policy.
- Shared tax information at tribal, state and national events such as Affiliated Tribes of Northwest Indians and the National Intertribal Tax Alliance.
- Provided guidance to Indian and non-Indian businesses that conduct business in Indian Country, responding to more than 100 tribal-related inquiries.
- Executed renewals of cigarette compacts and one amendment to a compact. The state now has cigarette compacts with 27 tribes.
- Continued annual meetings between the department and each of the tribes with cigarette compacts.



Military veterans serving at Revenue

The Department of Revenue recognizes the many contributions of veterans within its workforce. Of the agency's 1,200 employees, nearly 9.5% have served their country in one of the military branches. For the fourth year in a row, the YesVets campaign recognized the agency for its efforts to help veterans find and maintain employment.

The YesVets campaign is a statewide campaign that acknowledges organizations that hire military veterans. In 2019, the agency's Veteran Employment Team held a ceremony on the Tumwater campus as the agency received its fourth consecutive YesVets decal and plaque. For veterans seeking employment, the YesVets decal on the front door of all DOR buildings serves as a welcome mat.

Through the efforts of the department's veterans, various fundraisers have been held for the benefit of the community. One recent effort, tied in with the annual March Madness basketball tournament, raised money to assist the local Honor Flights chapter. Honor Flights transports veterans of World War II, the Korean War and the Vietnam War back to Washington, D.C. for "one last mission" – to visit and reflect at the memorials built in their honor.



Steven Severson from the Employment Security Department's YesVets program presents Revenue with the Yes Vets decal. Some of Revenue's veterans stand proudly beside him.

