

Research Report 2004-2
SUMMARY OF 2004 TAX LEGISLATION

Washington State Department of Revenue
Research Division
April, 2004

This report summarizes major revenue and tax legislation in Washington that was approved during the regular session of the 2004 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 2004 TAX LEGISLATION - Fiscal Years 2004-2005 and 2005-07 Biennium

		<u>FY 2004</u>	<u>FY 2005</u>	<u>2005-07 Biennium</u>
GENERAL FUND				
SHB 1328	B&O rate reduction for boarding homes; deduction of Medicaid		(\$3,945,000)	(\$12,910,000)
HB 2453	Accommodation sales of new vehicles between dealers		(\$3,200)	(\$7,900)
E2SHB 2518	Public utility tax exemption for processors of electrolytes		(\$325,000)	(\$650,000)
ESHB 2546	Extension of B&O credit and sales tax exemption for R&D		(\$52,384,000)	(\$174,063,000)
ESHB 2675	PUT credit for power company contributions for rural development		(\$50,000)	(\$200,000)
ESHB 2693	Transfer of timber tax on public lands to counties		(\$144,000)	(\$861,000)
SHB 2929	B&O tax deduction for beef processors	(\$307,300)	(\$1,880,700)	(\$3,875,000)
EHB 2968	B&O tax deduction for salmon restoration grants	(\$46,000)	(\$324,000)	(\$840,000)
EHB 3036	Gift certificates exempt from reporting as unclaimed property			(\$5,480,000)
ESHB 3116	Exemptions for blood and tissue banks		(\$239,000)	(\$552,000)
SHB 3158	Sales tax exemption for publishers' computer equip./software		(\$1,370,000)	(\$3,120,000)
SSB 6115	Use tax exemption; donated recreational services	(\$32,400)	(\$198,500)	(\$409,200)
SSB 6240	Extension of rural county tax incentives	(\$126,000)	(\$15,708,000)	(\$39,118,000)
2SSB 6304	Various tax incentives for aluminum smelters		(\$1,713,800)	(\$3,037,600)
SB 6490	Use tax exemption for fuel cells		(\$121,300)	(\$242,700)
SB 6515	Streamlined sales tax agreement; correction of errors		(\$7,941,700)	(\$19,854,000)
NET GENERAL FUND IMPACT		(\$511,700)	(\$86,348,200)	(\$265,220,400)
OTHER FUNDS				
SSB 6286	Petroleum products tax exemption for liquefied gas		(\$26,700)	
SB 6448	Transfer of telephone excise tax administration to DOR		\$278,000	\$556,000
<i>Department of Revenue, Research Division, April 1, 2004</i>				

HOUSE BILLS

SHB 1322 Property tax exemption; certain tribal property (Chapter 236, Laws of 2004)

The basic property tax exemption for governmental property is expanded to include certain property owned by federally recognized Indian tribes. The property must be used for essential government services by the tribe; this includes tribal administration, police and fire protection, health and education programs, utility services and other public facilities of the tribe. Tribal property that consists of federal trust lands is already exempt from property tax; this exemption applies to non-trust lands owned by tribes, if used for the specified purposes.

There is no impact on state revenues and a potentially small local impact. The amount of state and local property taxes that will be shifted to other taxpayers is estimated at nearly \$1 million annually. SHB 1322 is effective on June 10, 2004.

SHB 1328 Taxation of boarding homes (Chapter 174, Laws of 2004)

This bill addresses the tax liability of boarding homes which are licensed by the Dept. of Social and Health Services pursuant to Chapter 18.20 RCW. These are homes which are occupied by at least seven adults of the age of 65 or more (under age 65 is allowed if the resident requires care due to disability) and which provide board and domiciliary care.

Section 1 of the bill establishes a new B&O tax rate of 0.275 percent for such homes. Section 7 creates a new deduction from B&O tax for Medicaid receipts by these homes.

The impact of reducing the B&O tax rate by over 80 percent and also allowing the deduction of Medicaid receipts is expected to reduce state revenues by \$3.9 million during the remainder of the current biennium. The full impact for the 2005-07 biennium is estimated at \$12.9 million.

SHB 1328 takes effect on July 1, 2004.

EHB 1677 Farm machinery exempt from county levy in certain counties (Vetoed)

In 2001 an exemption from the state property tax levy was enacted for farm machinery and equipment that is used exclusively for producing agricultural products; the exemption did not extend to levies by local taxing districts. This bill would have broadened that statute to also exempt farm machinery from the county levy made by a county that is not considered as a rural county under RCW 82.14.370. There are currently 32 rural counties pursuant to this statute. Thus, the exemption for farm machinery from the county property tax levy would have been

effective only in the remaining seven non-rural counties: Clark, King, Kitsap, Pierce, Snohomish, Spokane and Thurston counties.

However, the bill was entirely vetoed by the Governor who objected to singling out only several counties for favorable treatment and providing the exemption for only one type of local levy, as well as the resulting increased complexity for property tax administration which would have resulted.

**SHB 2055 Bundling of charges for telecommunications services
(Chapter 76, Laws of 2004)**

A new section is added to the statute that deals with administrative procedures for state excise tax purposes. The new law, which addresses the taxation of a bundled (packaged) offering of various telephone services, parallels the law adopted in 2002 pursuant to the federal Mobile Telecommunications Sourcing Act that addressed the same subject solely for wireless telephone services.

The bill allows telephone services not subject sales tax to retain this tax treatment when these services are bundled with other taxable services, as long as the provider can identify, using its books and records that are maintained in the ordinary course of business and for purposes other than merely allocating the sales price of a bundled transaction, that portion of the price which is attributable to the nontaxable services.

The impact on revenue collections for this bill is indeterminate but is not expected to be significant. The bill is effective on June 10, 2004.

**EHB 2318 DOR confirmation of small forest landowner status
(Chapter 102, Laws of 2004)**

This bill amends a forest riparian easement program in Chapter 76.13 RCW which includes a provision for small forest landowners. Section 2 allows the Dept. of Natural Resources to ask the Dept. of Revenue to confirm an applicant's status as a small forest landowner, but DOR may only disclose information on the qualifying harvest thresholds and not additional tax-related data for specific harvesters. DOR may continue to provide tax information in the aggregate.

There is no impact on state revenues. The bill is effective on June 10, 2004.

**HB 2453 Accommodation sales of new vehicles between dealers
(Chapter 81, Laws of 2004)**

Existing B&O tax law provides an exemption for wholesale sales of new motor vehicles between auto dealers as an accommodation for purposes of adjusting inventory levels. To qualify, the dealers must sell the same make of vehicle. The statute requires that the selling price for the

purchasing dealer may not exceed the price paid by the selling dealer, except for reasonable costs of preparing and transferring the vehicle.

The restriction on the price is removed by HB 2453, as well as the requirement that the sale be for purposes of inventory adjustment. Under the amended language the exemption will continue to apply to situations in which the selling dealer increases the price above the amount paid for the new vehicle. The bill also specifies that the exemption does not apply to wholesale sales of new motor vehicles by manufacturers, distributors or factory branches.

The impact on state revenues has been estimated at less than \$4,000 annually. This bill is effective on March 22, 2004.

**E2SHB 2518 Public utility tax exemption; electricity for electrolyte processors
(Chapter 240, Laws of 2004)**

This bill exempts from public utility tax sales of electricity made by a light and power company to certain electrolytic processing businesses. Eligible recipients of the exempt power include firms that utilize a chlor-alkali or sodium chlorate process in the production of electrolytes. The processor must use an average of at least ten megawatts of power each month to produce chlorine, sodium hydroxide or sodium chlorate. The electricity must be separately metered and the price for the power must be reduced by the amount of the public utility tax savings for the power company. The exemption will take effect on July 1, 2004 and will apply to sales of power through the end of 2010.

To assure that the legislative intent of maintaining family wage jobs is fulfilled, a reporting requirement is established in Section 2 of the bill. Any firm that receives the benefit of the exemption is required to report to the Dept. of Revenue by the end of March each year and indicate the number of jobs, wages paid, and health benefits provided to their employees during the prior calendar year. Also, production data is required from the firm.

Based on the annual reports from recipient firms, the staff of legislative fiscal committees are required to submit two reports to the Legislature detailing the effectiveness of the exemption in terms of job retention. The reports are due by December 1 of 2007 and 2010. The Department of Revenue shall consult with legislative staff in preparation of these reports.

The impact on state revenues is estimated at \$325,000 annually. This bill takes effect on June 10, 2004, but the public utility tax exemption applies on and after July 1, 2004.

**HB 2519 New property tax levy for criminal justice
(Chapter 80, Laws of 2004)**

A new property tax levy is authorized for criminal justice purposes. Only counties with populations of 90,000 or less may consider adoption of the levy. This restriction limits the utilization of the new levy to the 27 smallest counties in the state. The levy is limited to a

maximum \$0.50 and may be levied for up to six consecutive years if approved by the voters. If the new levy causes the combined levy rate to exceed the constitutional rate limitation, then it must be reduced until the combined rates are within the 1 percent limit.

There is no impact on state revenues; the local impact will depend upon which counties choose to implement the new tax. HB 2519 is effective on July 1, 2004.

**ESHB 2546 Extension of tax incentives for research and development
(Chapter 2, Laws of 2004)**

This bill pertains to existing tax incentives for certain high technology activities, in particular relating to investment in research and development. The three major sections of the bill are briefly discussed below.

B&O TAX CREDIT EXTENDED

Sections 1-2 of the bill amend the B&O tax credit program in RCW 82.04.4452. The present law allows a credit against state B&O tax equal to 1.5 percent of qualified expenditures for R&D by firms engaged in one of five fields of high technology. These activities are: advanced computing, advanced materials, biotechnology, electronic device technology and environmental technology. The current program is scheduled to expire on December 31, 2004; this bill extends the expiration date to January 1, 2015.

The bill changes the way that the existing tax credit is computed. Currently, a 0.92 percent threshold is applied to taxable activity to determine eligibility for the credit. This is replaced by a deduction from qualified spending before calculating the credit. A new credit rate is applied to the new qualified spending level which consists of the average B&O tax rate for the firm, except for nonprofit associations or nonprofit corporations which have a credit rate of 0.484 percent.

The bill also changes reporting requirements for program participants. Participants in the tax credit program are required to file an annual report, instead of providing it with their excise tax return. They will also respond to an annual survey which will provide data on the firm's employment, wages paid (according to certain specified wage bands), employee benefits, introduction of new products, the share of full-time, part-time and temporary employment positions for Washington residents, and certain other information. All information on the annual survey except the amount of credit taken will not be subject to public disclosure. The credit information may be disclosed upon request, except that firms that take less than \$10,000 in credits annually may request that it remain confidential. The Department may request additional information from a firm but that information will not be subject to disclosure. The annual report and surveys are due on March 31 following the year that any credits are taken. If the annual survey is not provided by the firm, credit is disallowed for the year that the report was not provided.

The information obtained from taxpayers via the annual surveys will be used by the Department to prepare summary descriptive statistics on the utilization of the credit program. A report

comprising these descriptive statistics will be provided to the Legislature by September 1 of each year.

Information obtained from the taxpayer surveys will be used by the Department to develop two additional reports to the Legislature covering the effect of the program on job creation, company growth, new product introduction, movement or consolidation into the state, diversification of the state and growth in research and development investment. The Department will prepare these two reports analyzing the effectiveness of the program and submit them to the Legislature by December 1, 2009 and December 1, 2013.

SALES TAX DEFERRAL EXTENDED

Sections 3-8 of the bill amend the sales tax deferral/exemption program in Chapter 82.63 RCW. This program allows firms in the same five areas of high technology to defer retail sales and use tax on construction of new R&D or pilot scale manufacturing facilities and the acquisition of certain new equipment. If program requirements continue to be met, the tax deferral becomes an outright exemption and the deferred tax need not be repaid. Currently, the program is scheduled to expire on July 1, 2004; this bill extends the expiration date to January 1, 2015.

This bill adds state universities to the eligible participants in the program. Also, the term "initiation of construction" is defined to be the point that a building permit is obtained.

One other change in the program is an amendment to the definition of consumer in RCW 82.04.190. This specifies that federal contractors who do work for the federal government are not subject to use tax on the value of materials installed in such projects, as long as the investment project would otherwise qualify under the sales tax deferral/exemption program.

The bill contains similar reporting requirements for the deferral program participants as those for the B&O tax credit program as described above. The amended language requires taxpayers to complete an annual survey which provides the necessary information for analysis of the program. Based on the annual surveys, the Department will prepare an evaluation of the program and report these findings to the Legislature by December 1, 2009 and December 1, 2013.

Also, the information obtained from taxpayers via the annual surveys will be used by the Department to prepare summary descriptive statistics on the utilization of the credit program. Annual reports, as described above, comprising these descriptive statistics will be provided to the Legislature by September 1 of each year.

FEDERAL SMALL BUSINESS GRANTS

Two new exemptions are established by Sections 9-10 of the bill. These exempt from B&O tax amounts received pursuant to two federal grant programs for R&D activities by small businesses: (1) the small business innovation research program, and (2) the small business technology transfer program. Both exemptions become effective on July 1, 2004.

The combined impact on state revenues for all provisions of the bill is estimated at approximately \$52 million for the remainder of the current biennium (FY 2005). The full two-year impact for the 2005-07 biennium is estimated at a reduction in retail sales/use tax and B&O tax revenues of about \$174 million.

Except for the July 1, 2004 effective date of the two new B&O exemptions, the remainder of the bill is effective on June 10, 2004.

**ESHB 2675 Tax credit for electric power companies extended
(Chapter 238, Laws of 2004)**

Since 1999, RCW 82.16.0491 has provided a tax credit against state public utility tax for light and power businesses. The tax credit is allowed for 50 percent of contributions made to a qualifying rural economic development revolving fund. The statute limits the total amount of credits for all firms to \$350,000 per fiscal year. The program was scheduled to expire at the end of 2005, but ESHB 2675 extends the right to earn credits until June 30, 2011.

Various other changes are made to the program. The requirement that the utility company have fewer than 26 meters per mile of distribution line is removed. To qualify the company will be required to have 12,000 customers or less in a given geographical area (the size of which is unspecified). The existing limit of \$25,000 per firm is retained but is switched from a calendar year basis to a fiscal year. Further, the limitation is lifted for contributions made between January 1, 2004 and March 31, 2004. A new limit of \$37,500 is established for fiscal year 2005.

A new Section 2 of the bill establishes the overall policy goals of the program. The tax credit is intended to support investment projects in rural areas which create or retain jobs, enhance health or safety facilities, facilitate the conservation of energy or water resources, or encourage the use of renewable energy sources. The Legislature has determined that this goal will be achieved when capital investment resulting from the revolving funds equals \$4,750,000 during a five-year period.

The estimated impact on state revenues amounts to \$50,000 during the remainder of the current biennium. The amount of additional credits rises to \$200,000 for the 2005-07 biennium and to \$600,000 for the 2007-09 biennium. ESHB 2675 is effective on July 1, 2004.

**HB 2683 Notification of administrative rule adoption
(Chapter 31, Laws of 2004)**

This bill relates to the adoption of proposed administrative rules by state agencies. The bill allows agencies to send a summary of the statement of inquiry, which details the need for proposed rules, to interested parties. The requirement to update the roster of interested parties to an agency's rule adoptions is changed from annually to periodically. The bill institutes a pilot program for at least ten agencies, including the Dept. of Revenue, to electronically file copies of rule-making notices with the Rules Review Committee; this program is intended to last for four

years. The notices to be filed with the committee are those notices filed with the Code Reviser when an agency proposed a rule or adopts an emergency rule. The Office of Regulatory Assistance will negotiate the details for this program among the agencies, the Legislature and the Code Reviser. HB 2683 is effective on June 10, 2004.

**ESHB 2693 Transfer of timber tax on public timber to counties
(Chapter 177, Laws of 2004)**

Presently, the 5 percent timber excise tax is shared between the state and counties as follows:

Harvests on private lands: state, 1% - counties, 4%
Harvests on public lands: state, 5% - counties, zero

This legislation phases in a county tax on public lands, so that starting in the year 2014 the state and local tax rates for timber harvested from both privately and publicly owned lands will be the same. Harvests on public lands during calendar year 2005 are subject to a county tax of 1.2 percent; this rate increases by 0.3 percent each year until the full 4 percent rate is reached in 2014. Because of the crediting mechanism in RCW 84.33.041, the state tax rate on public timber will be commensurately phased down to 1 percent, and therefore there will be no change in the overall tax rate paid by harvesters.

The bill also extends the property tax exemption to include timber on state lands that is sold but not harvested, effective January 1, 2005. Currently, only standing timber on private and federal lands is exempt from property tax. Also, the bill eliminates a credit provision allowing purchasers of timber on state lands to credit the property tax paid against their timber tax liability.

A new requirement appears in Section 6 of the bill. The Department will estimate the number of acres of public forest lands available for timber harvests. The resulting estimates will be provided annually to each county by the end of August. The Dept. of Natural Resources will assist in preparing these estimates. Consistent with the phase-in of the county timber tax on public lands, the estimates of the number of acres of public forest land available for harvesting are to be reduced from 2005 through 2013 by a factor specified in Section 6(2) of the bill.

The bill is estimated to reduce state revenues by \$144,000 for the remainder of the current biennium. The impact increases to \$861,000 for the 2005-07 biennium and larger reductions in future years will occur as the county tax on public timber reaches its maximum 4 percent rate. ESHB 2693 becomes effective on January 1, 2005.

**SHB 2878 County Treasurer statutes; hotel/motel tax corrections
(Chapter 79, Laws of 2004)**

This bill contains a variety of amendments pertaining to programs administered by County Treasurers. Several clarify statutes dealing with property taxes and local hotel/motel taxes.

Section 5 specifies that penalties received for failure to list personal property with the County Assessor are to be distributed in the same manner as other property tax interest and penalties.

Section 6 specifies that personal property that is subject to any tax lien, not just priority liens, may not be removed from the state until the tax and interest thereon has been paid.

Section 7 clarifies that property sold at a tax judgment sale when the highest bid is in excess of the minimum bid shall be refunded after any recorded water-sewer district liens have been paid. Also, the amendment clarifies that if the excess remains unclaimed after three years, all claims to the funds are extinguished when they are transferred to the county's current expense fund.

Section 8 concerns the limitation on the combined hotel/motel tax rates under RCW 67.28.181(1). Subsection 2 of this statute is amended to allow imposition of a higher tax rate by January 31, 1999, instead of January 1, 1999. This has to do with a delayed effective date of the imposition of the tax in Pierce County.

Section 9 amends an administrative statute concerning local hotel/motel taxes. RCW 67.28.200 presently allows municipalities to establish reasonable exemptions for these taxes and directs the Dept. of Revenue to collect the taxes at no cost to the municipality. The amendment adds a reference to provisions in the retail sales tax statutes and the excise tax administrative statutes for collection of these local taxes.

There is no direct impact on state or local revenues associated with this bill, which is effective on June 10, 2004.

**SHB 2929 B&O tax reduction for beef processors
(Chapter 235, Laws of 2004)**

The legislative intent expressed for this bill acknowledges that Washington's beef processors have been severely impacted by the occurrence of bovine spongiform encephalopathy (often referred to as the "mad cow" disease). The bill provides a temporary deduction from taxable income for state B&O tax purposes for income associated with slaughtering of cattle and the processing of perishable beef products by the slaughterer, as long as the products are sold at wholesale. The deduction will remain in effect until the current bans on importing of beef and beef products from the U.S. imposed by Japan, Mexico and South Korea have all been lifted.

It is impossible to know when these importation bans might be lifted and therefore the long-range impact of the bill is unknown. Assuming the bans remain in place, the impact on state revenues has been estimated at a reduction of \$2.2 million for the remainder of the current biennium and a reduction of \$3.9 million for the full 2005-07 biennium. The bill is effective on March 31, 2004.

EHB 2968**B&O tax deduction for salmon restoration grants
(Chapter 241, Laws of 2004)**

Grants received by nonprofit organizations from the federal government or a state or local government agency which support salmon restoration programs may be deductible for state B&O tax purposes. Under current law such grants are taxable if the grantor receives services or benefits in return. The impact on state revenues is estimated at \$370,000 for the remainder of the current biennium and \$840,000 for the full 2005-07 biennium. The bill is effective on March 31, 2004.

EHB 3036**Gift certificates exempt from reporting as unclaimed property
(Chapter 168, Laws of 2004)**

Section 14 of this legislation amends the statute dealing with unclaimed property and the requirement to turn over such items to the Department of Revenue. Except for gift certificates and gift cards issued pursuant to Sections 4-7 of the bill, it is unlawful for merchants to issue a certificate which contains an expiration date and any service fee or dormancy charge. Further, if a purchase is made with a gift certificate for less than the full amount of the certificate, the buyer is entitled to the remaining value in cash, if the remainder is less than \$5. Sections 4-7 allow merchants to issue gift certificates or gift cards that contain an expiration date or dormancy charges under certain conditions, if the dates or charges are clearly evident to the holder.

Sections 15-16 amend the requirement for reporting unclaimed property to the Department by excluding abandoned gift certificates, as long as these certificates are subject to the other requirements of this bill. These sections are effective on January 1, 2005, thereby first affecting reports made to the Department in November 2005.

The new requirements affecting gift certificates in Sections 1-12 of the bill are effective on July 1, 2004.

The Department expects a reduction in the amount of unclaimed property deposited in the state general fund resulting from the changes for gift certificates amounting to approximately \$2.74 million annually. This impact will first occur during fiscal year 2006.

ESHB 3116**Exemptions for blood and tissue banks
(Chapter 82, Laws of 2004)**

This legislation amends B&O, retail sales/use and property tax exemptions enacted in 1995 for qualifying nonprofit blood banks, tissue banks or a combination of the two. The definition of eligible entity includes organizations that are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code which collect, prepare and process blood, human bone tissue, and other types of human tissues. A comprehensive cancer center, as recognized by the National Cancer Institute, is specifically excluded from the definition of qualifying organization.

The bill results from a court decision in August 2003 which specifically ruled that a comprehensive cancer center does not qualify for these exemptions. The decision also nullified the exemption for certain existing bone tissue bank operations. The bone and tissue bank portion of the exemptions is restored by this legislation.

The impact of the bill on state excise taxes (B&O and sales/use taxes) is estimated at \$239,000 for the first year. There is no impact on the state property tax levy, although there could be a very minor impact on local property tax revenues. ESHB 3116 is effective on June 10, 2004.

**SHB 3158 Sales tax exemption; computer equipment used by publishers
(Chapter 8, Laws of 2004)**

New exemptions from retail sales and use tax are established for purchases by printers and publishers. The exemptions are limited to computer equipment and software which are primarily used in printing or publishing of any type of printed material. The exemption includes labor and services associated with installing and repairing such equipment; it also includes related equipment such as digital cameras. However, the exemption does not extend to computer equipment or software that is used for administrative purposes, such as processing of payrolls.

Printers and publishers are already eligible for the sales/use tax exemption for manufacturing machinery and equipment used directly in a manufacturing operation (e.g., printing presses). This legislation provides an exemption for certain computer equipment and software that do not otherwise qualify for the existing exemption as machinery and equipment used directly in a manufacturing operation.

The exemption is estimated to reduce state revenues by approximately \$1.4 million annually. The bill becomes effective on June 10, 2004.

SENATE BILLS

SB 5034 Senior citizens property tax exemption; income limits increased (Chapter 270, Laws of 2004)

The property tax exemption for eligible senior citizens and persons retired due to disability is increased by this legislation. The threshold below which eligible households are exempt from all special levies is raised from \$30,000 to \$35,000. In addition, the threshold below which the exemption from regular levies applies is also increased as follows:

<u>Household Income</u>	<u>Current Law</u>	<u>SB 5034</u>
LOWEST INCOME LEVEL:	\$18,000	\$25,000
Assessed value exemption	1st \$50,000	1st \$60,000
HIGHER INCOME LEVEL:	\$18,000 - \$24,000	\$25,000 - \$30,000
Assessed value exemption	1st \$40,000	1st \$50,000
Or 35% of assessed value up to a maximum of	\$60,000	\$70,000

The bill also extends the valuation freeze for eligible homes. Currently, eligible homeowners in the senior program have their assessed valuations frozen at the amount on January 1, 1995, if their annual household income does not exceed \$30,000. This bill increases the income level to \$35,000.

Section 4 of the bill increases the income limit for participation in the property tax deferral program for eligible seniors or disabled homeowners who have remaining property tax liability. The existing \$34,000 limit on household disposable income is increased to \$40,000.

The exemption is restricted to residences that are occupied by the owner as their principal place of residence. However, confinement to a hospital or nursing home does not nullify the exemption, even if the residence is rented to help pay these costs. Section 1(1) extends these exceptions to include confinement in a boarding home or adult family home.

Section 2 of the bill revises the definition of disposable income for purposes of qualifying for the exemption program. Health insurance premiums paid for Medicare coverage will now be excludable from disposable income. Also, the bill defines disability to be the same as under federal law.

The bill will have no direct impact on state property tax receipts, because the rate remains well below the statutory maximum. However, an estimated \$3.2 million will be shifted to other taxpayers during the first fiscal year; these shifts will total \$12.6 million during the full 2005-07 biennium. The increased income threshold for the deferral program will result in additional state costs to reimburse counties amounting to roughly \$118,000 during the remainder of the current biennium. Local governments will experience reduced property tax revenue of approximately \$3 million annually, with a shift of taxes to other taxpayers equal to about \$29 million.

SB 5034 is effective on June 10, 2004.

**SSB 5326 Regional fire protection districts
(Chapter 129, Laws of 2004)**

A new type of local taxing district is authorized by this legislation: a regional fire protection service authority. The bill allows two or more existing fire protection jurisdictions with adjacent boundaries to join together into the new regional entity. Such a district could include land in more than one county. Section 15 of the bill provides for property tax authority for the regional authority as follows:

- Levy of up to \$0.50;
- Additional levy of up to \$0.50, if prorationing of other levies does not result; and
- Additional levy of up to \$0.50, for districts that have or contract for at least one FTE.

The presumption is that such levies would replace the current levies made by existing fire protection districts and that an overall net increase in property taxes would not result. Additional benefit charges based on the value of personal property included in the district are also authorized by Section 24 of the bill.

There is no impact on state revenues, and, as noted above, no net change in local revenues is expected. This bill is effective on June 10, 2004.

**SSB 6113 Use of rural county local sales tax receipts
(Chapter 130, Laws of 2004)**

This bill amends the 1997 statute which allows rural counties to impose a local sales/use tax of 0.08 percent to finance public facilities. The tax is credited against the state retail sales/use tax, so it does not impose an additional burden on consumers but instead shifts the impact to the state general fund. The tax is currently levied by all eligible 32 counties.

The amendment clarifies the use of the local tax receipts. The new language requires that the revenues be used to finance public facilities which "serve economic development purposes." This is defined as facilitating the creation or retention of businesses or jobs in the county.

A new annual reporting requirement is also added. Counties will have to report to the State Auditor by each October and indicate which projects have utilized revenues from this tax. However, current projects need not be listed - only new projects commenced after the effective date of this bill.

There is no impact on state revenues resulting from this bill which is effective on June 10, 2004.

**SSB 6115 Use tax exemption; donated recreation/amusement services
(Chapter 155, Laws of 2004)**

A use tax statute, RCW 82.12.02595, is amended to extend exemption from use tax for donated recreation and amusement services. The new subsection provides exemption for such services that are donated to or by nonprofit organizations or state or local governments. Eligible services include golf, pool, billiards, skating, bowling, ski lifts, and sightseeing trips. An example of the application of the exemption would be the use of such facilities by school teams without charge.

The impact on state revenues is estimated at approximately \$200,000 for the initial full year. This bill is effective on March 26, 2004.

**SB 6141 Property tax exemption; vehicles with exempt licenses
(Chapter 156, Laws of 2004)**

This bill clarifies that property tax does not apply to motor vehicles which carry exempt licenses. Included are licenses issued to disabled veterans, former prisoners of war, Pearl Harbor survivors, etc. The statute presently exempts motor vehicles from property taxation, but the current language does not specifically extend the exemption to vehicles whose licenses are exempt from license fees.

There is no impact on state revenues. If counties were presently taxing such vehicles, there would be a small local impact. However, none are doing so. The bill is effective on June 10, 2004.

**SSB 6216 Alternate incidental uses of timber land
(Chapter 217, Laws of 2004)**

The definition of timber land is amended in the statute that provides current use assessment of open space, agricultural and timber lands for property tax purposes. The amendment clarifies that the land may not include a residential homesite. It also allows alternate incidental uses of the land, as long as such uses are compatible with growing and harvesting of timber and do not constitute more than 10 percent of the area of the total parcel. SSB 6216 is effective on June 10, 2004.

SSB 6240**Rural county tax incentives extended and reimposed
(Chapter 25, Laws of 2004)**

This bill contains three separate tax incentives which previously were directed toward certain firms that locate in rural counties of Washington. Each of these programs either had already expired or was scheduled to expire during 2004. The bill takes effect on April 1, 2004.

B&O TAX CREDIT FOR COMPUTER SOFTWARE

RCW 82.04.4456 previously provided a B&O tax credit for firms engaged in manufacturing or developing computer software, if the firm was located in an eligible rural county (population density of 100 persons per square mile or less). The amount of the credit was equal to \$1,000 per year for each new qualifying job that was created by the firm. This statute expired at the end of 2003.

Section 1 of the bill re-establishes a similar credit for software development firms; the credit equals \$1,000 for each job created after January 1, 2004. The credit for each job may be taken for up to five years, as long as the employment position continues to be filled. Also, firms that were unable to utilize the full credit under the prior statute may complete their remaining eligible credits for jobs created prior to December 31, 2003. The new credit program is broadened to include Island County, bringing the number of eligible counties to 33.

The statute contains a reporting requirement for firms that take the credit. While no application is necessary prior to taking the credit, the firm must make an annual report to the Department of Revenue, supplying information relating to the new employment positions. The report for each calendar year is due by the end of the following January.

The computer software credit is scheduled to expire on January 1, 2011.

B&O TAX CREDIT FOR HELP DESK SERVICES

Another expired statute, RCW 84.04.4457, provided a B&O tax credit for help-desk service firms located in rural counties. This program also terminated at the end of 2003.

Section 2 of SSB 6240 establishes a new program that is similar to the expired credit. Rather than being based on the number of new jobs, this tax credit covers all B&O tax liability attributable to activities in rural counties by information technology help-desk services provided to third parties. Eligible firms include those that provide assistance relating to software and hardware installation, maintenance, repair, and diagnostic advice via electronic or telephonic communications. Island County is also added to this program.

The same reporting requirement as for the software development credit is mandated for this program and this program is also scheduled to expire on January 1, 2011.

SALES TAX EXEMPTION FOR INVESTMENT IN RURAL AREAS

Chapter 82.60 RCW presently provides exemption from retail sales/use tax for qualified investment in rural counties or community empowerment zones (CEZ) by firms engaged in manufacturing or R&D. The program allows deferral of sales/use tax on construction and acquisition of machinery; if the firm continues to meet the requirements of the program the deferred tax is converted to an outright exemption. If the firm is located in a CEZ or a county containing a CEZ, the firm must establish at least one new job for each \$750,000 of investment and the person filling each of those jobs must reside in the CEZ.

The existing statute is scheduled to expire on July 1, 2004. SSB 6240 extends the expiration date by six years, so that the program will terminate on July 1, 2010. Also, it will now include Island County.

Previously, applicants were required to report to the Department when the investment project was operationally complete. This requirement is replaced by an annual survey covering each calendar year; the annual report is due by the end of the following March. The survey will elicit information covering the amount of tax deferred, the number of new products or patents developed and employment by the firm broken down into specified wage bands. If the firm fails to submit the annual survey for a particular year, 12.5 percent of the deferred tax becomes due immediately.

Based on the annual reports, the Department will prepare summary descriptive statistics on the program and submit this information to the Legislature by September of each year. In addition, a comprehensive report which analyzes the effectiveness of the program will be due by the Department by September 1, 2009.

The combined impact of the bill upon state revenues is estimated at a reduction of \$15.8 million for the remainder of the current biennium. The impact for the full 2005-07 period will be approximately \$39.1 million. SSB 6240 becomes effective on April 1, 2004.

SB 6259 Extension of local B&O tax prohibition; new taxes on ISPs (Chapter 154, Laws of 2004)

This bill extends for two more years a prohibition that stipulates that municipalities may not subject Internet service providers to any new tax or fee that applies specifically to these firms. This prohibition dates from 1997. Currently, a new tax may not be levied until July 1, 2004; this bill extends the date to July 1, 2006. Cities may continue to tax ISPs under a general business tax as long as the rate does not exceed the rate that applies to other service industries.

This bill is effective on June 10, 2004.

SSB 6286**Petroleum products tax exemption; liquefied gas
(Chapter 203, Laws of 2004)**

This bill deals primarily with heating oil and a fee imposed on special fuel dealers to finance a program that monitors potentially leaking heating oil tanks and obtains insurance to prevent such an occurrence. The bill doubles the amount of the fee, which is administered by the Dept. of Licensing, to 1.2 cents per gallon.

Also, Section 4 provides an exemption from the petroleum products tax for gases that can be liquefied, e.g., butane, ethane and propane. This tax is collected by the Dept. of Revenue. The impact of the exemption is estimated at about \$40,000 per month. However, because of the June 10, 2004 effective date for this section of the bill, the impact will be a reduction of about \$26,700 to the pollution liability trust account for June tax liability. Further, the entire petroleum products tax is expected to "trigger off" starting on July 1, 2004. Thus, there should be no further impact of the exemption in the foreseeable future.

2SSB 6304**Tax incentives for aluminum smelters
(Chapter 24, Laws of 2004)**

This legislation contains a variety of tax incentives intended to encourage the continued production of aluminum in Washington. Each of these is discussed separately below:

B&O TAX RATE REDUCTION

The business and occupation tax rate applicable to the production of aluminum is temporarily reduced from 0.484 percent to 0.2904 percent from July 1, 2004 until January 1, 2007. To qualify for the reduced tax rate the firm must be considered as a direct service industry (DSI), which means they must have previously purchased electricity directly from the Bonneville Power Administration. Gross receipts attributable to processing alumina into aluminum are eligible for the lower tax rate.

CREDIT FOR PROPERTY TAXES

Section 8 of the bill establishes a new credit against state B&O tax for property taxes paid by an aluminum manufacturer. As above, the credit is limited to firms that are considered as a DSI. The credit is allowable for property taxes paid after July 1, 2004 through property taxes due and payable during calendar year 2006. Unused credits may be carried over to future periods, but no refunds for insufficient B&O tax liability are allowed.

CREDIT FOR PURCHASES OF POWER

Section 9 establishes a new exemption to be taken in the form of a credit against state B&O tax for purchases of electricity, natural gas or manufactured gas purchased by an aluminum smelter.

SALES/USE TAX EXEMPTION

Sections 10-11 of the bill allow an exemption from the state retail sales/use tax for purchases of tangible personal property, as well as labor and services purchased by aluminum smelters. The exemption is to be taken in the form of a credit on the firm's combined state excise tax return. This exemption applies for purchases made from July 1, 2004 through December 31, 2006.

BROKERED NATURAL GAS TAX EXEMPTION

Section 12 allows an exemption for aluminum smelters from the state brokered natural gas tax until January 1, 2007.

PUBLIC UTILITY TAX EXEMPTION

Similar to the exemption in Section 9, Section 13 provides an exemption in the form of a tax credit against the state public utility tax for firms that supply electric power, natural gas or manufactured gas to an aluminum smelter. The statute requires that the price for such fuel will be reduced by the amount of the tax credit.

Firms that receive the preferential B&O tax rate or the sales/use tax exemption provided by this bill must make an annual report to the Department of Revenue. The report must include information on the firm's employment, wages paid and employee benefits, as well the amount of aluminum produced at the plant.

Based on the information received in these annual reports, three reports to the Legislature are required by Subsection (5) of Section 14. The reports are to be prepared by staff of legislative fiscal committees, in consultation with staff of the Department, and must address the effectiveness of the tax incentives upon job retention. The initial two reports must be submitted by December 1, 2005 and December 1, 2006. A follow-up report on the B&O and public utility tax incentives for suppliers of power to smelters is due on December 1, 2010.

The entire bill is expected to reduce state revenues by \$1.7 million in FY 2005. The impact for the 2005-07 biennium will be approximately \$3.0 million. 2SSB 6304 is effective on July 1, 2004.

SB 6448 DOR administration of telephone excise taxes (Chapter 254, Laws of 2004)

A new chapter is added to the state excise tax statutes in Title 82 RCW. It addresses telephone excise taxes which are currently administered by the Dept. of Social and Health Services. This bill transfers collection responsibility to the Dept. of Revenue. Included are two taxes on switched access lines: a telephone assistance excise tax of up to \$0.14 per month, per RCW 80.36.430, and a telecommunications relay service excise tax of up to \$0.19 per month, per RCW 43.20A.725.

The only impact on state revenues will be a potential increase in collections due to the Dept. of Revenue's auditing and enforcement capabilities; this is estimated at \$278,000 annually. The Department already administers the enhanced 911 telephone tax, so additional costs are not expected to be significant. SB 6448 is effective on July 1, 2004.

SB 6485 **Coordination of audits of hospitals**
(Chapter 261, Laws of 2004)

Section 1 of this bill establishes a new pilot program to reduce the burden of surveys or audits by state agencies on hospitals. The project will be coordinated by the Department of Health and will include participation by the State Auditor, the Board of Pharmacy, the Office of the State Fire Marshall, the Departments of Revenue, Social and Health Services, Ecology, and Labor and Industries, as well as local building and fire officials. Among the strategies to be evaluated are coordination and consolidation of survey/audit visits, notification of survey/audits, utilizing one agency's survey/audit results for other agencies, standardized documents for surveys/audits, combined entrance meetings with hospital management, and minimization of duplicate documents.

Section 2(2) requires that each state agency that conducts surveys or audits of hospitals must post on its website by July 1, 2004 a list of the most frequent problems identified in these surveys/audits, along with information on how to avoid these problems and a person to contact within the agency.

Section 2(3) require the Dept. of Health, with the assistance of other state agencies, to develop a survey instrument for hospitals, enabling them to anonymously evaluate the existing survey/audit process by state agencies.

Section 2(4) requires that state agencies provide notice at least four weeks prior to the scheduled date of a survey or audit.

The Dept. of Health is required to report on the results of the pilot project to the Legislature by December 1, 2004. The report shall include any strategies to improve the regulatory environment for hospitals which might be recommended for statewide adoption. SB 6485 is effective on June 10, 2004.

SB 6490 **Use tax correction; exemption for fuel cells**
(Chapter 152, Laws of 2004)

This bill establishes a use tax exemption as a companion to a retail sales tax exemption that was adopted in 2001. Also, the sales tax exemption is clarified to include certain items used to generate electricity from fuel cells under the definition of eligible machinery and equipment. The impact on use tax revenues is estimated at \$121,000 annually. This bill is effective on June 10, 2004.

SB 6515 **Streamlined sales tax agreement; correction of errors**
(Chapter 153, Laws of 2004)

The purpose of this bill is to make certain corrections to legislation enacted in 2003 (Chapter 168 Laws of 2003) which is intended to make the base of Washington's retail sales tax more consistent with the national model as recommended by the Streamlined Sales and Use Tax Agreement. A more uniform sales tax base is expected to make tax compliance easier for multistate vendors and perhaps ultimately enable the states to collect sales/use tax revenues on Internet and mail order purchases by their residents.

This bill principally revises definitions in areas relating to prosthetic devices and other prescribed medical items, prepared food items, bad debts for use tax purposes, as well as a variety of miscellaneous corrections. In most instances, the streamline definitions for sales tax exempt items are somewhat broader and therefore a negative impact on revenues results.

The revenue impact of adopting these changes to Washington's sales/use tax base is estimated at a reduction of \$7.9 million for the current biennium and \$19.9 million for the full 2005-07 biennium. The changes to the definition of prepared food are retroactive to January 1, 2004; the remainder of the bill takes effect on July 1, 2004.

ESB 6598 **PUD telecommunication services; separate accounting**
(Chapter 158, Laws of 2004)

This bill relates to public utility districts that provide wholesale telecommunications services. It amends RCW 54.16.330 to clarify that the PUD must separately account for its revenues and expenditures, so that income and expenses relating to the telecommunications operation are not commingled with those of its electric power operations. This will assure that the proper tax base for the PUD privilege tax will be maintained. The bill is effective on June 10, 2004.

SB 6663 **Identification of vendors at special events**
(Chapter 253, Laws of 2004)

A program enacted last year to better identify the tax registration of vendors at fairs and other special events is amended by this bill. The 2003 legislation required promoters of special events to verify that vendors who make sales at such events are registered with the Department of Revenue for state excise tax purposes. The promoters were specifically responsible for identifying all of the vendors at their events and for supplying their DOR registration numbers.

This bill makes two changes to the program requirements. First, the promoter need only make a "good faith" effort to provide the information to the Department. Secondly, the identifying information need only be maintained by the promoter for a period of one year.

These changes are not expected to impact the level of revenue recovery from these vendors. SB 6663 is effective on June 10, 2004.