TAX REFERENCE MANUAL

Information on State and Local Taxes In Washington State

WASHINGTON STATE DEPARTMENT OF REVENUE
Cindi L. Holmstrom, Director

RESEARCH DIVISION
Kathy Oline, Assistant Director

Compiled by Don Taylor

January 2010

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PREFACE

This report provides comprehensive background information on each of over 50 tax sources utilized by state or local governments in Washington. The report was prepared by the Research Division of the Washington State Department of Revenue. It updates a similar synopsis of taxes last published by the Department in January 2007.

The Tax Reference Manual provides a general description and historical information on these tax sources. It is not intended to be a guide to taxpayers for reporting any tax liability. Thus, it contains neither legal interpretations of state tax law nor instructions to taxpayers. **In particular, taxpayers are cautioned that tax laws and tax rates can change; the information provided herein should not be utilized for reporting any tax liability.**

An outline format is used to present the information in a way that will facilitate location of particular data by the reader and make the report easy to use. The intention is to cover those questions which are most frequently asked about taxes (e.g. RCW citations, advantages and disadvantages of various tax sources, recent collection figures, etc.), while keeping the text as short as possible. For each particular tax that is described in Part II, there are nine items included in the discussion. Each of these categories is described below:

Tax Base

The initial section explains what is taxable, i.e., the measure of the tax.

Tax Rate

The rate is the percentage or fixed dollar amount which determines the amount of the tax liability. When the tax rate is multiplied by the tax base, the product is the amount of tax that is due.

Levied By

This indicates which governmental jurisdictions are authorized to impose the tax. In most instances, an attempt is made to indicate which of these are actually levying the tax.

Recent Collections

The amount of revenue collected, net of credits and refunds, is shown by fiscal year (ending June 30) for each state tax for the latest ten-year period. For most sources, the figures represent cash collections during the fiscal year; some data reflect accrued liability (i.e., on

the basis of GAAP - generally accepted accounting principles). The annual rate of change and the percentage of all general state taxes are indicated. The source of the state collection figures is the state agency which collects the tax. Detailed data are not available for all local tax sources, but in some instances distributions of tax receipts to local jurisdictions are indicated. Local tax collections for calendar year 2008 are the latest available via the Local Government Financial Reporting System (LGFRS) administered by the State Auditor.

Administration

The administering state or local agency is indicated, along with a brief description of who pays the tax and in what manner.

Distribution of Receipts

This section describes the utilization of the revenues produced by each tax, including any dedicated revenues to specific funds.

Exemptions

Items which reduce the tax liability for particular types of taxpayers through exemptions, deductions, and credits are listed. This report does **NOT** list every possible tax exemption, but it does indicate the general types of tax preferences which are provided by state law. The source for most of this information is the study of tax exemptions conducted by the Department every four years.

History

A brief historical development of the tax is provided, including the year of initial imposition and major changes in tax rates and the tax base. Also, a short history of the overall state tax system appears in Part I.

Discussion/Major Issues

The final section discusses features of the tax which may be of interest to certain readers. A very brief discussion of the "pros" and "cons" of the tax is given in some instances. It must be emphasized that, **in providing this discussion of taxes, the statements do not represent the Department's position on the various sources, and it should not be inferred that the Department favors or opposes any particular tax or any alternatives to existing taxes**. Instead, this section simply represents some of the general comments which have been expressed about the advantages and disadvantages of certain taxes.

It should be noted that previous editions of the manual included a “Boxing and Wrestling” tax. This was a tax instituted in 1933 which applied to promoters of such events pursuant to chapter 67.08 RCW. The tax rate was 5 percent of the gross proceeds of the event, and the typical annual yield was less than $100,000. Legislation enacted in 2009 changed the nature of this revenue

source, so that it is now more similar to the other professional and occupational licenses that are administered by the Department of Licensing. Designated now as an "event fee," the proceeds no longer go to the general fund but are deposited into the business and professions account which is used by DOL for administrative costs of their licensing programs. Accordingly, it was decided to discontinue listing the event fee as a "tax" and it no longer appears in this manual.

In preparing this report the Research Division would like to acknowledge the assistance and information provided by many persons, including staff of the following state agencies:

Department of Labor and Industries
Department of Licensing
Department of Transportation
Employment Security Department
Gambling Commission
Horse Racing Commission
Liquor Control Board
Office of Financial Management
Office of the Insurance Commissioner
Office of the State Auditor

Staff of several legislative committees, particularly the Senate Ways and Means Committee and the House Finance Committee, provided valuable insights. Many persons throughout the Department of Revenue assisted in completing the project; their expert assistance is gratefully acknowledged.

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OVERVIEW OF THE WASHINGTON TAX SYSTEM

State and Local Government Revenues

According to the latest survey data compiled by the Census Bureau of the U.S. Department of Commerce, total revenues received by Washington state and local jurisdictions amounted to $72.3 billion during Fiscal Year 2007 (see Table 1).

"General" revenues accounted for 69 percent of the total revenues in Washington. The expenditure of these revenues is typically determined by the legislative bodies of the various governmental jurisdictions (State Legislature, County Commissioners, City Councils, etc.) via the annual or biennial budget process. Taxes are the most important of the general revenue sources for the state and second to intergovernmental revenues for local governments; they represent 38 percent of total revenues. Other significant revenue sources are charges for services and federal grants; each account for about 12 percent of total revenues. Intergovernmental transfers, including state-shared tax revenues, are especially important for local jurisdictions.

Nongeneral revenue sources represent the remaining 31 percent of total revenues; these revenues are usually not available for general programs but are often dedicated to specific purposes. Examples include enterprise funds received for municipal utility functions, profits derived from liquor sales, payroll taxes that are dedicated for workers' compensation programs, and employee contributions for pensions.

Taxes can be defined as compulsory payments to a governmental entity in which the amount paid is not directly related to the cost of or benefits received from a service provided by the public jurisdiction. Examples of items which are directly related to a specific service and which are not considered as general taxes include benefit assessments for local improvement districts and payroll taxes levied upon employers for compensation to unemployed or injured workers.

The Census Bureau figures indicate that Washington state and local taxes totaled $27.5 billion for Fiscal Year 2007. By far the largest source was the general sales and gross receipts tax category, which represented 47.5 percent of all state and local taxes in Washington. In addition to the state and local retail sales/use taxes, this category includes the state business and occupation (B&O) tax and municipal business taxes since they are generally based on gross sales. (Few other states levy taxes measured by gross receipts, so the Census Bureau groups these with the sales taxes, rather than as a separate category.) The property tax was Washington's second largest tax source, representing 26.8 percent of all state and local taxes; it remains by far the most important local revenue source, accounting for 57.8 percent of all local tax receipts.

State taxes accounted for 64 percent of all state/local taxes in Washington; local government taxes comprised the remaining 36 percent. Washington's ratio of state taxes is higher than many states (compared with 59 percent nationally) because Washington finances a greater proportion of governmental services at the state level, particularly funding of public K-12 and vocational schools, community colleges, public assistance programs, and criminal justice expenditures.

TABLE 1
REVENUE OF STATE AND LOCAL GOVERNMENTS IN WASHINGTON[1]
Fiscal Year 2007 (Dollars in Millions)

Source of Revenue	State Level	Local Level	Total
Taxes:			
Property taxes	$ 1,688.5	$ 5,684.1	$ 7,372.6
General sales taxes[2]	10,861.3	2,225.2	13,086.5
Motor fuel taxes	1,128.8	-.-	1,128.8
Liquor taxes	253.2	-.-	253.2
Tobacco taxes	444.7	-.-	444.7
Utility taxes	444.1	474.7	918.8
Other sales taxes	719.7	535.3	1,255.1
Vehicle license taxes	459.2	32.1	491.3
Other taxes	1,693.2	888.9	2,582.0
Taxes - Subtotal	17,692.8	9,840.3	27,533.0
Current Charges:			
Education	2,026.3	339.8	2,366.1
Hospitals	900.4	1,568.9	2,469.3
Sewerage/garbage	8.1	1,983.0	1,991.1
Other charges for service	547.6	1,986.6	2,534.2
Federal Grants	7,547.7	1,329.8	8,877.5
State and Local Inter-governmental Transfers	311.2	9,048.4	-.-*
Interest Earnings	799.3	952.6	1,751.9
Other General Revenue	1,340.1	1,279.9	2,620.1
Non-General Revenue:			
Utility operations	1.3	5,801.9	5,803.2
Liquor store revenue	503.7	-.-	503.7
Insurance trust revenue:			
Employee retirement	11,424.2	514.3	11,938.5
Unemployment and workers compensation	3,888.4	-.-	3,888.4
TOTAL REVENUE	$46,991.1	$34,645.5	$72,277.0*

[1]Source: Bureau of the Census, U.S. Department of Commerce, State and Local Government Finances, 2006-07.
[2]Includes gross receipts business taxes which are generally measured by sales.
*Duplicative intergovernmental transactions are excluded.

There are three general types of taxes: property, income, and excise. Property taxes consist of annual payments by owners of real property (land and structures) and personal property (tangible and intangible). Property taxes are measured by the value of the property - i.e., ad valorem tax - determined either by the fair market value or a statutory assessment formula. Property taxes are the oldest form of general taxation in this country and are levied in all states.

Income taxes include the federal, state, and local taxes measured by the annual income of individuals and corporations. Washington is one of seven states that does not levy a personal income tax upon households and one of only five states – the others are Nevada, South Dakota, Texas, and Wyoming - that does not impose any form of income tax (Alaska and Florida have corporate income taxes but not a personal income tax).

Excise taxes include virtually every other type of tax. Although there is not a single definition of excise taxes, generally these refer to a specified type of transaction or privilege. In Washington most excise taxes are measured by the selling price or some other measure of sales such as gross receipts. The retail sales tax is the single largest excise tax levied in this state. The major business tax is the business and occupation tax; although measured by gross "income," it is levied on the privilege of engaging in business and is categorized by the Census Bureau as an excise tax rather than an income tax. Other excise taxes include the selective sales taxes on specific products (cigarettes, gasoline, etc.) and the various taxes which are levied in lieu of property tax (e.g., harvested timber, leaseholds, etc.).

For more details on tax collections in various states, see the Census Bureau web site: www.census.gov/govs/estimate. Also, see the next to last section in this chapter for comparisons of tax burdens among the states.

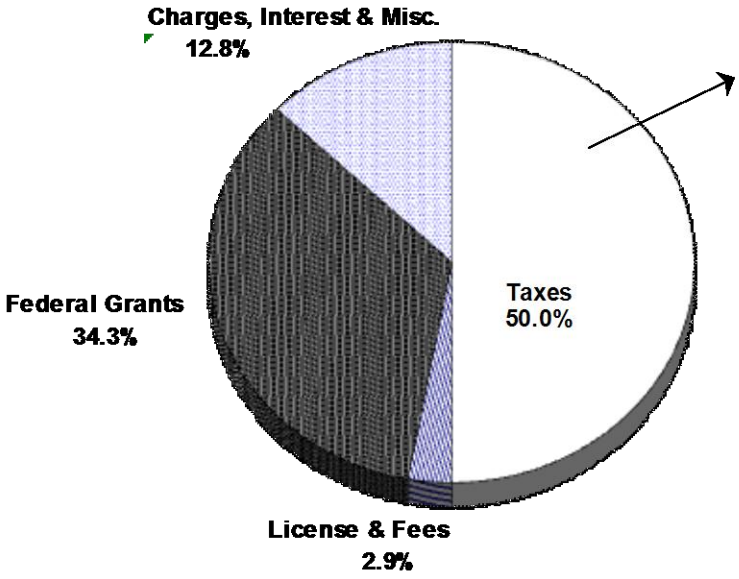
State Government Revenues and Expenditures

Data compiled by the Office of Financial Management (OFM) and published in its Comprehensive Annual Financial Report form the basis for the state revenue and expenditure information shown in the following charts; local governments are not included in these data. It should be noted that accounting differences may exist between the OFM figures indicated here and those reported by various tax collecting agencies in the remainder of this book. The first set of charts reflects the revenues and expenditures for all state government funds; the following page shows the state general fund. The general fund is the source of funding for most programs which are not financed by dedicated revenue sources. Most transportation expenditures (and the fuel taxes and federal revenues which fund transportation) are outside of the general fund. Likewise, workers' compensation programs, which provide benefits to employees who become injured or unemployed, and pension programs of public employees are financed outside of the general fund.

For Fiscal Year 2009 total state revenues for all state government funds, excluding enterprise activities, amounted to $30.7 billion. Taxes accounted for $15.4 billion or 50.0 percent of the total. Receipts from the federal government constitute the other major category of state revenue; federal grants equaled $10.5 billion and represented 34.3 percent of the total. Education, including support

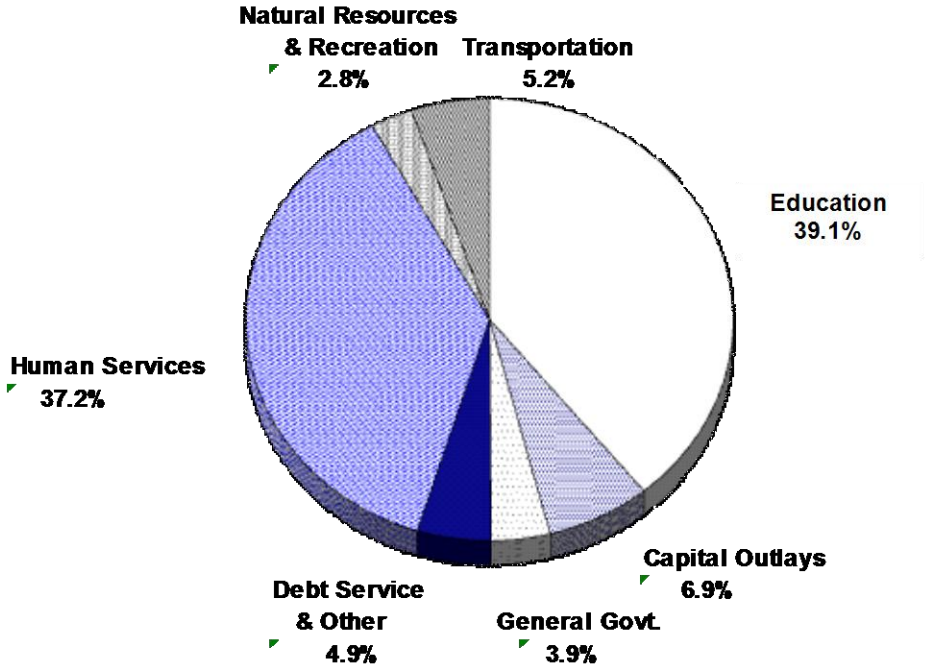
WASHINGTON STATE FINANCES
Fiscal Year 2009
All State Funds ($ in millions)

Revenue - $30,748



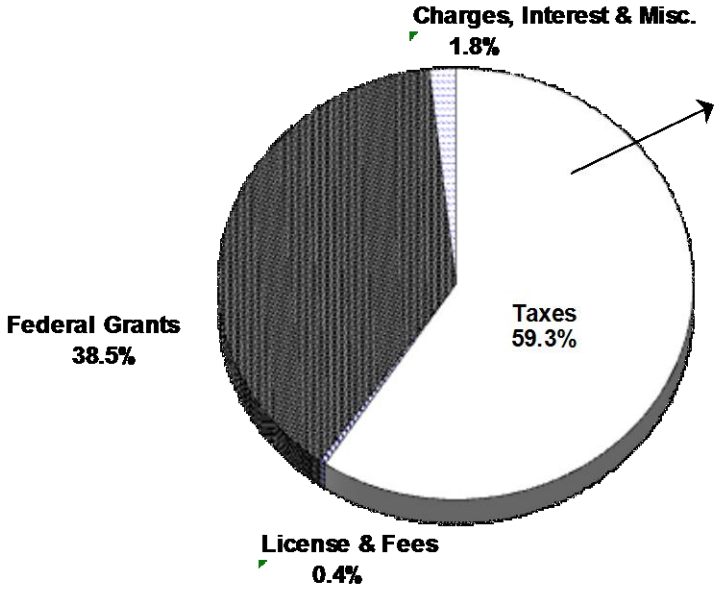
Retail sales/use tax	23.8 %
B&O tax	8.5
Other business taxes	2.7
Property tax levy	5.8
Tobacco taxes	1.4
Liquor taxes	0.7
Gas Taxes	3.9
All other taxes	3.2
Total state taxes	50.0 %

Expenditures - $35,348



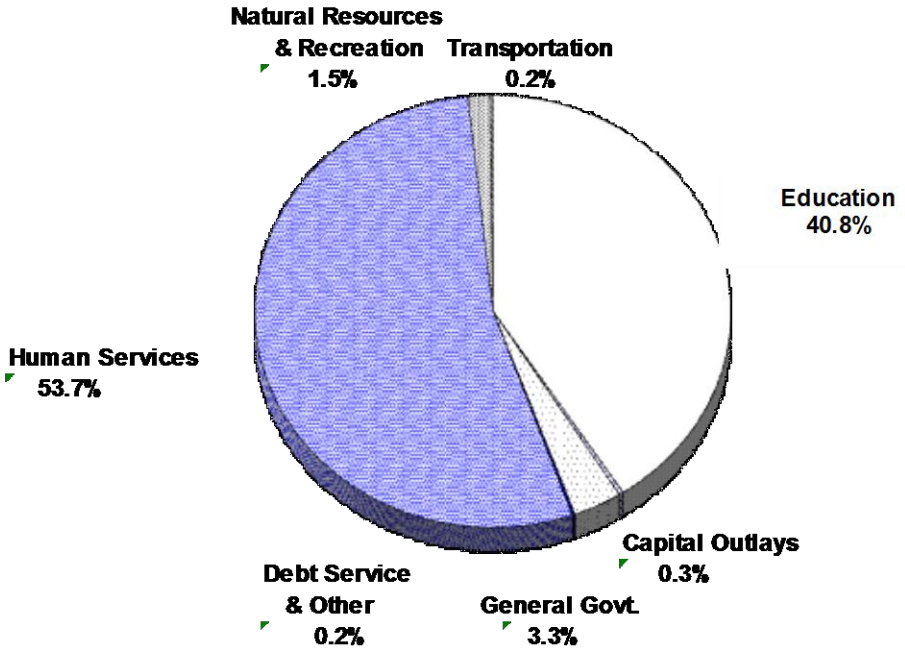
WASHINGTON STATE FINANCES
Fiscal Year 2009
State General Fund ($ in millions)

Revenue - $21,587



Retail sales/use tax	33.5 %
B&O tax	11.7
Other business taxes	3.1
Property tax levy	7.1
Tobacco taxes	0.3
Liquor taxes	0.8
All other taxes	2.8
Total state taxes	59.3 %

Expenditures - $22,179



for K-12 schools and expenditures for public colleges and universities, accounts for 39.1 percent of all state expenditures. The other major state expenditure category was for human service programs; these represented 37.2 percent of state expenditures from all funds.

Washington State's general fund revenues amounted to $21.6 billion for Fiscal Year 2009. Tax revenues accounted for 59.3 percent of the total, while federal grants represented 38.5 percent of all general fund revenues. Within the tax category, the retail sales/use tax represented by far the largest source, accounting for 33.5 percent of state general fund revenues. Two other major state taxes were the business and occupation tax and the state property tax levy; these produced 11.7 and 7.1 percent respectively of state general fund revenues. Human services represents 53.7 percent of general fund expenditures, while education comprises 40.8 percent of general fund programs. The cost of operating general state government--including most executive branch agencies, the Legislature, state judicial expenses, licensing and regulation activities, financial administration, and a variety of other administrative functions--amounted to 3.3 percent of general fund expenditures.

Net Washington State Tax Collections

Further detail on taxes collected for state purposes is shown in Table 2, according to information compiled by the various tax-collecting agencies. The data in this table are consistent with the amounts indicated for each particular state tax source in the body of this report; however, the figures may be slightly different than those reported by the Office of Financial Management or by the Census Bureau due to differences in definitions (e.g., the Census Bureau includes a variety of license fees as miscellaneous tax revenues) and because some of the reported revenues may be on the basis of cash collections and others may represent accrued tax liability (GAAP basis).

The total of all state taxes covered in this manual for Fiscal Year 2009 was $15.49 billion, compared with $16.81 billion the previous year. Washington's present tax system was basically established by the Revenue Act of 1935. In the intervening 73 years until Fiscal Year 2009, total state revenue collections increased nearly every year, with an average annual growth of 8.72 percent. Prior to the current year, collections declined only four times – three times due to economic conditions and once in 1985 due to a change in the accounting rules. Each of these four decreases in state tax receipts was relatively small – three were less than 1 percent. In contrast, Fiscal Year 2009 recorded by far the largest decline in total Washington State tax receipts since 1935, with a year-over-year reduction of 7.8 percent.

DECLINE IN TOTAL STATE TAX RECEIPTS
SINCE REVENUE ACT OF 1935

Fiscal Year	Percentage Decline
1938	(1.73)%
1950	(0.85)
1985	(0.45)
2002	(0.30)
2009	(7.82)

TABLE 2
NET WASHINGTON STATE TAX COLLECTIONS*
Fiscal Years 2008 and 2009 ($ in thousands)

Tax Source	Fiscal 2008	Fiscal 2009	% Change	2009 % of Total
General/Selective Sales Taxes				
Retail sales	$7,747,276	$6,903,654	(10.9)%	44.6%
Use	517,979	465,418	(10.1)	3.0
Cigarette	421,138	392,429	(6.8)	2.5
Tobacco products	(8,669)	30,278	-.-	0.2
Liquor sales	91,798	96,592	5.2	0.6
Liquor liter	122,554	125,116	2.1	0.8
Wine	21,339	21,736	1.9	0.1
Beer	31,517	32,415	2.8	0.2
Motor vehicle fuel	949,099	956,761	0.8	6.2
Special fuel	230,282	213,699	(7.2)	1.4
Aircraft fuel	2,995	1,999	(33.3)	0.0
Convention center	61,463	57,253	(6.8)	0.4
Solid waste collection	32,751	32,480	(0.8)	0.2
Wood stove	299	320	7.0	0.0
Brokered natural gas	41,154	46,730	13.5	0.3
Rental car	24,207	22,768	(5.9)	0.2
Enhanced 911 telephone	18,856	20,192	7.1	0.1
Telephone assistance (WTAP)	5,551	4,988	(10.1)	0.0
Telephone relay (TRS)	4,576	4,554	(0.5)	0.0
Replacement tire fee	3,802	3,602	(5.3)	0.0
Tribal cigarette tax	5,206	5,614	7.8	0.0
General/Selective Business Taxes				
Business & occupation	2,874,339	2,650,526	(7.8)	17.1
Public utility	380,538	386,101	1.5	2.5
Insurance premiums	415,028	408,464	(1.6)	2.6
Food fish/shellfish	2,567	1,963	(23.5)	0.0
Hazardous substance	130,189	127,055	(2.4)	0.8
Soft drinks syrup	(1,305)	8,365	-.-	0.1
Petroleum products	(416)	609	-.-	0.0
Oil spill	4,547	4,966	9.2	0.0
Litter	9,133	8,848	(3.1)	0.1
Pari-mutuel	1,832	1,547	(15.6)	0.0
IMR	9,873	9,931	0.6	0.1
Property & In-lieu Taxes				
State levy	1,741,819	1,785,323	2.5	11.5
Aircraft excise	287	285	(0.7)	0.0
Watercraft excise	17,648	17,192	(2.6)	0.1
Timber excise	6,515	4,630	(28.9)	0.0
PUD privilege	41,677	42,175	1.2	0.3
Leasehold excise	21,707	25,613	18.0	0.2
Other Taxes				
Real estate excise	716,680	426,048	(40.6)	2.8
Estate & transfer	109,192	137,116	25.6	0.9
TOTAL	$16,807,023	$15,494,356	(7.8)%	100.0%

*Excludes local taxes, general penalties and interest, and state payroll taxes for workers' compensation programs.

By far the largest state tax source in Washington is the retail sales tax; it totaled $6.9 billion in Fiscal Year 2009. Together with its companion use tax, the retail sales/use tax represents 47.6 percent of total state tax collections. In second place was the business and occupation tax with 17.1 percent of the total. The third largest state source was the state property tax levy; it produced 11.5 percent of state tax revenues. In fourth place among state tax sources was the motor vehicle fuel tax; together with the special fuel tax, the fuel taxes produced 6.2 percent of total state taxes.

Limits on State Expenditures and Tax Increases; Rainy Day Fund

In November 1993 the voters of Washington approved Initiative 601 (chapter 43.135 RCW). This measure limits the amount which state government may spend from the general fund and also imposes a supermajority voting requirement on increases in state taxes. It replaced another limitation mechanism, Initiative 62, which had been approved by the voters in 1979; this had limited the rate of growth in state revenues to the growth in state personal income.

SPENDING LIMITATION

The I-601 spending limitation prohibits the expenditure of state general fund revenues above a certain level that is determined by formula. The expenditure limit became effective on July 1, 1995. On July 1, 2007, the spending limitation was revised to apply not only to the general fund, but also to related "near-general fund" accounts as well. These include the Health Services Account, the Violence Reduction and Drug Enforcement Account, the Public Safety and Education Account, the Water Quality Account, and the Student Achievement Account.

The limit is based on actual state general fund expenditures for the previous year multiplied by the fiscal growth factor which is calculated as the average growth in state personal income over the prior ten years. The growth factors for the two years of the 2009-11 Biennium have been determined to be 5.20 and 4.17 percent respectively.

Because the expenditure limit applies on a fiscal year basis, determining the amount of appropriations within the biennial state budget must now be done on an annual basis so that the limit for individual fiscal years is not exceeded. Each November, the Expenditure Limit Committee - consisting of the Director of the Office of Financial Management, the Attorney General, and the chairs and ranking minority members of the Senate Ways and Means and House Appropriations committees - adjusts the limit for the previous fiscal year to reflect the actual level of expenditures which occurred. The Committee then forecasts the limit amount for succeeding years. The expenditure limits for each year of the 2009-11 Biennium and the 2011-13 Biennium are:

Fiscal Year 2010	$15,836.1 million
Fiscal Year 2011	$17,577.1 million
2009-11 Biennium	$33,413.1 million
Fiscal Year 2012	$18,325.9 million (projected)
Fiscal Year 2013	$19,181.7 million (unofficial)
2011-13 Biennium	$37,507.5 million

If legislation shifts programs or funding sources into or out of the general fund or related accounts, then a commensurate change must be made to the expenditure limit. Likewise, Initiative 601 requires that local governments be compensated by the state for any new programs or expanded services they are required to perform by the Legislature. If program responsibility is shifted to or from the state to local jurisdictions or the federal government, the state expenditure limit must be revised accordingly.

VOTING REQUIREMENTS FOR TAX INCREASES

Initiative 601 also limits the manner in which state revenue may be increased. After July 1, 1995, any measure which increases state revenues or results in revenue-neutral tax shifts may only be adopted if two-thirds of the members of both houses of the Legislature approve. (This requirement was "lifted" by the Legislature in 2005 for the period between April 18, 2005, and June 30, 2007.) Further, the increased revenues must not result in expenditures above the spending limit. If the additional revenues will cause the limit to be exceeded, then the measure must also be approved by a simple majority vote of the statewide electorate. The initiative allows temporary tax increases to combat the effects of natural disasters for up to 24 months upon declaration of an emergency by the Governor and a two-thirds vote of the Legislature; no referral to the voters is required for such emergencies.

In November 2007, the voters approved Initiative 960 which contains additional requirements relating to increased taxes. Section 2 of the measure, RCW 43.135.031, requires public notification about any bill introduced in the Legislature which would raise taxes or increase fees. Within ten days, the Office of Financial Management must provide a ten-year analysis of the impact of the bill to all legislators, the media, and the public. The notification includes names and contact information for sponsors of the legislation. Similar reporting is required whenever a committee schedules a hearing on or passes such bills.

Initiative 960 also established a new procedure for review by the voters of any tax increases adopted by the Legislature; this is codified as RCW 43.135.041. If legislation raises taxes as defined in RCW 43.135.035 and it is either blocked from a public vote (e.g., contains an emergency clause) or is not referred to the electorate for their approval, then an advisory vote by the people is required at the next general election.

RAINY DAY FUND

Another budgetary program was also approved at the November 2007 election. A constitutional amendment – ESSJR 8206 – added a new Section 12 to Article VII of the State Constitution. Two statutes, RCWs 43.79.490 and .495, implement the program, which establishes a Budget Stabilization Account, commonly referred to as a "rainy day fund," effective July 1, 2008. The program requires that at the end of each fiscal year an amount equal to 1 percent of total state general revenues for that year be deposited into the budget stabilization account. The Constitution allows for expenditure of funds from the Budget Stabilization Account under three circumstances:

- If the Governor declares a state of emergency due to a catastrophic event, then funds may be appropriated by the Legislature with a simple majority vote of each House.
- If the employment growth forecast by the Economic and Revenue Forecast Council indicates a growth of less than one percent in statewide employment, then funds may be appropriated by the Legislature with a simple majority vote of each House.

- Any other expenditure from the Budget Stabilization Account may be made with a favorable vote of at least 60 percent of each House.

Tax Comparisons with Other States

Probably the most unique feature of Washington's tax system is its heavy reliance on sales taxes. On the per capita basis, Washington ranks first in the nation in general sales taxes at $2,029 per person, according to 2007 Census Bureau figures. This statistic is largely affected by inclusion of the B&O tax in this category. (The Census Bureau includes Washington's B&O tax in the general sales category, since it is measured by gross sales. In terms of economic effect, the B&O tax operates like a sales tax, and much of the impact is passed on to purchasers, as with a sales tax.) Washington's reliance on general sales taxes is more than twice the national average - see Table 3 below. Including selective sales taxes on specific goods, the overall general sales tax category accounts for 62 percent of state and local taxes in Washington.

In addition to inclusion of the B&O tax in the general sales tax category, there are other reasons that explain Washington's high ranking in general and selective sales taxes:

- The base of the retail sales tax is relatively broad and includes expenditures such as repair of tangible personal property, labor associated with construction, and some personal services.
- The state/local sales tax rate (up to 9.5 percent) is very high; among large cities, the rate in Seattle is exceeded only by Chicago, two cities in Alabama and a dozen California cities.
- The state gas tax rate is presently the highest in the nation.
- Liquor taxes are very high; industry data rank Washington at the top in taxes on spirits.
- Washington's cigarette tax rate is exceeded by only six other states.

Despite the high rankings in sales taxes, total state and local taxes in Washington are NOT considered as high; as seen below the total tax burden ranks only 26th in relation to personal income. Balancing the heavy reliance on sales taxes is the absence of an individual or corporate net income tax in Washington. Income taxes generate more than one-quarter of state/local tax revenues nationally, but none in this state. The other major category of taxes - property taxes - is utilized only moderately in this state. Property taxes represent 26.8 percent of total taxes in Washington; the national average reliance is 30 percent.

Table 3 illustrates the utilization of major state and local tax sources in Washington compared with the national average for the latest year that comparable data are available.

TABLE 3
PERCENTAGE RELIANCE ON MAJOR STATE/LOCAL TAXES
Washington State and National Average
Fiscal Year 2007

Tax Source	Washington	All States
General sales taxes*	47.5%	23.5%
Selective sales taxes	14.5	10.9
Property taxes	26.8	30.0
Income taxes	-.-	27.4
All other taxes	11.2	8.2
TOTAL	100.0%	100.0%

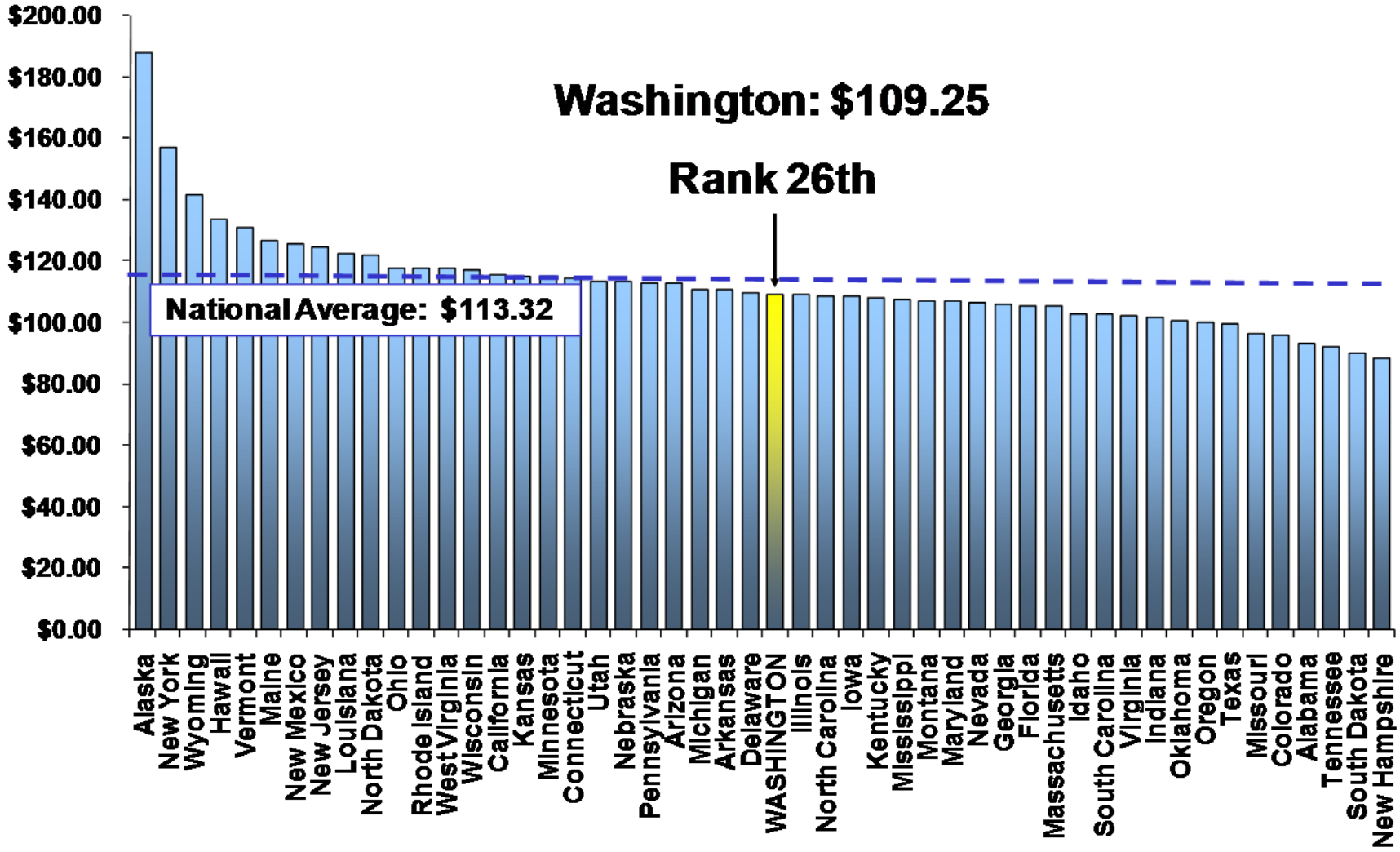
*Includes retail sales/use and gross receipts taxes.
Source: State and Local Government Finances in 2006-07, Bureau of the Census.

There are two principal methods for measuring tax burdens among the states. The first simply divides the total tax collections by the population of a state to obtain a per capita figure. (The calculation usually includes taxes paid by businesses, since it is not possible to separately identify business tax payments for all tax sources. In any case, these are often assumed to be passed on to individual consumers.) Based on the latest available data (Fiscal Year 2007), Washington state and local taxes per capita amounted to $4,269. This statistic ranked 15th from the highest among all states in tax burden and was just slightly above the national average of $4,234.

However, because there are significant differences among individual residents of the state, the per capita method only produces meaningful data for persons who are "average" in terms of income and other relevant criteria such as age, family size, geographical location, etc. For example, the household tax burden for a very large family may not simply be the statewide per capita amount multiplied by the number of persons in the family, since the tax burden attributable to children is likely somewhat lower than for adults. Likewise, actual taxes might be higher for persons during their household formation years (making purchases of a residence, household goods, etc.) than in retirement years. Further, there are significant differences in personal income among states, and hence they do not all have the same ability to finance government services.

Washington's tax system is driven largely by consumption, and consumption depends most directly upon income. Thus, comparing tax burdens to income yields a more representative tax burden indicator for most households. Total tax collections divided by a state's aggregate personal income (a statistic developed by the Bureau of Economic Analysis of the U.S. Department of Commerce) produces such a comparison. In Fiscal Year 2007 Washington's state and local taxes amounted to $109.25 per $1,000 of personal income. This was significantly lower than the national average of $113.32. By this measure Washington ranks 26th from the highest in overall tax burden. The latest tax burdens for all states are compared graphically in the following chart.

Comparison of Tax Burdens in All States
State/Local Taxes per $1,000 Personal Income - Fiscal Year 2007



Impact of the Recession on Tax Revenues

As noted above in Table 2, total state tax collections in Fiscal Year 2009 were lower than the previous year by 7.8 percent. An across-the-board decline in state revenues of this magnitude is unprecedented. The last time total state tax receipts failed to record positive growth was in Fiscal Year 2002 when collections fell by 0.3 percent during an economic downturn. Only one other time has this occurred in the past 50 years – in 1985 when a major accounting change was made which counted only 11 months of tax collections in that fiscal year. Even during the last severe recession of the early 1980s, total state tax collections increased each year because of a variety of tax rate increases and extension of tax bases.

The largest state tax source is the retail sales tax; local sales taxes are also a major source of funding for local government jurisdictions. Typically, the base of the sales tax grows each year by about 6 percent. Over the 20-year period from 1988 to 2007, the average annual growth in taxable retail sales tax was 6.2 percent. For the latest full calendar year, taxable retail sales in calendar year 2008 actually declined by 4.2 percent statewide, as consumers significantly reduced spending on sales-taxable items.

Another measure of the decline in sales tax revenues is the local sales tax which, in most local jurisdictions, is the second largest source of tax revenue. The basic 0.5 percent tax is levied in all cities and counties; distributions of this tax are a good barometer of sales tax activity in the various local areas. Combined receipts for the county and all cities in the same county fell by 9.3 percent from Fiscal Year 2008 to 2009, compared with an increase of 4.6 percent the prior year. Only seven counties experienced positive growth in the basic local sales tax. The remaining 32 counties suffered large reductions, many in the double-digit range. For example, the basic 0.5 percent local sales tax fell by 10.9 percent in King County, by 9.9 percent in Pierce County, and by 12.6 percent in Snohomish County.

To illustrate the difficulty of governmental budgeting during recessionary times, Table 4 traces the quarterly forecast of state general fund revenues over the past two years. The state budget is predicated upon the forecast of tax receipts; it is required to be "balanced" since the state cannot engage in deficit financing for its general operations. This table shows the downward revisions in the anticipated revenues as the impact of the recession deepened. Initially, state general fund receipts for the 2007-09 Biennium were predicted to be in excess of $30 billion. Each quarter for the past two years the estimate was revised lower until the final figures for that period had been reduced by $2.8 billion to $27.2 billion. Similarly, the anticipated receipts for the current biennium, 2009-11, have declined from $31.9 billion to $28.2 billion – a drop of $3.7 billion.

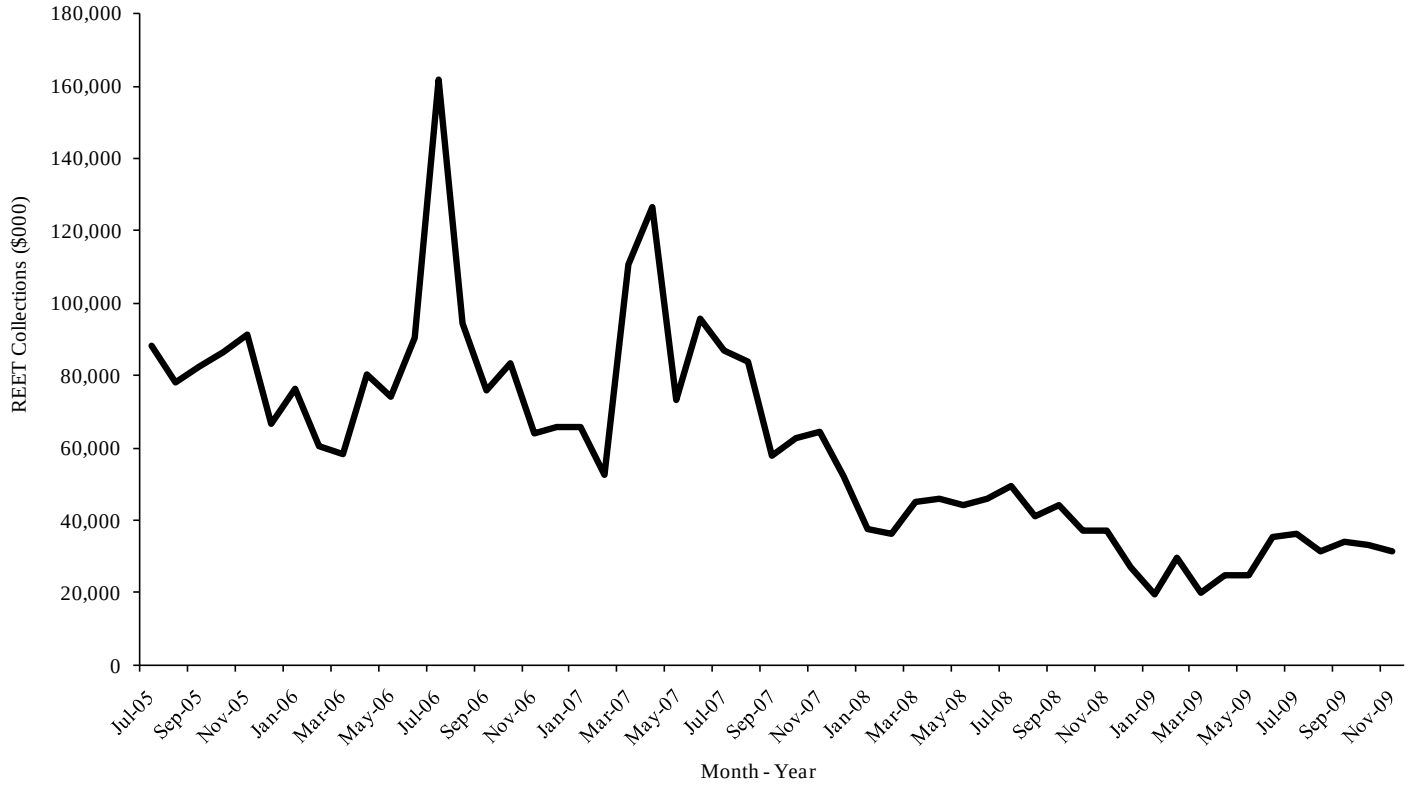
TABLE 4
FORECAST OF STATE GENERAL FUND REVENUES
OVER THE PAST TWO YEARS
Quarterly Forecast for 2007-09 and 2009-11 Biennia
Dollars in Millions

Date of Forecast	2007-09 Biennium	2009-11 Biennium
June 2007	$29,419	n.a.
September 2007	30,017	n.a.
November 2007	29,886	n.a.
February 2008	29,463	$31,918
June 2008	29,402	31,755
September 2008	29,129	31,498
November 2008	28,627	30,070
March 2009	27,891	27,945
June 2009	27,706	29,834
September 2009	27,700	29,603
November 2009	27,229	28,208

Source: Office of the Economic and Revenue Forecast Council.

The real estate excise tax is one of Washington's more volatile tax sources, but it is a good barometer of the state's housing market, because the tax applies to the selling price of real estate. Although the tax includes sales of bare land, farm land, and commercial and industrial property, the majority of the sales reflect residential property. This tax was one of the harbingers of the current recession, because housing prices and the volume of sales were among the first economic indicators to be adversely impacted in Washington. The following chart traces the monthly receipts for the state general fund portion of the tax for the most recent four-plus fiscal years. Collections have declined from more than $1 billion in Fiscal Year 2007 ($1,069.4 million) to barely one-third of that amount in Fiscal Year 2009 ($389.1 million).

Monthly Real Estate Excise Tax (REET) Collections
General fund portion of state tax
July 2005 - November 2009



WASHINGTON'S TAX HISTORY

A Brief Overview of the Development of State and Local Taxes in Washington

Early Tax History

From the establishment of Washington as a territory in 1853 until the Depression years of the 1930s, the property tax was the principal revenue source for both state and local governments. The property tax was considered to be a good measure of ability to pay during these years which featured a largely agrarian economy, and most governmental programs directly benefited property owners. Upon achieving statehood in 1889, a major provision of the state Constitution required that all taxes on property be applied uniformly. Several other taxes were established during this early period:

- tax of 2 percent levied on premiums received by insurance companies (1891).
- inheritance tax established; rates range from 1 percent to 12 percent, depending upon the relationship between the beneficiary and the decedent (1901).
- tax on motor vehicle fuel at a rate of 1 cent per gallon (1921).
- poll tax of $5 on each citizen between the ages of 21 and 49 (1921). The tax was so unpopular that it was repealed by initiative the following year.

The Depression and the Revenue Act of 1935

As the scope of governmental programs increased during the early part of the 20th Century, greater reliance was made of the property tax. By 1930 the average property tax rate had reached 2.8 percent of market value (by comparison, the current statewide average effective tax rate is well below 1 percent at 0.83 percent). Washington's economy was shifting toward an industrial basis, and the value of property owned was no longer necessarily a good measure of an individual's wealth. Thus, the property tax increasingly violated the ability-to-pay criterion for a good tax. With the advent of the Depression, many homeowners had lost their jobs and were not able to pay their property taxes. On the one hand, government revenues plummeted as property tax delinquencies grew, while at the same time there was increased need for expanded governmental services for welfare and relief programs to assist unemployed persons.

Two special tax study groups met during the 1920s and recommended that Washington's tax structure be broadened so that the reliance on property taxes could be reduced. In the first of many subsequent instances of citizens attempting to directly influence the tax system, the voters approved two initiatives in 1932. One imposed a limitation on property tax rates equal to 40 mills (one mill = 0.001). The other established a state personal and corporate income tax. This was intended to provide more balance to the tax system and reduce property taxes. However, in a landmark decision handed down in early 1933, the State Supreme Court disallowed the income tax by interpreting income as constituting property and therefore implying that a tax on income

would be in violation of the Constitution unless it were applied uniformly. (Because of personal exemptions and graduated rates, income taxes are rarely uniform.)

In response to the court decision, the 1933 Legislature adopted a temporary gross receipts tax on business as a stop-gap measure to balance the state budget. This represented Washington's first excise tax on general business activities.

To address the deepening financial crisis, the Legislature enacted the most comprehensive tax bill in state history - the Revenue Act of 1935. As a result, the state's principal form of taxation shifted from property taxes to excise taxation. The term excise refers to a category of taxes that are generally imposed on or measured by a transaction, e.g., the selling price of an item. The 1935 legislation contained many of the tax sources which today form the basis of Washington's tax system. In Fiscal Year 2008, Revenue Act taxes generated more than three-quarters of all state tax receipts supporting the state general fund. These sources included:

- Retail sales tax
- Compensating (use) tax
- Business and occupation tax (replacing the 1933 tax)
- Public utility tax
- Liquor sales tax
- Cigarette tax

The 1935 act also included other taxes which were either vetoed by the Governor, ruled unconstitutional, or subsequently repealed:

- Stock transfer tax*
- Radio tax**
- Conveyance tax (incorporated with real estate excise tax in 1987)
- Admissions tax (became a local tax in 1951)
- Fuel oil tax (repealed in 1947)
- Toiletries and medicines tax*
- Store license tax*
- Gift tax* (reimposed in 1941)
- Corporate income tax**

*Vetoed.
**Overturned by court decision.

Subsequent Major Tax Changes

Many of the changes in Washington's taxes over the past 70 years have involved either tax base revisions - broadening to new areas for existing taxes or reductions in the form of new exemptions, deductions, credits, etc. - or changes in tax rates. The one-page table at the end of this chapter contains a summary of the rate changes for several of the principal state taxes. Adoption of major new taxes and significant tax base changes are noted below:

1937 Motor vehicle excise tax adopted (previously, vehicles subject to personal property tax).

1944 Two constitutional amendments adopted: (1) 40 mill property tax limit with assessment at 50 percent of true and fair value, and (2) motor vehicle fuel tax earmarked for highways.

1951 Sales tax extended to hotel/motel accommodations. Real estate excise tax of 1 percent on property that is sold authorized for counties and earmarked for schools; the tax was shifted to the state level in 1981.

1955 State assistance to counties to bring property valuations up to market value.

1959 Sales tax extended to rental of personal property and certain other services. B&O tax extended to rental of real estate but was overturned in 1960 by State Supreme Court as constituting double taxation of property.

1961 Sales tax extended to certain amusement/recreational services. New tax on liquor measured by volume (originally per ounce, now per liter).

1965 Constitutional amendment allowing property tax exemptions for senior citizens was approved; the initial exemption program for seniors and disabled homeowners was adopted in 1967. Manufacturers tax credit allowed B&O tax credit for sales tax paid on major investments.

1967 First "hotel-motel" tax; King County authorized to receive 2 percent of state sales tax on lodging for construction of Kingdome.

1968 Constitutional amendment allowing current use assessment of open space, agricultural, and timber lands for property tax purposes. Program was implemented in 1970.

1969 Court decision required assessment of property at 50 percent of true and fair value.

1970 B&O tax extended to financial institutions, after a change in federal policy allowing states to tax national banks. Local sales tax of 0.5 percent authorized for cities/counties.

1971 Annual increases in local regular property tax levies limited to 6 percent.

1972 Constitutional amendment limiting regular property tax levies to 1 percent. Timber excise tax imposed on the stumpage value of timber harvested on private lands. Timber tax phased in as property tax on timber was phased out.

1974 Phase-out of property tax on business inventories over ten years. An increasing portion of the property tax on inventories was allowed as a credit against B&O tax until 1984 when inventories were exempted from property tax outright.

1975 Property assessments increased to 100 percent of true and fair value. Levy rates switched from mills to dollars per $1,000 with reallocation of levies among state and local taxing districts designed to meet constitutional 1 percent limit on regular levies.

1976 Leasehold excise tax imposed on leases of publicly-owned property.

1977 Phase-in of limitation on special school levies, equal to 10 percent of the district budget. Voters approve initiative exempting food for off-premises consumption from sales tax.

1981 Voters approve initiative repealing inheritance and gift taxes. Estate tax, comprised of the amount of federal tax credit, remains in place.

1981 Some telephone services shifted from utility tax to B&O and sales tax; expanded to all telephone service except local residential service in 1983.

1982 Sales tax temporarily re-imposed on food products and a variety of tax rates were increased during fiscal crisis due to economic recession. Second ("optional") 0.5 percent local sales tax authorized for cities and counties.

1984 Voters approve initiative exempting trade-ins from sales tax.

1985 Sales tax deferral for manufacturing investments in economically distressed areas (became outright exemption in 1995 and changed to rural counties in 1999).

1993 Major increase in B&O tax rates and establishment of new 2.5 percent rate on business services; these increases were phased down starting in 1994 and eliminated by 1998. Sales tax deferral for research and development investments by certain high technology firms. B&O tax credit for R&D expenditures for same firms in 1994.

1995 Sales tax exemption for manufacturing machinery. Local sales tax of 0.5 percent authorized for food and beverages only in King County to finance construction of a professional baseball stadium; this represents the first differential sales tax rate upon a particular type of product.

1997 Referendum approved limiting annual growth in regular property tax levies to rate of inflation.

2000 Legislature repeals motor vehicle excise tax, leaving $30 license fees. (In 1999, the voters had approved a similar initiative, but this was ruled unconstitutional.)

2001 Voters approve initiative limiting annual growth in regular property tax levies to 1 percent. Voters approve initiative increasing cigarette tax rate from $0.825 to $1.425.

2003 Additional state sales/use tax of 0.3 percent applied to sales/leases of new or used motor vehicles; represents first differential state sales tax upon a particular type of product. Major portions of Streamlined Sales Tax Agreement adopted, making Washington's sales

tax base more uniform with those of many other states. New nursing home fee of $6.50 per patient per day enacted. Significant new tax incentives for manufacturers of aircraft and semiconductors.

2004 Extension of tax incentives for high technology firms and certain firms in rural areas; new incentives for aluminum smelters.

2005 Phased-in increase of gas tax from 28 to 37.5 cents per gallon by 2008. Sixty cent increase in the cigarette tax from $1.425 to $2.025 per pack. Rollback of tobacco products tax rate from 129.4 percent to 75 percent of wholesale price. Increase in liquor liter tax from $2.44 to $3.77 per liter. Phase-out of nursing home fee. New B&O tax enacted on games of chance and pari-mutuel wagering. New fee of $1.00 on replacement vehicle tires. Exemption from B&O tax for processors of fresh fruit and vegetables.

2005 Washington's estate tax, which was tied to the federal estate tax credit, was overturned by the State Supreme Court in February. In response, the Legislature enacted a new stand-alone estate tax on estates above $2 million (as of 2006); receipts dedicated to a new education legacy fund.

2006 B&O tax exemption for production of dairy and seafood products. B&O rate reduction for timber harvesters and manufacturers of timber and wood products; partially offset by new tax rate to finance fish habitat programs. Daily nursing home fee is repealed.

2007 Adoption of Streamlined Sales Tax Agreement, effective July 1, 2008. Authorization of new local sales tax for health services authority. New property tax deferral program enacted; low-income homeowners may qualify with no age restrictions.

2008 Major new program to provide rebates as an offset for retail sales taxes paid by low-income households that qualify for the federal earned income tax credit. However, the program has yet to be funded by the Legislature.

2009 Electronic filing and payment of excise taxes required for all taxpayers that file monthly. Sales tax applied to digital goods – electronic books, music, etc. Resale certificate replaced by reseller's permit issued by the Department for wholesale purchasers. Annual updating of assessed property values required in all counties by 2014.

Local Government Finance

One of the tax areas that has received significant attention in the past three decades is local government. The revenue sources of cities, counties, and junior taxing districts are strictly controlled by the Legislature and only specifically authorized taxes can be imposed at the local level. Traditionally, the property tax has been the mainstay of local government, but its dominant role has declined somewhat. In 1970 property taxes accounted for 86.5 percent of local tax revenues; by 2007 that percentage had declined to 57.8 percent.

Picking up the slack has been a variety of local sales taxes and taxes on lodging. There are currently 25 different types of local sales taxes; the following lists the maximum rates allowed by law and the year the tax was first authorized. Ten of these local taxes do not represent additional taxes for purchasers. Instead, they are credited against the state sales tax, thereby allowing the state to assist in the financing of certain local programs. The maximum local sales tax rate currently levied totals 3 percent in portions of southwestern Snohomish County and in all of the metropolitan areas (within the RTA) of King County. Combined with the state rate of 6.5 percent, Washington's maximum sales tax rate that applies to most taxable items is now 9.5 percent (9.8 percent for motor vehicles).

ENACTMENT OF LOCAL SALES TAX PROGRAMS:

- Cities - basic rate of 0.5% (1970) and "optional" rates up to 0.5% (1982).
- Counties - basic rate of 0.5% (1970) and "optional" rates up to 0.5% (1982).
- Public transit districts - up to 0.9% (1971).
- High capacity transit (RTA) - up to 1%, 0.4% actually imposed (1990).
- Criminal justice - county tax of 0.1%, receipts shared with cities (1990).
- Public facilities - 0.1% tax (1991).
- Baseball stadium - 0.017% in King County (1995).*
- Food/beverage tax - 0.5% in King County (1995).
- Juvenile correctional facilities - 0.1% (1995).
- Football stadium tax - 0.016% in King County (1997).*
- Rural counties - 0.08% (1997).*
- Zoo/aquarium tax - 0.1% in Pierce County (1999).
- Regional centers of public facility districts - 0.033% (1999).*
- Emergency communications - 0.1% (2002).
- Regional transportation - 0.5% (2002).
- Public safety - 0.3% (2003).
- Passenger ferries - 0.4% (2003).
- Transportation benefit districts - 0.2% (2005).
- Mental health/chemical dependency - 0.1% (2005).
- Hospital benefit zone - 6.5% (2006).*
- Local infrastructure financing (revenue development area) - 6.5% (2006).*
- Municipal services for annexation areas - 0.2% (2006).*
- Regional theaters of public facility districts - 0.02 or 0.025% (2007).*
- Health sciences and services – 0.2% (2007).*
- Local revitalization financing – 6.5% (2009).*

*Local tax is credited against the state sales/use tax; no additional tax for purchasers.

Environmental Taxes

Several taxes and fees have been enacted in recent decades to help finance programs designed to restore and protect the environment.

- Litter tax - 0.015%, wholesale value of certain products (1971).
- Replacement tire fee - $1 per tire (1985 - 1994; reenacted in 2005).
- Solid waste collection tax – 3.6% (1986).*
- Wood stove fee - $30 per new wood stove (1988).
- Hazardous substance tax - 0.7%, wholesale value of certain chemicals (1989).
- Petroleum products tax - 0.5%, wholesale value of oil-based products (1989).
- Oil spill tax - 5 cents/42 gallon barrel of products imported via water (1991).

*Receipts not used exclusively for environmental programs.

MAJOR WASHINGTON STATE TAXES
History of Rate Changes for Selected Taxes

RETAIL SALES/USE TAX

1935 - Enacted at 2.0%
1941 - Increased to 3.0%
1955 - Increased to 3.33%
1959 - Increased to 4.0%
1965 - Increased to 4.2%
1967 - Increased to 4.5%
1976 - Increased to 4.6%
1979 - Decreased to 4.5%
1981 - Increased to 5.5%
1982 - Decreased to 5.4%
1983 - Increased to 6.5%

CIGARETTE TAX

1935 - Enacted at 1¢ per pack
1939 - Increased to 2¢
1949 - Increased to 4¢
1955 - Increased to 5¢
1959 - Increased to 6¢
1961 - Increased to 7¢
1965 - Increased to 11¢
1971 - Increased to 16¢
1981 - Increased to 20¢
1982 - Increased to 20.8¢
1982 - Increased to 23¢
1986 - Increased to 31¢
1989 - Increased to 34¢
1993 - Increased to 54¢
1994 - Increased to 56.5¢
1995 - Increased to 81.5¢
1996 - Increased to 82.5¢
2002 - Increased to $1.425
2005 - Increased to $2.025

B&O TAX - Manufacturing

1935 - Enacted at 0.25%
1951 - Increased to 0.3%
1955 - Increased to 0.4%
1959 - Increased to 0.44%
1976 - Increased to 0.4664%
1979 - Decreased to 0.44%
1982 - Increased to 0.458%
1983 - Increased to 0.581%
1983 - Decreased to 0.484%
1993 - Increased to 0.515%
1995 - Decreased to 0.506%
1997 - Decreased to 0.484%

GASOLINE TAX

1921 - Enacted at 1¢ per gallon
1924 - Increased to 2¢
1929 - Increased to 3¢
1931 - Increased to 4¢
1933 - Increased to 5¢
1949 - Increased to 6.5¢
1961 - Increased to 7.5¢
1967 - Increased to 9¢
1977 - Increased to 11¢
1979 - Increased to 12¢
1981 - Increased to 13.5¢
1982 - Decreased to 12¢
1983 - Increased to 16¢
1984 - Increased to 18¢
1990 - Increased to 22¢
1991 - Increased to 23¢
2003 - Increased to 28¢
2005 - Increased to 31¢
2006 - Increased to 34¢
2007 - Increased to 36¢
2008 - Increased to 37.5¢

GENERAL SALES TAXES

Taxes imposed on the purchase or use of a wide variety of items and selected services which are paid by consumers

- **Retail Sales Tax (State)**
- **Use Tax (State)**
- **Local Retail Sales and Use Taxes**

RETAIL SALES TAX
Chapter 82.08 RCW

Tax Base — Selling price of tangible personal property and certain services purchased at retail, i.e. by consumers. In general, the tax applies to goods, construction including labor and services, repair of tangible personal property, lodging for less than 30 days, telephone service, and participatory recreational activities. Some personal and professional services, such as landscape maintenance and physical fitness, are taxable. The basic definition of items and transactions subject to sales tax appears in RCW 82.04.050. (NOTE: Use tax applies to taxable items used within the state if retail sales tax was not paid; see following section.)

Tax Rate — 6.5 percent levied by the state. An additional 0.3 percent state tax applies to sales of new or used motor vehicles. Including local sales taxes (see section on local sales/use tax), the combined sales tax rate now ranges from 7 to 9.5 percent for most taxable retail sales (7.3 to 9.8 percent for vehicles).

Levied by — State (also see section on local sales/use taxes).

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$6,903,654	(10.9)%	44.6%
2008	7,747,276	4.3	46.1
2007	7,431,002	8.0	44.5
2006	6,882,255	11.6	44.7
2005	6,166,266	6.5	44.6
2004	5,791,960	4.2	44.5
2003	5,560,658	2.1	45.8
2002	5,444,365	(1.4)	46.0
2001	5,519,106	2.1	46.5
2000	5,405,602	9.2	45.8

Administration — Department of Revenue. The tax is collected from purchasers by retail vendors at the time of sale using tax rate schedules supplied by the Department. Sales tax receipts are legally considered as trust funds of the state. Total transactions are reported on the seller's Combined Excise Tax Return (or a version of this return such as the Retailing and Other Activities Return) and receipts are forwarded to the Department on a monthly or quarterly basis. Monthly taxpayers are required to file their return

electronically and to submit payment via electronic funds transfer. Firms that pay more than $240,000 annually in state/local sales tax may pay the tax directly to the Department, rather than to the vendor, with the use of a direct pay permit.

Starting in January 2010 firms that purchase at wholesale and resell the items will be required to obtain a reseller's permit from the Department; the permit relieves the vendor from responsibility for collecting sales tax on the transaction. Previously, the buyer simply provided the vendor with a resale certificate, stating that the items would be resold at retail.

Distribution of Receipts

Nearly all of the receipts from the state sales tax go to the state general fund (99.5 percent of the total).

Proceeds from the additional 0.3 percent tax on new/used motor vehicles goes to the multimodal transportation account for use in financing improvements to the state transportation system (RCW 82.08.020(3)). The 0.3 percent sales tax produced $22.5 million in Fiscal Year 2009.

State sales tax paid on expansion of the state convention center is credited to the convention center account (RCW 67.40.160). State sales/use tax paid on leaded racing fuel is dedicated to the advanced environmental mitigation account (RCW 82.32.394). State sales/use tax paid on transportation projects undertaken by a regional transportation investment district is earmarked to pay for debt service on the project (RCW 82.32.470).

Pursuant to Initiative 900, adopted in November 2005, 0.16 percent of state sales tax collections are deposited in the Performance Audits of Government Account and are used to finance the costs of such audits by the State Auditor (RCW 82.08.020(5)). This earmarking produced $10.9 million in Fiscal Year 2009.

Receipts are also transferred to the various local programs indicated below in which local taxes are credited against the state sales tax.

Local Taxes Credited Against the State Sales Tax

- A 2 percent hotel-motel tax upon accommodations is provided for cities and counties. Receipts are credited against the state sales tax, thus shifting the burden to the state general fund. Approximately 138 cities and 37 counties currently participate in this revenue sharing program. (RCW 67.28.180 - 67.28.1801)

- A 2 percent hotel-motel tax for establishments with 60 or more units is provided within Seattle for use in financing expansion of the state convention center. Funds are transferred from the state general fund to the state convention and trade center

account as provided in RCW 67.40.170. (RCW 67.40.130 - 67.40.140)

- A local sales tax of 0.017 percent levied in King County diverts a portion of the 6.5 percent state sales tax reported from King County retailers to pay the state's share of the principal/interest payments on the professional baseball stadium (Safeco Field) in Seattle. The local tax is credited against the state sales tax, thus shifting the burden to the state general fund. (RCW 82.14.0485)

- A local sales tax of 0.016 percent is authorized for county public stadium authorities to finance a stadium (Qwest Field) to be used for professional football and soccer and an adjacent exhibition center. The local tax is credited against the state sales tax, thereby shifting the burden to the state general fund. (RCW 82.14.0494)

- Local sales taxes of 0.09 percent are provided for rural counties (those with an average population density of less than 100 residents per square mile or are smaller than 225 square miles). Receipts are to be used for public facilities and are credited against the state sales tax, thus shifting the burden to the state general fund. All 32 eligible counties have utilized this authority. (RCW 82.14.370)

- Local sales taxes of 0.033 percent are established for public facility districts (PFDs) to finance construction of new or existing regional centers. These include convention centers and special events facilities. These taxes were authorized in 1999 and are currently levied by 22 jurisdictions. (RCW 82.14.390)

- A variation of the PFD tax is directed toward specialized regional centers which have permanent seating of no more than 2,000. The state-credited local tax rate is either 0.02 or 0.025 percent, depending upon when the PFD was formed. Population limits for this local tax restrict it to Yakima and Cowlitz counties, and the proceeds are used for improvements at two regional theaters. (RCW 82.14.485)

- A new form of tax increment financing was established in 2006 to encourage public infrastructure improvements in a designated hospital benefit zone (HBZ). The program includes a local sales tax of up to 6.5 percent with the receipts credited against the state sales tax, thereby shifting the entire state tax on taxable purchases within the zone to finance the cost of the improvements. A single HBZ has been formed under this authorization; it is located in Gig Harbor. (RCW 82.14.465)

- Another type of tax increment financing tax was instituted in 2006. Known as the local infrastructure financing tool (LIFT) program, it is intended to encourage economic development within a revenue development area (RDA). Nine cities have established RDAs under this program. The program includes a local sales tax of up to 6.5 percent with the receipts credited against the state sales tax, thereby shifting the entire state tax on taxable purchases within the zone to finance the cost of the improvements. The program expires on June 30, 2039. (RCW 82.14.475)

- A local sales/use tax of up to 0.2 percent was authorized in 2006 for certain cities to provide for municipal services related to annexation areas. The tax may be imposed only if the cost of extending municipal services exceeds the potential local revenue to be derived from the annexation area. The local tax is credited against the state sales tax, thus shifting the cost to the state general fund. The tax is restricted to cities in King, Pierce, or Snohomish counties. Legislation in 2009 broadened the local tax to Seattle at a rate of up to 0.85 percent and to certain other cities at a rate of up to 0.3 percent. The local tax may commence on July 1, 2007, and may run for a maximum of ten years. To date it has been levied by two cities. (RCW 82.14.415)

- A new state-credited local tax of up to 0.02 percent was authorized in 2007 for a single health sciences and services authority. The authority promotes bioscience-based investments to advance new medical techniques and procedures. The authority has been formed in Spokane County and the tax commenced in August 2008. (RCW 82.14.480)

- In 2009 another program to encourage local revitalization was established. Similar to the LIFT program, it targets seven demonstration projects, plus other investments by cities and counties. The state-credited local tax rate may be as high as the state rate, except for other state-credited local taxes and the performance audit portion of the 6.5 percent state rate. (RCW 82.14.510)

Major Business Tax Incentives

Listed below are some of the important sales tax incentive programs intended to encourage business expansion in Washington. Following this section is a more general listing of some examples of sales tax exemptions, credits, deferrals, and other tax preference items.

Some of the following programs require that participants report annually to the Department and provide data on the utilization of the tax incentive and related employment statistics. Various "accountability" statutes require the Department to report to the Legislature in the form of annual descriptive statistics. Further, some of the tax incentive statutes require a follow-up evaluation to determine the effectiveness of the program, often shortly before the scheduled termination of the program. These evaluations are to be conducted by the Department, by the staff of legislative fiscal committees, or by the Joint Legislative Audit and Review Committee.

- New and replacement machinery and equipment used directly in a manufacturing process is exempt from sales/use tax. (RCW 82.08.02565) NOTE: This exemption has no scheduled expiration date, and no reporting by participants is required.

- Deferral/exemption of retail sales/use tax has been provided since 1985 for new or expanding manufacturing and R&D firms in rural counties. The program is scheduled to expire on July 1, 2010. Rural counties are those with an average

population density of less than 100 residents per square mile or a total area of less than 225 square miles; currently 32 of the state's 39 counties qualify. Also, eligible firms located in community empowerment zones (CEZs) which are not in a rural county may qualify. The tax on construction labor and materials, as well as machinery (separate exemption noted above also applies) was originally deferrable for three years, followed by a five-year repayment period. However, since 1994, the sales/use tax need not be repaid if employment criteria are maintained, thus effectively converting the program to an outright exemption. (Chapter 82.60 RCW)

- Sales/use tax paid by specified high technology firms for investment in structures and equipment used in research and development or for pilot-scale manufacturing is exempt, as long as program requirements are met. Established in 1994, the program is scheduled to expire on January 1, 2015. An amendment in 2009 extended the deferral to a new category: multiple qualified buildings, which are more than one structure located within a five-mile radius, if they are leased to the same firm. (Chapter 82.63 RCW)

- Exemption from sales/use tax for construction of facilities and acquisition of machinery used to assemble a "super-efficient" aircraft. Adopted in 2003, the exemption became effective in December 2003 (upon signing an agreement between the state and a major aircraft manufacturer) and will expire on July 1, 2024. (RCW 82.08.980)

- Exemption from sales/use tax for computer hardware and software used to design commercial aircraft by aircraft manufacturers and firms that provide aerospace products and services; expires July 1, 2024. (RCW 82.08.975)

- Exemption from sales/use tax for construction of facilities and acquisition of machinery and equipment used to produce semiconductor materials. Also exempt are gasses and chemicals used in the production of semiconductor materials. The exemption is contingent upon siting and commercial operation of a significant semiconductor microchip fabrication facility in this state (which has yet to occur). The exemption expires 12 years after the effective date. (RCWs 82.08.965, .970, and .9651)

- Deferral of sales tax on construction of facilities for processing of fresh fruit and vegetables, dairy products, and raw seafood products, as well as related equipment. This program commences on July 1, 2007, and applications must be submitted before July 1, 2012. As long as program requirements continue to be met, the deferred tax does not have to be repaid, thus turning the incentive into an outright tax exemption. (Chapter 82.74 RCW)

- Credit for state sales tax paid on labor and services related to construction of aluminum smelters and for related machinery and equipment until January 1, 2012. (RCW 82.08.805)

- Deferral of sales tax is provided for investment in biotechnology manufacturing facilities and related equipment. This program commenced on July 1, 2006, and applications must be submitted before January 1, 2017. As long as program requirements continue to be met, the deferred tax does not have to be repaid, thus turning the incentive into an outright tax exemption. (Chapter 82.75 RCW)

- Remittance of state sales tax (not local) on construction/expansion of eligible warehouse facilities and grain elevators and related material-handling and racking equipment. The incentive was established in 1997 and has no scheduled termination date. (RCW 82.08.820)

- Deferral of state/local sales tax on construction of a corporate headquarters facility housing at least 300 employees that is located in a community empowerment zone. As with other sales tax deferrals, if the program requirements continue to be met, repayment of the deferred tax is waived. (Chapter 82.82 RCW)

- Exemption from sales/use tax for machinery and equipment used to produce electricity from renewable resources. Only facilities that generate at least 1,000 watts are eligible for the exemption. The exemption for most renewable resources, except solar, is 100 percent of the equipment cost for the first two years (2009-11 Biennium) and 75 percent for the 2011-13 Biennium; it expires on June 30, 2013. Eligible solar equipment is restricted to facilities that produce up to ten kilowatts. The exemption is 100 percent of the cost and lasts for four years until June 30, 2013. (RCWs 82.08.962 and 82.08.963)

Other Exemptions, Credits and Deferrals

The definition of retail sale is contained in RCW 82.04.050. Because services are not specifically defined as being taxable, most services rendered to persons and businesses are not subject to sales tax. This includes medical, legal, accounting, and similar services performed by professionals, as well as services of barber shops, beauty parlors, funeral homes, cable TV companies, etc. The definition also excludes from tax transactions such as sales for resale (raw materials and component parts of items produced for sale) because they are not retail sales to final consumers; janitorial and laundry services; charges for labor and service of contractors who build roads and structures for the federal government; and feed, seed, fertilizer, spray, and horticultural services used in commercial agricultural production.

In addition to definitional exclusions, there are exemptions and other tax incentives for specific items or types of purchasers. Some of the more significant ones are listed below, grouped by major category.

EXAMPLES OF EXEMPTIONS - FARM PRODUCTS:
- items sold via auction sales on farms;
- livestock used for breeding purposes;
- materials used in packing fresh horticultural products for producers;
- materials used to construct farm-worker housing;

- leased irrigation equipment;
- equipment and structures for disposing of straw-based products, as an alternative to field burning;
- propane/natural gas used to heat barns and straw/wood shavings used in production of chickens;
- pharmaceuticals used to treat commercial livestock;
- equipment and facilities used for nutrient management programs for livestock;
- anaerobic digesters for treatment of livestock manure;
- replacement parts for farm machinery;
- honey bees purchased by apiarists;
- diesel, biodiesel, and aircraft fuel (not gasoline) used for agricultural purposes.

EXAMPLES OF EXEMPTIONS - PRODUCER GOODS:
- several specific items, e.g. ferrosilicon and form lumber;
- air pollution equipment installed in thermal, coal-fired electric generating plants;
- coal used to generate electricity at thermal generating facilities;
- rental of film and video production equipment;
- machinery used to generate electricity via solar energy and other renewable resources;
- equipment for distribution of biodiesel and wood biomass fuels;
- hog fuel and forest biomass used to produce electricity (expires 6/30/2015);
- computer equipment and software purchased by printers and publishers.

EXAMPLES OF EXEMPTIONS - INTERSTATE COMMERCE/NONRESIDENTS:
- motor vehicles, airplanes, locomotives, vessels, and railroad equipment used in interstate commerce;
- motor vehicles, trailers, campers, watercraft, and farm equipment sold to nonresidents;
- items delivered out of state to nonresidents and property used temporarily in state by nonresidents;
- purchases of items for use outside Washington by residents of states with sales taxes < 3 percent;
- repair of tangible personal property owned by nonresidents when the repaired item is delivered out of state.

EXAMPLES OF EXEMPTIONS - PUBLIC ACTIVITIES:
- items which the state is constitutionally prohibited from taxing (U.S. government, Indian tribes, etc.);
- labor for local road construction and federal government structures;
- fuel used in urban transportation;
- sand and gravel for streets and roads of local governments;
- purchase and repair of government-owned ferry boats;
- vehicles used in commuter ride-sharing programs (vanpools);
- donations to nonprofits and schools;
- purchases by regional transit authority (Sound Transit).

EXAMPLES OF EXEMPTIONS - OTHER ITEMS:
- casual/isolated sales by persons not engaged in selling that type of item;
- the value of trade-ins accepted by dealers (e.g. used vehicles);
- newspapers;
- motor vehicle and special fuel that is subject to fuel tax (i.e., fuel used on public highways);
- prescription drugs and medical devices (eyeglass lens, orthotic items, hearing aids, etc.);
- purchases by blood, bone, and tissue banks;
- self-service laundries and hospital laundry service;
- customized computer software;
- returnable food and beverage containers;
- food for human consumption (except prepared food) and prescribed dietary supplements;
- local residential telephone service and coin-operated telephone service;
- charges by nonprofit youth organizations for amusement/recreation and physical fitness activities;
- items purchased by artistic/cultural organizations for performance/display purposes;
- sales made for fundraising purposes by nonprofit organizations;
- used mobile homes, floating homes, and park-model trailers;

- equipment used to heat water via solar energy;
- batteries for powering electric vehicles and recharging infrastructure.

CREDITS/REFUNDS
- bad debts which are uncollectible by the seller;
- sales or use tax previously paid upon the item in other states;
- remittance for low-income families that qualify for federal earned income credit (unfunded).

OTHER SALES TAX DEFERRALS
- A public facilities district in any county may apply for deferral of sales tax paid on construction of public facilities such as a stadium or convention center. Pursuant to this authority, sales tax on costs of construction of the professional baseball stadium in King County (Safeco Field) was deferred. The deferral period lasted until four years after the facility was complete, and the taxes are currently being repaid over a period of ten years. (RCW 36.100.090)
- A public stadium authority may defer sales tax on the construction of a stadium and exhibition center. This statute was enacted in 1997 to facilitate a new football stadium to replace the Kingdome. The tax was deferred for four years following completion of Qwest Field, and repayments are now being made over a ten-year period. (RCW 36.102.070)
- Deferral of sales tax on construction of a museum for historic automobiles by a nonprofit organization is permitted by RCW 82.32.580. Eligible costs are those incurred after July 1, 2007, and the deferred taxes must be repaid over a ten-year period starting five years after the facility is complete.
- Legislation in 2008 allowed deferral of state/local sales tax on construction of a replacement floating bridge across Lake Washington (Highway 520). Repayment of the tax starts five years after the new bridge is completed and takes place over a ten-year period.

History

The sales tax was adopted in 1935 as an integral part of the Revenue Act, which established several of Washington's current state taxes. The initial rate was 2 percent effective May 1, 1935, and the tax was limited to sales of tangible personal property. Most food items, except dairy products, eggs, unprocessed fruit and vegetables, and bread, were taxable. Over the years many changes have been made to the base of the tax. Major revisions were:

1939 - all food items and services to personal property became taxable.
1941 - services rendered to real property subject to tax.
1951 - tax extended to hotel and motel accommodations.
1959 - tax extended to rental of personal property and clearing land.
1961 - tax extended to amusement/recreation activities, parking, title/escrow services.
1965 - exemption for residents of states with sales taxes below 3 percent.
1967 - initial sharing of tax (2 percent of the 4.5 percent rate) on hotel-motel accommodations with local government (see local hotel-motel tax).
1970 - initial local sales/use tax authorized (see local sales/use tax).
1971 - state road construction is subject to tax.
1972 - sales tax deferral for certain manufacturing improvements.
1974 - prescription drugs exempted.
1975 - tax paid by the contractor as a consumer is extended to materials incorporated into construction projects for the federal government (upheld by the U.S. Supreme Court in 1983).
1977 - voters approve initiative exempting food for off-premises consumption,

effective July 1, 1978.

1981 - the 1972 manufacturer's tax deferral is repealed.
1982 - tax temporarily reimposed on food for 14 months.
1983 - telephone service, except local residential and coin-operated, subject to tax.
1984 - voters approve initiative exempting trade-ins.
1985 - sales tax deferral for qualified improvements by manufacturing and R&D firms in rural counties.
1993 - tax extended to landscape maintenance, tour operators, physical fitness and certain personal services such as health spas, massage (repealed in 1995), and tanning and dating services.
1994 - tax deferral for high technology businesses.
1995 - exemption for manufacturing machinery and equipment.
1997 - remittance for state sales tax paid on construction of certain large warehouse and distribution facilities and grain elevators.
2003 - the first differential state sales tax rate according to the item being purchased: an additional 0.3 percent rate applies only to new/used motor vehicles.
2003 - major portions of the national model streamlined sales tax base adopted to make Washington's tax more uniform with other states.
2004 - deferral/exemption programs extended (rural counties to 2010 and high technology R&D to 2015).
2005 - deferral/exemption for fruit and vegetable processing facilities.
2006 - deferral/exemption for biotechnology manufacturing facilities in any county; exemptions for diesel fuel used on farms and replacement parts for farm machinery; three new state-credited local taxes authorized.
2007 - final adoption of national streamlined sales tax, effective July 1, 2008.
2008 - remittance program adopted for low-income families eligible for the federal earned income tax credit. (Program remains unfunded.)

Numerous changes in the sales tax rate have occurred since 1935. The state rate has been increased nine times and twice it has been reduced. The changes affecting the state rate are listed below; see the local sales/use tax section for information on local rate changes.

1941 - 2 to 3 percent (5/1/41);
1955 - 3 to 3.3 percent (5/l/55);
1959 - 3.3 to 4 percent (4/1/59);
1965 - 4 to 4.2 percent (6/1/65);
1967 - 4.2 to 4.5 percent (7/1/67);
1976 - 4.5 to 4.6 percent (6/1/76);
1979 - 4.6 to 4.5 percent (7/1/79);
1981 - 4.5 to 5.5 percent (12/4/81);
1982 - 5.5 to 5.4 percent (5/1/82);
1983 - 5.4 to 6.5 percent (3/1/83);*
2003 - additional 0.3 percent for new/used motor vehicles (7/1/03).

*Initially effective in 35 counties, excluding Clark, Cowlitz, Klickitat, and Skamania. The State Supreme Court overturned the differential state sales tax

rate, effective 1/1/1985, and the 6.5 percent rate became uniform statewide.

With the advent of the sales tax in 1935, Washington pioneered the use of "tax tokens." There were several forms of such tokens, but the most common was an aluminum disk about the size of a quarter but with a hole punched in the middle. Because prices of taxable items were much less in the 1930s and because the initial tax rate was much lower, there were instances of sales tax liability totaling less than one cent. Tokens – initially worth one-half of one cent – helped solve this administrative dilemma. Tokens were widely used from 1935 until they were discontinued in 1951.

Discussion/Major Issues

The sales tax is by far the largest revenue source for the state. Together, revenues for the sales and its companion use tax account for 55 percent of state revenues supporting the state general fund. Of total state/local taxes, the general sales tax (including gross receipts taxes) represents 47.5 percent of state/local taxes in Washington. In terms of reliance on a single tax type, this degree of reliance is only exceeded by New Hampshire's dependence upon property taxes.

Washington's 6.5 percent state sales tax rate is currently exceeded by eight other states:

California	-	8.25%
Indiana	-	7.0%*
Mississippi	-	7.0%*
New Jersey	-	7.0%*
Rhode Island	-	7.0%*
Tennessee	-	7.0%
Minnesota	-	6.875%
Nevada	-	6.85%

*states without significant local sales taxes

Although Washington's state sales tax rate ranks ninth out of 45 sales tax states, the addition of significant local sales taxes in this state and the somewhat broader sales tax base in Washington (construction labor, repair of tangible personal property, etc.) results in a very heavy reliance on the tax. As noted above, the general sales tax category produces 47.5 percent of total state/local taxes in Washington. When ranked on a per capita basis, the amount of total tax revenue attributable to general sales taxes in relation to population in Washington is higher than any other state.

Including local sales taxes, the maximum combined rate of 9.5 percent in Washington is exceeded only in a few other states. Among major cities, the highest combined state and local sales tax rate in the country is presently 10.25 percent in Chicago. The largest two cities in Alabama have rates of 10 percent, and approximately one dozen California cities

now have rates of 9.75 percent. Next comes the 9.5 percent rates in four major cities: San Francisco, California; Mobile, Alabama; and our own Seattle and Bellevue.

A sales tax has certain desirable features. It is relatively "popular" with taxpayers, partly because it is usually paid in small increments rather than in a large lump sum. Even in situations where a ticket item or construction project is purchased, often the cost of the item or the project is financed over time and the sales tax liability is spread over an extended period of time. Compared with other major revenue sources, the sales tax produces a large amount of revenue with very low costs of administration compared with other revenue sources. The tax is actually collected and reported by approximately 194,000 retail firms, not the actual purchasers who pay the tax.

Taxing consumption assures that all persons contribute toward the cost of government services, even low-income households and most businesses. It is one method of obtaining tax from persons who are in the state temporarily - tourists, migrant workers, etc. - and for materials incorporated into federal government construction projects (because the contractor is considered to be the consumer of the materials).

However, there are many objections to the tax, mostly as a result of the very high rate. Many retailers believe that they should be compensated for their costs incurred in collecting the tax. Currently, 24 of the 45 states that levy sales taxes at the state level allow some retention by vendors; many of these discounts are characterized as a discount for prompt payment of the tax. The typical discount is about 1 to 3 percent of the vendors' sales tax receipts; Washington is one of 21 states that provides no discount to sellers.

Also, the high tax rates may encourage Washington residents to purchase goods using other methods that are difficult to effectively enforce the collection of sales or use tax. Examples include purchases via mail order catalogs, the Internet, through the "underground economy" consisting of unreported cash transactions, and by buying directly in other states. In particular, the difficulty of collecting sales tax from vendors (or use tax from Washington purchasers) on transactions involving mail order or the Internet is viewed as a growing problem for tax compliance in states like Washington that rely heavily on the retail sales tax. The latest available estimates indicate that E-commerce and mail order purchases from remote sellers are costing the state and local jurisdictions approximately $465 million in annual retail sales/use tax revenues.

Because of the heavy initial impact of sales tax on construction due to the broad tax base and the high tax rate, the tax may inhibit the development of new businesses in Washington, especially capital intensive industries. Despite the sales tax deferral/exemption program for manufacturers in rural counties and the exemption of manufacturing machinery, the tax may be a deterrent to economic development by other types of firms. However, a variety of tax incentives established in recent years help to alleviate the sales tax burden for certain new and expanding industries.

The proximity of retail outlets in adjacent states with lower (or no) tax rates provides opportunity for Washington residents to effectively escape the tax, especially in the Clark

County area. This "border problem" causes an estimated reduction in revenues for the state and local jurisdictions, which has been estimated at $260 million annually. Also, it results in unfair competition for Washington retailers in border areas. The state has attempted to at least partially offset some of these problems by encouraging nonresidents to make purchases in Washington by providing exemption for residents of states that have no sales tax (or a sales tax rate no greater than 3 percent); this exemption applies only to items purchased in Washington that are consumed outside the state.

The federal income tax deduction for state/local sales taxes was eliminated by Congress in 1986. This resulted in a higher federal income tax burden for many Washington residents; this additional federal tax burden has been estimated at more than $400 million annually. Further-more, state income taxes have remained deductible for households that itemize. Thus, a significant inequity has existed for Washington residents vis-a-vis other states with income taxes that do not rely so heavily upon sales taxes. In 2004 Congress temporarily reinstituted the sales tax deduction for households that itemize their federal income tax deductions; however, the deduction will currently end after 2009. Efforts are currently underway in Congress to at least extend the deduction for two more years.

Sales tax collections can fluctuate widely as economic conditions change, producing difficulties for governmental budgets during recessionary periods. Consumer spending tends to decline faster and further than does overall personal income during times of economic slowdown or recession. For example, during the early 1980s sales tax receipts grew very slowly and actually declined in 1981 (and again in 2002) as consumers retrenched during the recession. The largest decline in sales tax receipts in Washington's history occurred this past year in Fiscal Year 2009, when the state sales/use tax receipts dropped by 10.8 percent over the prior year. Conversely, the sales tax can produce unanticipated revenue surpluses during good times, largely as a result of debt-financed purchases by consumers.

Finally, despite the exemption of food products, the tax is regressive, because lower income households must spend a higher percentage of their income for necessities that are subject to sales tax. In contrast, higher income households are able to devote a greater share of their income on nontaxable items, e.g., savings, investment in stocks, purchase of real estate, travel outside the state, etc. Income is generally considered a better measure of ability to pay tax than is consumption, and, in terms of income, the sales tax imposes a greater relative burden at lower income levels. The tax also discriminates on the basis of age and size. Households that are larger and/or in their formative years may pay a substantially greater tax burden as they acquire household goods, autos, etc.

In order to help alleviate the heavy impact of the sales tax upon low-income families, in 2008 the Legislature enacted a program to "remit" a portion of the sales tax for families that are eligible for the federal earned income tax credit. However, funding for the cost of the program has yet to be implemented, so the remit payments have yet to be made.

To combat the growing trend for on-line retail transactions and to lessen the inherently unfair competition for in-state retail establishments, Washington has joined with other states

to implement a national Streamlined Sales and Use Tax Agreement (SSTA), intended to make reporting of sales taxes easier for multistate vendors and particularly remote sellers. To date, 20 states have become full members of the Agreement, and there are three additional associate member states. Washington became a full member on July 1, 2008. Tax base changes have already been adopted in order to make Washington's tax base more consistent with those in other states. The goal is to ease the compliance burden for multistate vendors and encourage remote sellers to collect and report sales tax on interstate purchases by Washington residents.

USE TAX
Chapter 82.12 RCW

Tax Base — Items used in this state, the acquisition of which was not subject to Washington retail sales tax. This includes purchases made from out-of-state sellers (e.g., via catalogs, the Internet, etc.), purchases from sellers who are not required to collect Washington sales tax (e.g., a vehicle sold by a private individual who is not engaged in business), items produced for use by the producer, and gifts/prizes. The tax is measured by the value of the item at the time of the first use within the state, excluding delivery charges.

Tax Rate — Same as retail sales tax - 6.5 percent levied by the state (RCWs 82.12.020(5) and 82.08.020(6)). An additional 0.3 percent tax applies to the use of new or used motor vehicles. Including local use taxes, the combined rate currently ranges from 7.0 to 9.5 percent for most taxable items (7.3 to 9.8 percent for vehicles).

Levied by — State (also see section on local sales/use taxes)

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$465,418	(10.1)%	3.0%
2008	517,979	1.3	3.1
2007	511,374	8.4	3.0
2006	471,744	3.9	3.1
2005	453,901	16.1	3.3
2004	391,015	3.8	3.0
2003	376,648	(0.1)	3.1
2002	377,121	(6.0)	3.2
2001	401,326	4.6	3.4
2000	383,796	14.3	3.3

Administration

Department of Revenue. Tax on equipment bought in other states and on manufactured items used in production is reported by businesses on their Combined Excise Tax Return. Tax on private sales of registered vehicles is collected by county auditors and registration agents when the title is transferred. Individuals who acquire items which were not subject to sales tax (e.g., purchases in other states, at garage sales, etc.) are obligated to report the

tax on the Consumer Use Tax Return which is obtainable at any Department field office or by telephone. Purchasers who buy at least $10 million of goods subject to sales/use tax annually may report the tax directly by obtaining a direct pay permit from the Department. This allows the tax to be reported during the same month via electronic funds transfer by the purchaser, rather than the retail vendor.

Distribution of Receipts

Most receipts go to the state general fund (approximately 98.8 percent of the total).

Proceeds from the additional 0.3 percent tax on new/used motor vehicles goes to the multimodal transportation account for use in financing transportation improvements (RCW 82.08.020(3)).

Pursuant to Initiative 900, adopted by the voters in November 2005, 0.16 percent of state use tax collections is deposited in the performance audits of government account and is used to finance the costs of such audits (RCW 82.12.0201). This special earmarking began December 8, 2005.

A variety of local taxes are credited against the state retail sales and use tax, e.g., for stadium construction, local public facilities, convention centers, and tourism programs. Revenues are distributed to the appropriate local funds. (See Retail Sales Tax section.)

Exemptions and Credits

Use tax exemptions parallel those allowed under the retail sales tax. There are a few additional use tax exemptions such as for computers donated to schools and items donated to nonprofit organizations or governmental entities, vehicles acquired in other states by military personnel, driver-training vehicles, extracted fuel used in production, displays at trade shows, use of vessels by manufacturers and dealers for a variety of purposes, and items previously acquired by persons who move to Washington. In computing use tax, a credit is allowed for any sales or use tax paid in other states.

Generally, the use tax applies to the fair market value of the item at the time it is first used in this state. However, items used temporarily in this state for business purposes for less than 180 days during any 365 consecutive days are subject to use tax on the rental value.

History

See retail sales tax. The use tax was established as a "compensating" tax at the time the retail sales tax was adopted in 1935. All of the subsequent rate changes and most of the tax base revisions have applied to both the retail sales and use taxes.

Discussion/Major Issues

The use tax supplements the retail sales tax; together they constitute a comprehensive tax on consumption of tangible personal property in Washington. In addition to raising revenue and assuring that no "loopholes" exist for items which might otherwise escape retail sales tax, the tax helps to protect Washington retailers from competition via untaxed transactions.

Currently, the state may not require remote sellers to collect sales tax on their sales to Washington residents if the firm has no physical presence (nexus) in this state. This results from the 1967 U. S. Supreme Court decision in the Bellas Hess case and was reaffirmed by the 1992 decision in the Quill case. States have attempted to get the court to reverse its opinion and have lobbied Congress to change the law. Many E-commerce and mail order sellers have resisted efforts of states to have them collect the sales/use tax on purchasers from their state, in part due to difficulties of collecting the proper local sales tax rate in states, such as Washington, which have a variety of local rates and many local taxing jurisdictions.

Purchases via telemarketing and the Internet are increasing at a significant rate and these pose a major threat to sales and use tax revenues. The latest estimates indicate that state and local jurisdictions in Washington are currently losing at least $465 million per year in sales/use tax revenues as a result of mail order and E-commerce transactions.

Legally, Washington residents owe use tax on items which were not subject to sales tax. Examples include items purchased in other states and brought into Washington for use here, purchases made via mail order and the Internet (even though the out-of-state seller cannot be required to collect sales tax, the buyer still owes use tax), and items bought from persons other than registered retail vendors, such as at garage sales. From a practical perspective, it is very difficult and would be prohibitively expensive to enforce payment of use tax in all situations in which it is technically due, especially as it applies to individual purchases.

As a result of the difficulties of collection, much of the use tax is paid by businesses, since they are subject to audit. Purchases of vehicles from private sellers represent the most significant category of use tax that is paid by individuals. Among major state taxes, the use tax has the largest level of noncompliance, estimated at nearly 20 percent of the potential tax liability.

LOCAL RETAIL SALES AND USE TAXES
RCW 82.14 and RCW 81.104.170

Tax Base — Generally, the same as the state retail sales/use tax. However, the 0.5 percent food/beverage tax in King County applies only to prepared food items and beverages consumed on the premises of the seller; the 0.5 percent regional transportation sales tax (not currently levied) exempts motor vehicles but imposes a unique use tax on vehicles purchased by residents of the district; and the public safety tax does not apply to motor vehicles at all.

Tax Rate

State law currently authorizes **25** different types of local sales and use taxes. These range from a two-part city/county tax of up to 1 percent used for general local purposes that is levied in all counties to a 0.1 percent tax that is restricted to funding of zoos in a single county. Twenty-two of the authorized taxes have been levied, producing a total of $2.6 billion annually, while the other three types of local taxes have yet to be implemented. Of the currently levied local sales taxes, 12 are paid directly by purchasers, while ten are credited against the state sales tax, resulting in no extra tax burden for buyers but with the impact being shifted to the state.

The highest aggregate local rate currently levied (July 2009) is 3 percent. This applies in most of King County and southeastern Snohomish County (but not within Everett or the unincorporated area outside of the transit district). Thus, the highest combined state/local rate in Washington is now 9.5 percent. Pierce County is close behind with a maximum local rate of 2.8 percent and a combined total of 9.3 percent. In most other areas of the state the local tax rate ranges from 1.2 to 2.2 percent (7.7 to 8.7 percent combined). The average local sales tax rate statewide is estimated to be nearly 2.4 percent. The city of Stevenson in Skamania County currently has the distinction of being the only incorporated area in the state with an aggregate local sales tax rate of just 0.5 percent, since it levies none of the optional 0.5 percent rate. The same rate also applies in the unincorporated areas of Klickitat and Skamania counties.

The 25 different types of local sales/use taxes are described below. The first section lists the 15 taxes which are included in the overall tax rate paid by purchasers. The final ten taxes are those which are credited against the state sales tax; therefore, they do not impose an additional burden on purchasers.

LOCAL SALES TAXES PAID BY PURCHASERS

CITIES: RCW 82.14.030 allows cities to levy a basic 0.5 percent sales and use tax rate, plus an optional tax at rates ranging from 0.1 to 0.5 percent. Currently, there are 281 incorporated cities and all of them levy the basic 0.5 percent tax. Only the city of Stevenson

does not levy any of the optional tax; two others – Asotin City and Clarkson - levy only a portion of the optional tax. Cities also receive revenues from some of the other local sales taxes, e.g., the criminal justice tax that is levied by counties and from transit rates levied by some municipalities.

COUNTIES: Under the same statute, counties may levy the same rates as cities. The county tax applies countywide, although the city taxes derived within municipalities are credited against the county tax. Thus, the county tax only applies within cities if the county rate happens to be higher than the city rate. (However, the county receives a portion of the city tax – see distribution section.) Currently, 36 counties levy the full 1 percent tax. Two counties - Klickitat and Skamania - levy all of the basic and none of the optional tax; while Asotin County levies the basic and 0.3 percent of the optional tax. Counties also receive local sales tax revenues from the criminal justice, correctional facilities, and mental health taxes, the rural county tax, and transit and public facility local tax rates.

TRANSIT: Under RCW 82.14.045 there are 27 cities, counties, or public transportation benefit areas (PTBAs) that levy a local sales and use tax rate to finance local bus systems. Rates for the local tax may range from 0.1 to 0.9 percent. As of July 2009, King County and the Snohomish County PTBA are the only jurisdictions to levy the full 0.9 percent rate. Rates in the other 25 transit jurisdictions range from 0.2 to 0.8 percent.

HIGH CAPACITY TRANSIT: RCW 81.104.170, established in 1990, authorizes an additional local sales/use tax of up to 1 percent. This tax may be levied, if approved by the local voters, by cities that operate transit systems, county transportation authorities, King County Metro, or a PTBA, but the proceeds must be devoted to a high capacity transportation system (e.g., a light rail system or other form of transit which operates on an exclusive right of way). If the county also levies a local sales/use tax of 0.1 percent for criminal justice programs, as described below, then the maximum rate of the tax for high capacity transit is 0.9 percent. The Regional Transit Authority (known as Sound Transit) covering portions of King, Pierce, and Snohomish counties obtained voter approval for this tax in November 1996. The RTA began levying a rate of 0.4 percent throughout the urban area of these three counties on April 1, 1997. The voters approved an increase in the rate in 2008 up to the maximum 0.9 percent, and this rate became effective on April 1, 2009. (NOTE: Legislation in 2009 authorized creation of a high capacity transportation corridor area in Clark and Spokane counties; such entities could levy the same 0.9 percent local tax.)

CRIMINAL JUSTICE: RCW 82.14.340, adopted in 1990, establishes an additional local sales/use tax of 0.1 percent for criminal justice programs. This tax may be levied only by counties, although the receipts are shared with cities: 10 percent goes to the county and the remaining 90 percent is apportioned to the county and all cities within the county on the basis of population. Imposition is subject to potential referendum by the voters. Currently, 32 counties are levying the tax.

PUBLIC FACILITIES: RCW 82.14.048 provides for an additional 0.2 percent local sales and use tax to be used for acquisition, construction, and operation of public facilities, such as sports and entertainment facilities. This tax was established in 1991 at a rate of 0.1

percent, and the maximum rate was increased to 0.2 percent in 1999. The tax is levied by the board of a public facilities district, established under chapter 36.100 or chapter 35.57 RCW. To date, the tax has been imposed only in Spokane County to finance the Spokane Arena, and the tax rate remains at 0.1 percent. (NOTE: Public facilities districts may also levy the regional centers tax as described later in this section.)

JUVENILE CORRECTIONAL FACILITIES: RCW 82.14.350 establishes a local sales/use tax of 0.1 percent for construction and operation of juvenile detention facilities and jails. The tax may be levied by counties with populations of less than one million, thus excluding King County. Voter approval is required. Originally adopted in 1995, to date it has been implemented in 14 counties.

KING COUNTY FOOD/BEVERAGE TAX: RCW 82.14.360, enacted in 1995, allows King County to impose a sales/use tax of 0.5 percent on food and beverages sold by restaurants, taverns, and bars. Receipts of the tax are dedicated to funding of Safeco Field in Seattle. The tax is not deductible from the state sales tax, so it increases the overall tax rate on such products to 10 percent (within the regional transit district). This tax was the first sales tax in Washington, the base of which differed from other taxable items (now vehicles are treated differently for several types of sales taxes). The tax is intended to apply to prepared items which are consumed on-premises; grocery stores and convenience stores are exempt. The tax was adopted by the King County Council in October 1995 with an effective date of January 1, 1996. The tax will expire when the bonds that finance the facility are retired or no later than the end of 2016.

ZOO, AQUARIUM, AND WILDLIFE FACILITIES: RCW 82.14.400 authorizes a metropolitan park district to levy a 0.1 percent local sales/use tax to finance construction and operation of zoos, aquariums, and wildlife preservation and display facilities, as well as general costs of public parks. Levied by Tacoma and Pierce County, the tax benefits the zoo and aquarium at Point Defiance Park in Tacoma and the Northwest Trek facility operated by the Pierce County Metropolitan Park District. The law provides that 1 percent of the local receipts for the initial 12 years be transferred to the state Department of Commerce to be used for community-based housing programs for mentally ill persons. This local tax statute was adopted in 1999 and collection began in on January 1, 2001.

EMERGENCY COMMUNICATIONS: RCW 82.14.420 permits counties to levy a local sales/use tax of 0.1 percent for the financing of emergency communications systems and facilities. Voters of the county must approve the tax. Levying counties may share the tax receipts with the cities in the county to finance these systems and facilities. The authorizing legislation was adopted in 2002, and the tax was first implemented in Thurston County in January 2003. To date 12 counties have levied the tax.

REGIONAL TRANSPORTATION: RCW 82.14.430 establishes a local sales/use tax of up to 0.1 percent to finance regional transportation projects. The tax would be levied by a regional transportation investment district (RTID), comprised of two or more adjacent counties, and must be approved by the voters of the district. The base of the 0.1 percent tax is unlike any other local sales tax. It applies to all taxable retail sales within the district,

except for sales of new or used motor vehicles. Instead, a unique local use tax of the same rate would apply to new or used vehicles purchased by residents of the district. This is intended to reduce the incentive for residents of the district to purchase vehicles outside of the district and thereby avoid the 0.1 percent local sales tax. Sellers of new and used vehicles throughout the state now code their sales according to the residence of the purchaser. The authorizing legislation for the local regional transportation sales/use tax was adopted in 2002, but the tax has yet to be levied anywhere in the state. The maximum rate of the local tax initially was 0.5 percent but was reduced to 0.1 percent in 2006.

PASSENGER FERRIES: In 2003 a new local sales/use tax was authorized to finance passenger-only ferry service (RCW 82.14.440). The tax is to be levied by a PTBA subject to approval by the voters of the district, and the maximum rate is 0.4 percent. The tax may only be levied by a PTBA which borders on Puget Sound and which is not located in a regional transit authority (which eliminates most of King, Pierce, and Snohomish counties). It is understood that the tax was intended for Kitsap County. A proposal was presented to the voters, but it was not approved.

PUBLIC SAFETY: This local sales/use tax was adopted in 2003. RCW 82.14.450 provides a tax of up to 0.3 percent for counties, subject to voter approval. At least one-third of the tax receipts must be devoted to criminal justice programs, including funding of additional police officers and the relief of congested court systems and overcrowded correctional facilities. The levying county is to retain 60 percent of the receipts, and the remaining 40 percent will be distributed to cities within the county on a per capita basis. The statute requires that the use of the revenues be stated in the ballot proposition; further, the receipts may not be used to replace existing funds for such programs. This local sales tax features another differential tax base which departs from the state sales tax base. Like the regional transportation tax, sales of motor vehicles are not subject to the local tax. However, unlike the transportation tax, there is no special use tax on vehicles purchased by owners who reside within the levying county. The tax has been implemented in five counties: Kittitas, Walla Walla, Spokane, Whatcom, and Yakima.

TRANSPORTATION BENEFIT DISTRICT: Similar to the authority provided for a regional transportation investment district, RCW 82.14.0455 provides a local sales tax of up to 0.2 percent for a transportation benefit district (TBD) formed pursuant to chapter 36.73 RCW. A TBD may include area within one or more counties, cities, port districts, county transportation authority, or public transportation benefit area. The tax may be levied for a ten-year period, unless reauthorized for a second ten years by the voters. The tax was authorized in 2005 and has yet to be implemented.

MENTAL HEALTH/CHEMICAL DEPENDENCY: A county tax of 0.1 percent was authorized in 2005 with the proceeds devoted to new or expanded county programs for mental health treatment, chemical dependency services, or therapeutic court programs (RCW 82.14.460). The tax has been imposed in 13 counties.

LOCAL SALES TAXES CREDITED AGAINST STATE TAX

KING COUNTY BASEBALL STADIUM: RCW 82.14.0485 provides for a local sales and use tax of 0.017 percent to be used exclusively for construction of a baseball stadium in King County (Safeco Field). The stadium must include a retractable roof and natural turf. This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent tax, and therefore the burden is shifted to the state general fund. Although the tax receipts are to be used by a public facilities district, the actual tax must be imposed by the county. The tax was levied by the King County Council in October 1995, and it was effective on January 1, 1996. It will expire when the bonds for the facility are retired. The tax may not be levied after January 1, 2016.

KING COUNTY FOOTBALL STADIUM: RCW 82.14.0494 authorizes a local sales and use tax of 0.016 percent to be used for a stadium (Qwest Field) designed to house a professional football team and an adjacent exhibition center. The stadium must be an open-air facility which can accommodate a national football league team and Olympic/World Cup soccer. Although the stadium is to be constructed and operated by a public stadium authority, the local sales tax is levied by the county. The statute provides the taxing authority to any county, but because of the restriction limiting the tax to a facility for professional football, the tax is effectively restricted to King County. Voters approved the statewide referendum authorizing the tax in June 1997 and the tax was first levied throughout King County in August 1997. This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent tax, and therefore the burden is shifted to the state general fund. The tax will expire when the bonds to finance the facility are retired (expected by November 2020).

RURAL COUNTIES: RCW 82.14.370 authorizes rural counties to impose a local sales/use tax of up to 0.09 percent. Originally, the authorized tax rate was 0.04 percent, but it was increased to 0.08 percent in 1999 and then to 0.09 percent, effective August 1, 2007. Eligible counties are those with an average population density of less than 100 residents per square mile or one that is smaller than 225 square miles; currently 32 counties qualify under this definition. The tax receipts may only be used for financing of public facilities, such as street improvements, bridges, water/sewer systems, etc., which serve economic development purposes (i.e., the creation or retention of jobs). This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent sales tax, and therefore the burden is shifted to the state general fund. Once a county qualifies and the tax has been levied, it may continue for up to 25 years. This program was effective on July 1, 1998, and the initial 24 counties began levying the tax on August 1, 1999. All 32 eligible counties are currently levying the 0.09 percent local tax.

REGIONAL CENTERS: RCW 82.14.390, enacted in 1999, establishes a local sales/use tax of up to 0.033 percent to finance regional centers. (Note: As a result of a 2007 amendment, the tax rate may be increased up to 0.037 percent, if the tax receipts were

impacted by adoption of the Streamlined Sales Tax Agreement, relating to destination-based sourcing of local sales tax.) The tax may be levied by a public facilities district (PFD), created pursuant to chapters 35.57 or 36.100 RCW, after August 1, 2000, and before July 1, 2006. An amendment in 2007 extended the authorization to certain cities in King County for centers for which construction was initiated prior to July 1, 2008. Regional centers are defined to include convention and conference centers and special events facilities, such as facilities for community events, sporting events, trade shows, and artistic performances. This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent tax, and therefore the burden is shifted to the state general fund. Authority to levy the tax is limited to districts that commence construction of eligible projects prior to February 1, 2007. Once levied, the tax may remain in place until bonds that finance the facility are retired, but in no case may the tax be levied for longer than 25 years. In order to utilize the state-credited tax receipts, the statute requires that public or private matching funds must be obtained for the project. First levied in August 2000, the tax is currently utilized to fund 22 projects throughout the state.

REGIONAL THEATERS: A variation of the regional centers local tax was adopted in 2007 by RCW 82.14.485. This enables PFDs with a population between 90,000 and 100,000 located in counties with fewer than 300,000 residents to impose a state-credited local sales/use tax at a rate of either 0.025 or 0.020 percent, depending upon the date the PFD was formed. Receipts of the tax must be devoted to improvement of a regional center with permanent seating of no more than 2,000 seats. Matching funds from other public or private funding sources equal to at least 33 percent of the local tax is required. This tax has been imposed in Yakima and Cowlitz counties to finance renovation of two theaters.

HOSPITAL BENEFIT ZONE: In 2006 a new form of tax increment financing was enacted to assist in financing public improvements related to a hospital. The program allows a city or county to designate a hospital benefit zone within which the increased state and local sales taxes accruing within the boundaries of the zone may be devoted to financing the cost of public improvements undertaken within the zone. A new local sales tax is established by RCW 82.14.465 and the proceeds are credited against the state tax. The rate of the local tax may be as high as 6.5 percent. However, the state revenues going to all hospital benefit zones are limited to a maximum of $2 million annually. The local tax may be imposed starting on July 1, 2007. A hospital benefit zone has been established by the city of Gig Harbor and parts of Pierce County. Starting in 2007, data was reported within this district in order to establish the required base year receipts. The hospital benefit zone was eligible to begin receiving the local tax on July 1, 2009, but chose to wait an additional year.

LOCAL INFRASTRUCTURE FINANCING: Another tax increment financing program involving a new local sales tax was also established in 2006. Known as the Local Infrastructure Financing Tool (LIFT), the program allows cities and counties to establish a revenue development area (RDA) to encourage economic development. Public improvements within an RDA may be financed by the increased local sales and property tax revenues derived. Only one RDA may be created in a county. RCW 82.14.475 provides for a new local sales tax of up to 6.5 percent within the RDA and the receipts are credited

against the state sales tax. The state's contribution is limited to matching the amount of other local funds devoted to the project and may not exceed $7.5 million for all RDA projects in the state. The local sales tax may be levied starting on July 1, 2008; the tax levied for a particular RDA is limited to a 25-year period. The entire program is scheduled to expire on June 30, 2039. Nine cities established RDAs under the program: Bellingham, Bothell, Everett, Federal Way, Liberty Lake, Vancouver, Yakima, Puyallup, and Mount Vernon; new applications are no longer being accepted. Under an amendment in 2009 these cities must estimate the applicable local tax revenues and determine the applicable local tax rate by September 1, 2009. The city of Bellingham began receiving the local tax revenues on July 1, 2009; the other eight jurisdictions will commence a year later.

ANNEXATION SERVICES: A local sales/use tax of up to 0.2 percent was authorized by RCW 82.14.415 in 2006 for certain cities to provide for municipal services related to annexation areas. The tax may be imposed only if the cost of extending municipal services exceeds the potential local revenue to be derived from the annexation area. The local tax is credited against the state sales tax, thus shifting the cost to the state general fund. The tax was originally restricted to cities in King, Pierce, or Snohomish counties, except for the city of Seattle. However, in 2009 authorization was extended to Seattle at a rate of up to 0.85 percent and to other cities at a rate of up to 0.3 percent. The Seattle tax applies to annexations initiated prior to 2015 and is limited to $5 million annually. Various population requirements apply to the annexation areas. The 2006 statute required that the annexation process must be initiated by January 1, 2010; this was extended to 2021 by the 2009 amendment. The tax is authorized to run for a maximum of ten years. Authorization for the local tax was effective on July 1, 2007, and two cities – Auburn and Renton - imposed it starting on July 1, 2008.

HEALTH SCIENCES AND SERVICES: Legislation in 2007 authorized the creation of a health sciences and services authority by any county, except King. The goal of the authority is to promote bioscience-based economic development and to advance new therapies and procedures to combat disease and promote public health. Only one such entity may be formed in the state, and it was implemented by Spokane County. RCW 82.14.480 enables the authority to levy a state-credited local sales tax of up to 0.02 percent. The local tax commenced in August 2008, and the statute allows it to continue through 2022.

LOCAL REVITALIZATION FINANCING: Similar to the 2006 LIFT program, another local sales tax-based financing mechanism was adopted in 2009. Pursuant to RCW 82.14.510 a local sales/use tax of up to 6.5 percent - excluding other state-credited local sales taxes and the portion of the state rate devoted to performance audits – may be levied by participating cities or counties. Two categories of participants are established: (1) seven demonstration projects in the cities of Pullman, University Place, Tacoma, Bremerton, Auburn, Vancouver, and Spokane; and (2) other projects on a first-come basis. The state-credited local tax is limited annually to $2.25 million for the seven demonstration projects and to $2.5 million for all other projects. No project may receive more than $500,000 per year. Jurisdictions must estimate their local receipts to determine the actual local tax rate. The tax is scheduled to commence on July 1, 2010, for the seven designated projects and on July 1, 2011, for any other qualifying projects.

Maximum Rate Limit

RCW 82.14.410, enacted in 2001, stipulates that a local sales tax rate increase implemented after December 1, 2000, must exempt sales of lodging from such local sales tax, if this tax would cause the combined tax rate on lodging to exceed 12 percent or the actual rate that existed on December 1, 2000 (e.g., 15.2 percent in Seattle). Included in the determination of such maximum tax rates are all applicable local sales taxes, the state sales tax, and the state convention center tax. The purpose is to honor the maximum limitation on lodging taxes provided in RCW 67.28.181. The current impact of this provision is to exempt lodging sales in King County which are also subject to the convention center tax (i.e., lodging facilities with 60 or more units) from the various increases in local tax rates since 2001.

Administration

Department of Revenue. Local retail sales and use tax is reported in the same manner as the state tax. However, retail vendors and persons reporting use tax must code their sales on the Combined Excise Tax Return to one or more of 334 local code areas in which the transactions take place so that the Department may return the proper amount of local tax to the appropriate jurisdictions.

By law, the Department may deduct up to 2 percent of the local collections to cover the state's cost of administration (the fee goes to the general fund, not the Department) for some of the local sales taxes, except those which are merely credited against the state sales tax. The Department has never charged the maximum amount. Since July 1997, a flat administrative fee of 1 percent has been charged to all local jurisdictions. Local sales/use taxes for which the administrative fee applies are: basic and optional tax for cities and counties, the transit tax (not the RTA tax), the King County food/beverage tax, criminal justice tax, public facilities tax, juvenile correctional facilities tax, emergency communications tax, public safety tax, and the tax for mental health/chemical dependency programs.

The law requires that new sales taxes or changes in existing rates may only take place at the start of a calendar quarter. Further, the Department of Revenue must be notified by the local jurisdiction at least 75 days prior to the intended starting date of the tax or any rate changes. This is intended to allow sufficient time to notify the affected vendors who collect the tax.

Levied by

Cities, counties, public transportation benefit areas, regional transportation authorities, regional transportation investment districts, transportation benefit districts, public facility districts, and public stadium authorities. Transit districts may be formed by cities, counties, public transportation benefit areas covering a portion of a county, county transportation authorities, or metropolitan municipal corporations.

Local sales/use tax is levied by ordinance of the legislative body of the jurisdiction. The city/county tax does not require voter approval, although imposition/increase of the optional 0.5 percent rate and imposition of the criminal justice tax are subject to referendum by the voters. Referendum petitions must be filed within seven days of adoption of the ordinance imposing or increasing the optional tax. Within the next 30 days the petitioner must gather signatures numbering at least 15 percent of the registered voters of the city or county in order to force a referendum election. Imposition or increase (up to statutory maximums) of most other local sales/use taxes must be approved by the voters of the district.

CURRENT IMPLEMENTATION OF LOCAL SALES TAXES

	Number of Levying Jurisdictions			Voter Approval
Local Sales Tax Type	City	County	District	Required
0.5% basic rate*	281	39	--	No
0.5% optional rate*	280	37	--	Subj. to referendum
0.1 - 0.9% transit tax*	4	2	21	Yes
1.0% high cap. transit	--	--	1	Yes
0.1% criminal justice*	--	32	--	Subj. to referendum
0.1% public facilities*	--	--	1	Yes
0.1% juvenile correction*	--	14	--	Yes
0.5% food/beverage tax*	--	1	--	No
0.017% baseball stadium**	--	1	--	No
0.016% football stadium**	--	1	--	Subj. to referendum
0.09% rural counties**	--	32	--	No
0.1% zoo/aquarium	--	1	--	Yes
0.033% regional centers**	--	--	22	No
0.02 0.025% reg. theater**	--	--	2	No
0.1% emerg. comm.*	--	12	--	Yes
0.5% regional transp.	--	--	--	Yes
0.4% passenger ferries	--	--	--	Yes
0.3% public safety*	--	5	--	Yes
0.2% transportation benefit*	--	--	--	Yes
0.1% mental health*	--	13	--	No
6.5% hospital benefit**	--	1	--	No
6.5% local infrastructure**	9	--	--	No
6.5% local revitalization**	7	--	--	No
0.2% annexation services**	2	--	--	No
0.02% health sciences**	--	1	--	No

*State administrative fee applies.
**Credited against the state sales tax; therefore, no additional impact for taxpayers.

Exemptions, Credits and Deferrals

Same as the state retail sales and use taxes.

Recent Distributions ($000)

Collections of all local sales and use taxes in Washington currently total $2.5 billion annually (Fiscal Year 2009). The latest fiscal year total is down by 6.9 percent from the prior year ($2.7 billion), reflecting the decline in taxable retail activity during the current recession.

Listed below are the local tax distributions by type of tax for the latest ten calendar years. Most sources reflect a decline for calendar year 2008 over the prior year due to the impact of the recession. A few local taxes continued to increase because of rate changes or new impositions of the tax by certain local jurisdictions.

Calendar Year	Cities Basic/Opt.	Counties Basic/Opt.	Transit Districts	Criminal Justice	Public Facilities
2008	$897,571	$340,027	$821,781	$117,716	$7,344
2007	916,805	345,659	820,694	125,749	8,185
2006	843,675	321,849	729,721	116,380	7,619
2005	759,925	302,334	661,750	105,085	6,969
2004	699,183	276,031	583,701	96,474	6,456
2003	664,595	264,171	551,983	91,721	6,173
2002	640,164	266,050	501,302	89,474	6,014
2001	645,921	259,850	440,819	89,378	5,957
2000	643,142	254,195	392,929	87,954	5,859
1999	596,595	240,190	362,309	78,256	5,518

Calendar Year	Juvenile Facilities	Regional Transit	King Co. Food/Drink	Baseball Stadium	Football Stadium
2008	$33,284	$251,337	$19,838	$7,839	$7,376
2007	42,506	277,424	20,720	8,575	8,064
2006	39,927	256,372	19,062	7,818	7,359
2005	35,188	235,155	17,666	7,202	6,782
2004	30,619	215,562	16,608	6,658	6,266
2003	28,857	207,274	15,584	6,423	6,052
2002	27,385	200,693	15,173	6,365	5,980
2001	25,419	210,836	15,050	6,671	6,270
2000	24,464	210,605	14,643	6,782	6,343
1999	21,860	191,707	13,531	6,156	5,758

Calendar Year	Rural Counties	Zoo/ Aquarium	Regional Centers/Theaters	Emergency Communication	Public Safety
2008	$26,216	$11,685	$19,499	$16,010	$22,396
2007	23,664	13,244	19,947	15,613	20,488
2006	20,944	12,698	18,371	13,567	18,165
2005	19,325	11,635	16,670	11,446	11,053
2004	17,804	10,545	15,209	9,044	1,737
2003	16,771	9,894	13,006	2,760	- -
2002	15,873	9,196	9,495	- -	- -
2001	15,073	7,269	3,629	- -	- -
2000	14,014	- -	- -	- -	- -
1999	7,198	- -	- -	- -	- -

Calendar Year	Mental Health/ Chem. Dependency	Annexation Services	Health Sciences
2008	$45,925	$1,523	$403
2007	15,909	- -	- -
2006	6,724	- -	- -

Distribution of Receipts

The 1 percent basic and optional city/county local sales and use tax revenues are used for general municipal or county purposes. Some jurisdictions may dedicate a portion of the receipts to a particular program. Counties receive all of the basic and optional local tax, after the state administrative fee is deducted, for transactions that occur in the unincorporated area of the county, as well as 15 percent of the tax on sales within cities. Cities receive only 85 percent of the net proceeds of transactions that occur within their boundaries. However, if a city and its county do not levy the same local tax rate, then the jurisdiction imposing the higher rate receives 100 percent of the net proceeds attributable to the rate that is in excess of the other jurisdiction's rate.

Unique distributions of local tax receipts and dedicated use of the funds for each of the local sales/use taxes were discussed earlier in this chapter. Distributions of local sales/use tax revenues are made each month. There is a lag of two months for the distribution in order for tax returns to be submitted by retail businesses and processed by the Department. For example, sales made during the month of June are reported by monthly taxpayers by July 25; the local sales tax revenues attributable to such sales are sent to the local jurisdictions in the middle of August.

The point of sale is important, because it determines the applicable local tax rate and which jurisdictions receive the local tax revenues. Generally, the point of sale and hence the local revenues are attributable to the location of the retail store where the purchase was made if

the buyer takes possession of the item at the vendor's store. In the case of products which are installed (e.g. carpeting) or construction of buildings, the tax is coded to the location of the installation or construction.

For items that are shipped by the vendor to the purchaser's residence or business location, the local tax was previously coded to the location of the warehouse where the shipment originated rather than the seller's retail location where the transaction occurred or the location of the buyer. However, since Washington adopted the Streamlined Sales Tax Agreement in 2008, its practice had to be consistent with other sales tax states that followed "destination sourcing" for delivered products. Thus, the distribution of the local tax for items shipped from a warehouse to a buyer is now made according to the location of the purchaser's residence. A mitigation program is currently underway to provide compensation for local jurisdictions that suffered reduced revenues as a result of destination sourcing.

History

The local sales/use tax originated in 1970 when the Legislature authorized cities and counties to levy a rate of 0.5 percent, effective April 1, 1970. The "optional" tax of up to an additional 0.5 percent was authorized in 1982, partly to provide compensation for cities and counties for the loss in tax revenues from business inventories which became exempt from personal property tax for taxes payable in 1984.

In 1971, the Legislature established the transit tax which was initially authorized for only metropolitan municipal corporations in Class AA counties (King) at a maximum rate of 0.3 percent. King County Metro implemented the tax, effective January 1, 1973. Starting in 1974, the transit tax could be levied by any county and in 1975 by other types of transit districts (e.g., PTBAs and cities). Also, lower rates of 0.1 and 0.2 percent were permitted in 1975. In 1980, the maximum rate was increased to 0.6 percent for King County and in 1984 other counties or transit districts could also levy up to 0.6 percent.

In 1990 the 1 percent tax for high capacity transportation systems and the 0.1 percent tax for criminal justice programs were adopted. Initially, the criminal justice tax was limited to six counties and had to be approved by the local voters. In 1993 it was broadened to any county and, instead of prior voter approval, the proposition merely had to be subject to potential referendum by the electorate. In 1991 the 0.1 percent public facilities tax was established. Initially, it was limited to public facilities districts in Spokane County, but in 1995 the authority was expanded to any county.

The 0.017 percent local tax and the 0.5 percent King County food and beverage tax for financing of a baseball stadium in King County and the 0.1 percent tax for correctional facilities were authorized in 1995. The 0.016 percent tax for a professional football stadium and the original 0.04 percent local taxes for rural public facilities were established in 1997.

In 1999 two new local taxes were authorized: the 0.1 percent tax in Pierce County for zoos and the 0.033 percent state-credited tax for regional centers constructed and operated by

public facilities districts. The maximum transit tax rate was increased from 0.6 to 0.9 percent in 2000. Next, two new local sales taxes were authorized in 2002: the 0.1 percent county tax for emergency communications and the 0.5 percent (lowered to 0.1 percent in 2006) regional transportation tax. In 2003 the 0.4 percent tax for passenger-only ferry services and the 0.3 percent tax for public safety programs were authorized.

A new program involving the use of local sales tax revenues was initiated in 2002. An amendment to RCW 35.81.100 allowed any increase in local sales tax receipts which can be attributed to investment in a community renewal project undertaken by a city to be dedicated to retirement of the bonds which financed the investment.

In 2005 two new types of local sales taxes were established: the 0.2 percent tax for transportation benefit districts and the 0.1 percent tax for mental health or chemical dependency services. The five newest state-credited local taxes were authorized as follows: for hospital benefit zones (2006), for local infrastructure financing (2006), and for municipal services in annexation areas (2006), for health sciences (2007) and for local revitalization financing (2009).

Discussion/Major Issues

The local sales/use tax has become a major revenue source for cities, counties, and transportation districts. Total local sales/use taxes for all jurisdictions - $2.5 billion - are second in magnitude only to local property tax levies ($6.8 billion) as a revenue source for local governments. For cities, the amount of sales tax nearly equals their property tax receipts. Regular and special property tax levies due in 2008 for all cities equaled $1,092 million, whereas city receipts of the general local sales tax and the city share of the criminal justice, public safety, and annexation local taxes amounted to $975 million in the same period. For county government the property tax still far outweighs the local sales tax in importance -$1,437 million in property tax levies versus $580 million in local sales taxes.

Most of the advantages and disadvantages of the state tax apply equally to the local sales and use tax. Also, the necessity to code transactions for purposes of the local tax greatly complicates reporting of the tax, especially for retailers who operate in many locations and particularly those located in other states that are not familiar with Washington jurisdictions.

The local sales/use tax is often criticized for the lack of uniformity in revenues among jurisdictions. Because population and retail activity are not distributed throughout the state in the same manner, there can be large variations in local tax receipts among jurisdictions. Statewide average per capita receipts from the basic 0.5 percent tax (which is levied in all jurisdictions) in calendar year 2008 amounted to $25.96 for counties and $110.86 for cities. The county per capita receipts ranged from $100.38 in San Juan to $15.51 in Garfield. The range was even more disparate for cities; the highest per capita receipts were in Tukwila ($514.43) and the lowest were in Marcus in Stevens County ($3.74).

The top five cities in per capita local sales tax receipts for 2008 were: Tukwila, $514.43; Burlington, $407.78; Fife, $406.40; Quincy, $356.23; and Gig Harbor, $353.36. The city of Tukwila has often been the leader in per capita local sales tax receipts, because of the large shopping mall within its boundaries and because its population is relatively low. In 2008 its receipts were more than $100 per capita above the second ranking city; this is likely a result of the construction activity associated with the light-rail transportation system, several miles of which are within the city boundaries. Quincy, located in Grant County, presents an interesting increase in local sales tax receipts. Two years ago, its per capita receipts were only $42.82; the next year the figure soared to $397.77 and in 2008 it continues to be very high. This is likely attributable to construction of call centers and related facilities by computer software companies and related development in the area.

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Because of variations such as these, in 1982 the Legislature established an equalization program to help mitigate the adverse impact of the sales tax for cities and counties with very low per capita receipts. Using state motor vehicle excise tax funds, a distribution was made to those cities and counties with low per capita receipts from their local sales/use tax. The local sales tax equalization programs were funded by motor vehicle excise tax revenues. With the repeal of this tax in 2000, funding for local sales tax equalization disappeared. Thus, the equalization program was effectively curtailed in 2000.

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However, legislation in 2005 did reinstitute a form of local assistance by earmarking 1.6 percent of state real estate excise tax receipts to a new city/county assistance fund to primarily benefit jurisdictions with low per capita assessed property values and local sales tax receipts.

LOCAL SALES TAXES CREDITED AGAINST STATE TAX

KING COUNTY BASEBALL STADIUM: RCW 82.14.0485 provides for a local sales and use tax of 0.017 percent to be used exclusively for construction of a baseball stadium in King County (Safeco Field). The stadium must include a retractable roof and natural turf. This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent tax, and therefore the burden is shifted to the state general fund. Although the tax receipts are to be used by a public facilities district, the actual tax must be imposed by the county. The tax was levied by the King County Council in October 1995, and it was effective on January 1, 1996. It will expire when the bonds for the facility are retired. The tax may not be levied after January 1, 2016.

KING COUNTY FOOTBALL STADIUM: RCW 82.14.0494 authorizes a local sales and use tax of 0.016 percent to be used for a stadium (Qwest Field) designed to house a professional football team and an adjacent exhibition center. The stadium must be an open-air facility which can accommodate a national football league team and Olympic/World Cup soccer. Although the stadium is to be constructed and operated by a public stadium authority, the local sales tax is levied by the county. The statute provides the taxing authority to any county, but because of the restriction limiting the tax to a facility for professional football, the tax is effectively restricted to King County. Voters approved the statewide referendum authorizing the tax in June 1997 and the tax was first levied throughout King County in August 1997. This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent tax, and therefore the burden is shifted to the state general fund. The tax will expire when the bonds to finance the facility are retired (expected by November 2020).

RURAL COUNTIES: RCW 82.14.370 authorizes rural counties to impose a local sales/use tax of up to 0.09 percent. Originally, the authorized tax rate was 0.04 percent, but it was increased to 0.08 percent in 1999 and then to 0.09 percent, effective August 1, 2007. Eligible counties are those with an average population density of less than 100 residents per square mile or one that is smaller than 225 square miles; currently 32 counties qualify under this definition. The tax receipts may only be used for financing of public facilities, such as street improvements, bridges, water/sewer systems, etc., which serve economic development purposes (i.e., the creation or retention of jobs). This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent sales tax, and therefore the burden is shifted to the state general fund. Once a county qualifies and the tax has been levied, it may continue for up to 25 years. This program was effective on July 1, 1998, and the initial 24 counties began levying the tax on August 1, 1999. All 32 eligible counties are currently levying the 0.09 percent local tax.

REGIONAL CENTERS: RCW 82.14.390, enacted in 1999, establishes a local sales/use tax of up to 0.033 percent to finance regional centers. (Note: As a result of a 2007 amendment, the tax rate may be increased up to 0.037 percent, if the tax receipts were

impacted by adoption of the Streamlined Sales Tax Agreement, relating to destination-based sourcing of local sales tax.) The tax may be levied by a public facilities district (PFD), created pursuant to chapters 35.57 or 36.100 RCW, after August 1, 2000, and before July 1, 2006. An amendment in 2007 extended the authorization to certain cities in King County for centers for which construction was initiated prior to July 1, 2008. Regional centers are defined to include convention and conference centers and special events facilities, such as facilities for community events, sporting events, trade shows, and artistic performances. This tax is not an additional tax for consumers, and it does not change the overall retail sales/use tax rate. Rather, the receipts are credited against the state 6.5 percent tax, and therefore the burden is shifted to the state general fund. Authority to levy the tax is limited to districts that commence construction of eligible projects prior to February 1, 2007. Once levied, the tax may remain in place until bonds that finance the facility are retired, but in no case may the tax be levied for longer than 25 years. In order to utilize the state-credited tax receipts, the statute requires that public or private matching funds must be obtained for the project. First levied in August 2000, the tax is currently utilized to fund 22 projects throughout the state.

REGIONAL THEATERS: A variation of the regional centers local tax was adopted in 2007 by RCW 82.14.485. This enables PFDs with a population between 90,000 and 100,000 located in counties with fewer than 300,000 residents to impose a state-credited local sales/use tax at a rate of either 0.025 or 0.020 percent, depending upon the date the PFD was formed. Receipts of the tax must be devoted to improvement of a regional center with permanent seating of no more than 2,000 seats. Matching funds from other public or private funding sources equal to at least 33 percent of the local tax is required. This tax has been imposed in Yakima and Cowlitz counties to finance renovation of two theaters.

HOSPITAL BENEFIT ZONE: In 2006 a new form of tax increment financing was enacted to assist in financing public improvements related to a hospital. The program allows a city or county to designate a hospital benefit zone within which the increased state and local sales taxes accruing within the boundaries of the zone may be devoted to financing the cost of public improvements undertaken within the zone. A new local sales tax is established by RCW 82.14.465 and the proceeds are credited against the state tax. The rate of the local tax may be as high as 6.5 percent. However, the state revenues going to all hospital benefit zones are limited to a maximum of $2 million annually. The local tax may be imposed starting on July 1, 2007. A hospital benefit zone has been established by the city of Gig Harbor and parts of Pierce County. Starting in 2007, data was reported within this district in order to establish the required base year receipts. The hospital benefit zone was eligible to begin receiving the local tax on July 1, 2009, but chose to wait an additional year.

LOCAL INFRASTRUCTURE FINANCING: Another tax increment financing program involving a new local sales tax was also established in 2006. Known as the Local Infrastructure Financing Tool (LIFT), the program allows cities and counties to establish a revenue development area (RDA) to encourage economic development. Public improvements within an RDA may be financed by the increased local sales and property tax revenues derived. Only one RDA may be created in a county. RCW 82.14.475 provides for a new local sales tax of up to 6.5 percent within the RDA and the receipts are credited

against the state sales tax. The state's contribution is limited to matching the amount of other local funds devoted to the project and may not exceed $7.5 million for all RDA projects in the state. The local sales tax may be levied starting on July 1, 2008; the tax levied for a particular RDA is limited to a 25-year period. The entire program is scheduled to expire on June 30, 2039. Nine cities established RDAs under the program: Bellingham, Bothell, Everett, Federal Way, Liberty Lake, Vancouver, Yakima, Puyallup, and Mount Vernon; new applications are no longer being accepted. Under an amendment in 2009 these cities must estimate the applicable local tax revenues and determine the applicable local tax rate by September 1, 2009. The city of Bellingham began receiving the local tax revenues on July 1, 2009; the other eight jurisdictions will commence a year later.

ANNEXATION SERVICES: A local sales/use tax of up to 0.2 percent was authorized by RCW 82.14.415 in 2006 for certain cities to provide for municipal services related to annexation areas. The tax may be imposed only if the cost of extending municipal services exceeds the potential local revenue to be derived from the annexation area. The local tax is credited against the state sales tax, thus shifting the cost to the state general fund. The tax was originally restricted to cities in King, Pierce, or Snohomish counties, except for the city of Seattle. However, in 2009 authorization was extended to Seattle at a rate of up to 0.85 percent and to other cities at a rate of up to 0.3 percent. The Seattle tax applies to annexations initiated prior to 2015 and is limited to $5 million annually. Various population requirements apply to the annexation areas. The 2006 statute required that the annexation process must be initiated by January 1, 2010; this was extended to 2021 by the 2009 amendment. The tax is authorized to run for a maximum of ten years. Authorization for the local tax was effective on July 1, 2007, and two cities – Auburn and Renton - imposed it starting on July 1, 2008.

HEALTH SCIENCES AND SERVICES: Legislation in 2007 authorized the creation of a health sciences and services authority by any county, except King. The goal of the authority is to promote bioscience-based economic development and to advance new therapies and procedures to combat disease and promote public health. Only one such entity may be formed in the state, and it was implemented by Spokane County. RCW 82.14.480 enables the authority to levy a state-credited local sales tax of up to 0.02 percent. The local tax commenced in August 2008, and the statute allows it to continue through 2022.

LOCAL REVITALIZATION FINANCING: Similar to the 2006 LIFT program, another local sales tax-based financing mechanism was adopted in 2009. Pursuant to RCW 82.14.510 a local sales/use tax of up to 6.5 percent - excluding other state-credited local sales taxes and the portion of the state rate devoted to performance audits – may be levied by participating cities or counties. Two categories of participants are established: (1) seven demonstration projects in the cities of Pullman, University Place, Tacoma, Bremerton, Auburn, Vancouver, and Spokane; and (2) other projects on a first-come basis. The state-credited local tax is limited annually to $2.25 million for the seven demonstration projects and to $2.5 million for all other projects. No project may receive more than $500,000 per year. Jurisdictions must estimate their local receipts to determine the actual local tax rate. The tax is scheduled to commence on July 1, 2010, for the seven designated projects and on July 1, 2011, for any other qualifying projects.

Maximum Rate Limit

RCW 82.14.410, enacted in 2001, stipulates that a local sales tax rate increase implemented after December 1, 2000, must exempt sales of lodging from such local sales tax, if this tax would cause the combined tax rate on lodging to exceed 12 percent or the actual rate that existed on December 1, 2000 (e.g., 15.2 percent in Seattle). Included in the determination of such maximum tax rates are all applicable local sales taxes, the state sales tax, and the state convention center tax. The purpose is to honor the maximum limitation on lodging taxes provided in RCW 67.28.181. The current impact of this provision is to exempt lodging sales in King County which are also subject to the convention center tax (i.e., lodging facilities with 60 or more units) from the various increases in local tax rates since 2001.

Administration

Department of Revenue. Local retail sales and use tax is reported in the same manner as the state tax. However, retail vendors and persons reporting use tax must code their sales on the Combined Excise Tax Return to one or more of 334 local code areas in which the transactions take place so that the Department may return the proper amount of local tax to the appropriate jurisdictions.

By law, the Department may deduct up to 2 percent of the local collections to cover the state's cost of administration (the fee goes to the general fund, not the Department) for some of the local sales taxes, except those which are merely credited against the state sales tax. The Department has never charged the maximum amount. Since July 1997, a flat administrative fee of 1 percent has been charged to all local jurisdictions. Local sales/use taxes for which the administrative fee applies are: basic and optional tax for cities and counties, the transit tax (not the RTA tax), the King County food/beverage tax, criminal justice tax, public facilities tax, juvenile correctional facilities tax, emergency communications tax, public safety tax, and the tax for mental health/chemical dependency programs.

The law requires that new sales taxes or changes in existing rates may only take place at the start of a calendar quarter. Further, the Department of Revenue must be notified by the local jurisdiction at least 75 days prior to the intended starting date of the tax or any rate changes. This is intended to allow sufficient time to notify the affected vendors who collect the tax.

Levied by

Cities, counties, public transportation benefit areas, regional transportation authorities, regional transportation investment districts, transportation benefit districts, public facility districts, and public stadium authorities. Transit districts may be formed by cities, counties, public transportation benefit areas covering a portion of a county, county transportation authorities, or metropolitan municipal corporations.

Local sales/use tax is levied by ordinance of the legislative body of the jurisdiction. The city/county tax does not require voter approval, although imposition/increase of the optional 0.5 percent rate and imposition of the criminal justice tax are subject to referendum by the voters. Referendum petitions must be filed within seven days of adoption of the ordinance imposing or increasing the optional tax. Within the next 30 days the petitioner must gather signatures numbering at least 15 percent of the registered voters of the city or county in order to force a referendum election. Imposition or increase (up to statutory maximums) of most other local sales/use taxes must be approved by the voters of the district.

CURRENT IMPLEMENTATION OF LOCAL SALES TAXES

	Number of Levying Jurisdictions			Voter Approval
Local Sales Tax Type	City	County	District	Required
0.5% basic rate*	281	39	--	No
0.5% optional rate*	280	37	--	Subj. to referendum
0.1 - 0.9% transit tax*	4	2	21	Yes
1.0% high cap. transit	--	--	1	Yes
0.1% criminal justice*	--	32	--	Subj. to referendum
0.1% public facilities*	--	--	1	Yes
0.1% juvenile correction*	--	14	--	Yes
0.5% food/beverage tax*	--	1	--	No
0.017% baseball stadium**	--	1	--	No
0.016% football stadium**	--	1	--	Subj. to referendum
0.09% rural counties**	--	32	--	No
0.1% zoo/aquarium	--	1	--	Yes
0.033% regional centers**	--	--	22	No
0.02 0.025% reg. theater**	--	--	2	No
0.1% emerg. comm.*	--	12	--	Yes
0.5% regional transp.	--	--	--	Yes
0.4% passenger ferries	--	--	--	Yes
0.3% public safety*	--	5	--	Yes
0.2% transportation benefit*	--	--	--	Yes
0.1% mental health*	--	13	--	No
6.5% hospital benefit**	--	1	--	No
6.5% local infrastructure**	9	--	--	No
6.5% local revitalization**	7	--	--	No
0.2% annexation services**	2	--	--	No
0.02% health sciences**	--	1	--	No

*State administrative fee applies.
**Credited against the state sales tax; therefore, no additional impact for taxpayers.

Exemptions, Credits and Deferrals

Same as the state retail sales and use taxes.

Recent Distributions ($000)

Collections of all local sales and use taxes in Washington currently total $2.5 billion annually (Fiscal Year 2009). The latest fiscal year total is down by 6.9 percent from the prior year ($2.7 billion), reflecting the decline in taxable retail activity during the current recession.

Listed below are the local tax distributions by type of tax for the latest ten calendar years. Most sources reflect a decline for calendar year 2008 over the prior year due to the impact of the recession. A few local taxes continued to increase because of rate changes or new impositions of the tax by certain local jurisdictions.

Calendar Year	Cities Basic/Opt.	Counties Basic/Opt.	Transit Districts	Criminal Justice	Public Facilities
2008	$897,571	$340,027	$821,781	$117,716	$7,344
2007	916,805	345,659	820,694	125,749	8,185
2006	843,675	321,849	729,721	116,380	7,619
2005	759,925	302,334	661,750	105,085	6,969
2004	699,183	276,031	583,701	96,474	6,456
2003	664,595	264,171	551,983	91,721	6,173
2002	640,164	266,050	501,302	89,474	6,014
2001	645,921	259,850	440,819	89,378	5,957
2000	643,142	254,195	392,929	87,954	5,859
1999	596,595	240,190	362,309	78,256	5,518

Calendar Year	Juvenile Facilities	Regional Transit	King Co. Food/Drink	Baseball Stadium	Football Stadium
2008	$33,284	$251,337	$19,838	$7,839	$7,376
2007	42,506	277,424	20,720	8,575	8,064
2006	39,927	256,372	19,062	7,818	7,359
2005	35,188	235,155	17,666	7,202	6,782
2004	30,619	215,562	16,608	6,658	6,266
2003	28,857	207,274	15,584	6,423	6,052
2002	27,385	200,693	15,173	6,365	5,980
2001	25,419	210,836	15,050	6,671	6,270
2000	24,464	210,605	14,643	6,782	6,343
1999	21,860	191,707	13,531	6,156	5,758

Calendar Year	Rural Counties	Zoo/ Aquarium	Regional Centers/Theaters	Emergency Communication	Public Safety
2008	$26,216	$11,685	$19,499	$16,010	$22,396
2007	23,664	13,244	19,947	15,613	20,488
2006	20,944	12,698	18,371	13,567	18,165
2005	19,325	11,635	16,670	11,446	11,053
2004	17,804	10,545	15,209	9,044	1,737
2003	16,771	9,894	13,006	2,760	- -
2002	15,873	9,196	9,495	- -	- -
2001	15,073	7,269	3,629	- -	- -
2000	14,014	- -	- -	- -	- -
1999	7,198	- -	- -	- -	- -

Calendar Year	Mental Health/ Chem. Dependency	Annexation Services	Health Sciences
2008	$45,925	$1,523	$403
2007	15,909	- -	- -
2006	6,724	- -	- -

Distribution of Receipts

The 1 percent basic and optional city/county local sales and use tax revenues are used for general municipal or county purposes. Some jurisdictions may dedicate a portion of the receipts to a particular program. Counties receive all of the basic and optional local tax, after the state administrative fee is deducted, for transactions that occur in the unincorporated area of the county, as well as 15 percent of the tax on sales within cities. Cities receive only 85 percent of the net proceeds of transactions that occur within their boundaries. However, if a city and its county do not levy the same local tax rate, then the jurisdiction imposing the higher rate receives 100 percent of the net proceeds attributable to the rate that is in excess of the other jurisdiction's rate.

Unique distributions of local tax receipts and dedicated use of the funds for each of the local sales/use taxes were discussed earlier in this chapter. Distributions of local sales/use tax revenues are made each month. There is a lag of two months for the distribution in order for tax returns to be submitted by retail businesses and processed by the Department. For example, sales made during the month of June are reported by monthly taxpayers by July 25; the local sales tax revenues attributable to such sales are sent to the local jurisdictions in the middle of August.

The point of sale is important, because it determines the applicable local tax rate and which jurisdictions receive the local tax revenues. Generally, the point of sale and hence the local revenues are attributable to the location of the retail store where the purchase was made if

the buyer takes possession of the item at the vendor's store. In the case of products which are installed (e.g. carpeting) or construction of buildings, the tax is coded to the location of the installation or construction.

For items that are shipped by the vendor to the purchaser's residence or business location, the local tax was previously coded to the location of the warehouse where the shipment originated rather than the seller's retail location where the transaction occurred or the location of the buyer. However, since Washington adopted the Streamlined Sales Tax Agreement in 2008, its practice had to be consistent with other sales tax states that followed "destination sourcing" for delivered products. Thus, the distribution of the local tax for items shipped from a warehouse to a buyer is now made according to the location of the purchaser's residence. A mitigation program is currently underway to provide compensation for local jurisdictions that suffered reduced revenues as a result of destination sourcing.

History

The local sales/use tax originated in 1970 when the Legislature authorized cities and counties to levy a rate of 0.5 percent, effective April 1, 1970. The "optional" tax of up to an additional 0.5 percent was authorized in 1982, partly to provide compensation for cities and counties for the loss in tax revenues from business inventories which became exempt from personal property tax for taxes payable in 1984.

In 1971, the Legislature established the transit tax which was initially authorized for only metropolitan municipal corporations in Class AA counties (King) at a maximum rate of 0.3 percent. King County Metro implemented the tax, effective January 1, 1973. Starting in 1974, the transit tax could be levied by any county and in 1975 by other types of transit districts (e.g., PTBAs and cities). Also, lower rates of 0.1 and 0.2 percent were permitted in 1975. In 1980, the maximum rate was increased to 0.6 percent for King County and in 1984 other counties or transit districts could also levy up to 0.6 percent.

In 1990 the 1 percent tax for high capacity transportation systems and the 0.1 percent tax for criminal justice programs were adopted. Initially, the criminal justice tax was limited to six counties and had to be approved by the local voters. In 1993 it was broadened to any county and, instead of prior voter approval, the proposition merely had to be subject to potential referendum by the electorate. In 1991 the 0.1 percent public facilities tax was established. Initially, it was limited to public facilities districts in Spokane County, but in 1995 the authority was expanded to any county.

The 0.017 percent local tax and the 0.5 percent King County food and beverage tax for financing of a baseball stadium in King County and the 0.1 percent tax for correctional facilities were authorized in 1995. The 0.016 percent tax for a professional football stadium and the original 0.04 percent local taxes for rural public facilities were established in 1997.

In 1999 two new local taxes were authorized: the 0.1 percent tax in Pierce County for zoos and the 0.033 percent state-credited tax for regional centers constructed and operated by

public facilities districts. The maximum transit tax rate was increased from 0.6 to 0.9 percent in 2000. Next, two new local sales taxes were authorized in 2002: the 0.1 percent county tax for emergency communications and the 0.5 percent (lowered to 0.1 percent in 2006) regional transportation tax. In 2003 the 0.4 percent tax for passenger-only ferry services and the 0.3 percent tax for public safety programs were authorized.

A new program involving the use of local sales tax revenues was initiated in 2002. An amendment to RCW 35.81.100 allowed any increase in local sales tax receipts which can be attributed to investment in a community renewal project undertaken by a city to be dedicated to retirement of the bonds which financed the investment.

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SELECTIVE SALES TAXES

Taxes imposed on the purchase of specific items which are either paid by or shifted forward to consumers

- **Cigarette Tax**
- **Tobacco Products Tax**
- **Liquor Sales Tax**
- **Liquor Liter Tax**
- **Wine Tax**
- **Beer Tax**
- **Motor Vehicle Fuel Tax**
- **Special Fuel Tax**
- **Aircraft Fuel Tax**
- **State Convention Center Taxes**
- **Local Hotel-Motel Tax (State Shared)**
- **Special Local Hotel-Motel Taxes**
- **Solid Waste Collection Tax**
- **Wood Stove Fee**
- **Brokered Natural Gas Use Tax**
- **Rental Car Taxes**
- **Telephone Taxes**
- **Replacement Vehicle Tire Fee**

CIGARETTE TAX
Chapter 82.24 RCW

Tax Base — The sale, use, consumption, handling, possession, or distribution of cigarettes; the tax applies to the first such taxable event that occurs within the state.

Tax Rate — The combined state tax rate currently totals $2.025 per package of 20 cigarettes. (The federal government also levies a tax of $1.01 per pack upon cigarette manufacturers.) The $2.025 state rate is comprised of the following:

- 23 cents - state general fund (RCW 82.24.020(1)).
- 8 cents – state general fund (RCW 82.24.027). Until July 1, 2009, these receipts were deposited in the water quality account for use in various water-related programs.
- 10.5 cents – state general fund (RCW 82.24.020(2)). Until July 1, 2009, these revenues went to the violence reduction and drug enforcement account to fund drug/alcohol programs.
- 41 cents – state general fund (RCW 82.24.020(3)). Until July 1, 2009, these receipts were deposited in the health services account to help finance state health care programs.
- 60 cents – state general fund (RCW 82.23.028). Pursuant to Initiative 773, until July 1, 2009, these receipts were deposited in the health services account.
- 60 cents (RCW 82.24.026 adopted in 2005). Receipts go to:
    - 42.9 cents - education legacy account
    - 17.1 cents - state general fund

NOTE: The state also receives funds from a cigarette tax levied by the Puyallup Indian Tribe. Legislation adopted in 2005 provides for an agreement between the state and this tribe relating to a tribal cigarette tax. Codified as RCW 43.05.465, the tribal tax is currently imposed at a rate of $17.75 per carton and is in lieu of the state cigarette tax and state/local retail sales taxes. The agreement provides that 30 percent of the tribal receipts go to the state general fund. The tribe first levied the tax in May 2005.

Levied by — State

Administration — Department of Revenue. The tax is paid via the purchase of stamps which are affixed to each package of cigarettes by stamping wholesalers. Special licenses are required for sellers of cigarettes; fees for these licenses are paid to the Department of Licensing through the Master Business License application. Wholesalers subject to the cigarette tax are allowed compensation for their costs of affixing the stamps in an amount of $6 per 1,000 stamps. Although the Department of Revenue administers collection of the tax, licensing of wholesalers and retailers and enforcement activities are performed by the Liquor Control Board.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$392,429	(6.8)%	2.5%
2008	421,128	1.7	2.5
2007	414,212	(5.0)	2.5
2006	435,813	34.7	2.8
2005	323,580	(3.7)	2.3
2004	336,156	2.0	2.6
2003	329,627	9.0	2.7
2002	302,337	23.6	2.6
2001	244,550	(2.2)	2.1
2000	250,109	(1.9)	2.1

In addition, the state portion of the Puyallup tribal cigarette tax produced $5.6 million for the state general fund in Fiscal Year 2009.

A breakdown of Fiscal Year 2009 cigarette tax collections by fund and the new allocation, starting on July 1, 2009, is shown below:

	FY 2009 Tax Rate	FY 2009 Receipts ($000)	FY 2010 Tax Rate
General Fund	$0.2468	$47,827	$1.596
Water Quality	0.0902	17,480	--
Drug Enforcement	0.1188	23,022	--
Health Services	1.1402	220,957	--
Education Legacy	0.4290	83,143	0.429
TOTAL	$2.0250	$392,429	$2.025

Distribution of Receipts

Receipts of the cigarette tax are now distributed to the state general fund and the education legacy accounts as outlined above.

Exemptions, Deductions and Credits

- sales by wholesalers to persons in other states or countries.
- sales to the federal government.
- sales to Indians (via allocation program).
- sales to tribal retailers whose tribe is party to a cigarette contract with the state.

History

The cigarette tax was initially imposed as part of the Revenue Act of 1935 at a rate of 1 cent per package. The rate has been increased 18 times over the past 70 years. These and other major changes are summarized as follows:

1935 - Cigarette tax imposed at 1 cent per pack.
1939 - Rate increased from 1 to 2 cents per pack.
1949 - Rate increased from 2 to 4 cents per pack. Receipts from additional 2 cents earmarked for retirement of bonds issued to pay compensation to war veterans.
1955 - Additional tax of 0.5 cents per 10 cents of selling price (then roughly equivalent to 1 cent per pack). Receipts dedicated to public school building bond redemption fund until the bonds were retired, then to the general fund.
1959 - Rate increased from 5 to 6 cents per pack.
1961 - Rate increased from 6 to 7 cents per pack.
1965 - Rate increased from 7 to 11 cents per pack.
1971 - Rate increased from 11 to 16 cents per pack.
1972 - Bonds for veterans bonuses retired; compensation of $250 extended to Vietnam veterans funded by the 2 cent rate (1949) until 1977 when the compensation was fully paid and the receipts began going to the general fund.
1975 - Previous exemption for possession of two cartons of unstamped cigarettes was repealed, thus strengthening cigarette tax enforcement.
1981 - Rate increased from 16 to 20 cents per pack.
1982 - Surtaxes increase the rate from 20 to 20.8 cents (5/1/82) and to 23 cents (8/1/82).
1983 - Surtaxes adopted in 1982 made permanent.
1986 - Rate increased from 23 to 31 cents per pack. Receipts from additional 8 cents earmarked for water quality programs. Revisions to the Unfair Cigarette Sales Act; regulation of cost of cigarettes, to expire in 1991.
1989 - Rate increased from 31 to 34 cents per pack. Receipts from additional 3 cents earmarked for drug education and enforcement programs. The additional 3 cent rate was scheduled to expire on July 1, 1995.

1993 - Rate increase from 34 to 54 cents per pack. Receipts from the additional 20 cent tax earmarked for health programs; rate increases for the following three years.
1994 - Rate increase from 54 to 56.5 cents per pack due to increase in the health services rate. Expiration of drug enforcement rate repealed and the 7.5 cent rate increase effective in 1995 is approved by both the Legislature and the voters.
1995 - Rate increased from 56.5 to 81.5 cents per pack due to 17.5 cent increase in the health services rate and 7.5 cent increase in the drug enforcement rate. Technical changes in the administration of the tax, including stamping of untaxed cigarettes for Indian consumption, tighter requirements for transporting cigarettes, and pre-collection of the tax in certain situations by Indian wholesalers.
1996 - Rate increased from 81.5 to 82.5 cents per pack due to 1 cent increase in the health services rate.
1997 - Enforcement shifted from Department of Revenue to the Liquor Control Board.
1999 - One-half of the 8 cent tax for water quality is diverted to a new salmon recovery account for two years and the remainder of the water quality tax goes to the violence reduction and drug enforcement account for two years.
2001 - Legislation was adopted allowing the state to enter into contracts with 16 Indian tribal authorities (currently 28 tribes) relating to the imposition of tribal cigarette taxes. The intention is for a tribe to enact a tax equivalent to the state cigarette tax, thereby providing the tribe with revenues for tribal services and also reduce the incentive for evasion of the state tax.
2001 - Cigarette stamping allowance is increased from $4 to $6 per 1,000 stamps.
2001 - Initiative 773, approved in November 2001, imposes an additional 60 cent tax.
2005 - Additional tax of 60 cents per pack levied to support higher education and other educational programs, effective July 1, 2005. The overall tax rate becomes $2.025 per pack. Four new tribal contracts authorized, as well as a unique tribal tax for the Puyallup tribe by which the state receives 30 percent of the proceeds.
2008 - A unique tribal cigarette contract is authorized for the Yakama tribe. Except for the Puyallup tribal tax (of which the state receives a portion), all of the other contracts call for a tribal tax "equivalent" to the state tax. The 2008 statute allows a somewhat lower tribal tax rate. However, an agreement has yet to be reached with the Yakamas.
2008 - Cigarette tax rates changed from the millage basis to cents.
2009 - Administration of cigarette licenses transferred from Department to Liquor Control Board.
2009 - Earmarking of cigarette revenues to dedicated accounts is eliminated, except for the education legacy account.

Discussion/Major Issues

Members of Indian tribes are not subject to tax on cigarettes sold on their reservation. The Department provides untaxed (but stamped) cigarettes to recognized tribes in an amount sufficient for the personal use of each tribal member, based on average per capita consumption rates. Non-tribal members have evaded the cigarette tax by purchasing cigarettes from Indian stores. This tax evasion is being addressed through state/tribal

agreements by which tribal governments impose their own cigarette taxes at rates equivalent to state taxes. Presently, state law provides the authority for such contracts with 28 tribes located in the state.

The $2.025 cigarette tax rate levied in Washington is among the highest in the nation. Currently, six states – led by Rhode Island's $3.46 rate - have higher tax rates. New York, New Jersey, Wisconsin, Massachusetts, and Vermont have rates which range from $2.24 to $2.75. At the other end of the cigarette tax spectrum, ten states, principally tobacco-producing southern states, have rates of 50 cents or less. The lowest rate is South Carolina's tax of $0.07 per pack. There is concern that Washington's high tax rate will continue to exacerbate the cigarette tax evasion problem, because most neighboring states have significantly lower tax rates (Oregon, $1.18; Idaho, 57 cents; California, 87 cents; and Nevada, 80 cents).

The Department estimates that evasion of cigarette tax amounts to roughly $160 million per year (Fiscal Year 2008) in lost tax revenues, including state/local sales taxes. Evasion is attributable to purchases at non-compact Indian tribal smoke shops by non-Indians, to purchases made in other states, or to purchases via the Internet or mail order. In addition to the loss of revenue due to tax evasion, the long-term trend in cigarette consumption has been declining in Washington and nationwide. According to data released by the state Department of Health in 2006, Washington has the fifth lowest rate of smoking in the nation at 17.8 percent of the adult population.

TOBACCO PRODUCTS TAX
Chapter 82.26 RCW

Tax Base — The sale, handling, or distribution of cigars, pipe tobacco, chewing tobacco, and other forms of tobacco, except cigarettes, by the first seller of such products in this state for products not previously subject to the Washington tax. The tax is imposed at the time a distributor imports taxable tobacco products, manufactures such products within the state, distributes the products to a retailer, or first handles such products in Washington.

Tax Rate — 75 percent of the taxable sales price (RCW 82.26.020(1)). Further, a maximum tax rate of $0.50 applies to cigars.

Levied by — State

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$30,278	-.-%	0.2%
2008	(8,669)	-.-	-.-
2007	21,011	(21.0)	0.1
2006	26,610	(3.4)	0.2
2005	27,542	0.5	0.2
2004	27,393	15.9	0.2
2003	23,637	(8.4)	0.2
2002	25,791	1.5	0.2
2001	25,420	6.4	0.2
2000	23,894	5.0	0.2

A breakdown of the Fiscal Year 2009 tobacco products tax collections ($ in thousands) follows:

General Fund	$11,140
Water Quality Account	3,949
Health Services Account	15,189
Total FY 2009 Tobacco Products Tax	$30,278

Administration — Department of Revenue. The tax is reported on the Combined Excise Tax Return by wholesalers or distributors of tobacco products. For cigars, there are two possible lines on the tax return. If 75 percent of wholesale value is

equivalent to less than 50 cents per cigar, then the tobacco products tax on the cigars is reported along with all other tobacco products and the tax rate is 75 percent of the wholesale value. If the wholesale value per cigar is $0.67 or more (i.e., wholesale value multiplied by the 75 percent tax rate), then the tax on these cigars is reported on a cigar-only line and the tax amounts to 50 cents for each cigar.

Distribution of Receipts

100 percent goes to the state general fund.

Until July 1, 2009, the health services account received one-half of the tax revenues and 13 percent was dedicated to the water quality account.

Exemptions, Deductions and Credits

- Products which may not be taxed under the Constitution or laws of the federal government.
- Credit for taxes paid on products that are subsequently shipped out of state to a retailer.

History

The tax was established in 1959 at a rate of 25 percent of the wholesale price with all proceeds going to the state general fund. The rate was increased to 30 percent in 1965 and to 45 percent in 1971. Surtaxes were applied during 1982 (4 percent on May 1, increased to 7 percent on August 1). An additional tax of 16.75 percent for water quality programs was added in 1986, and a rate of 10 percent for health care was established in 1993. In 1999 the portion of the tax for water quality was diverted for two years (Fiscal Years 2000 and 2001); one-half of the 16.75 percent tax went to the violence reduction/drug education account and the other one-half went to the salmon recovery account.

Initiative 773 was adopted in November 2001. This increased both the cigarette and tobacco products taxes, effective January 1, 2002, with the additional revenues dedicated to health services. The tobacco products tax rate went from 74.9 to 129.42 percent.

A major change in the enforcement of the tax was made in 2002 when the liability for payment of the tax was changed from the first possessor of tobacco products in the state to any seller of the items upon which the tax was not previously paid. This is intended to prevent distributors from acquiring untaxed tobacco products without tax liability.

In 2005, the tobacco products tax rate was reduced from 129.42 to 75 percent. Instead of different portions of the tax rate being levied according to different statutes, the tax was then imposed by a single statute and the proceeds were distributed to the three funds by a specified percent of the total receipts.

Earmarking of receipts to dedicated funds that previously received a portion of the tax receipts was eliminated effective July 1, 2009; since then all of the receipts have gone to the state general fund. Also in 2009, administration of licenses for wholesalers and retailers of tobacco products was transferred from the Department to the Liquor Control Board.

Discussion/Major Issues

Approximately 120 taxpayers report tobacco products tax on the basic "percentage" tax line, and about 90 taxpayers report on the cigar-only line for cigars with a wholesale value in excess of $0.67 (i.e. tax of 50 cents). Some firms report on both tax lines.

Prior to the 2005 rate reduction, the tax resulted in an increase in the retail price of at least 130 percent above the wholesale price or the wholesaler or retailer would have to absorb some of the tax burden. With the 75 percent tax rate, retailers no longer have to mark up prices so high in order to make some profit on sales of tobacco products.

Retail sales and B&O taxes apply to the amount of the retail price which includes the tobacco products tax. Thus, pyramiding of tax burden occurs as it does for most taxes imposed at the wholesale/distributor level.

New tax enforcement provisions were enacted in 2005. Both distributors and retailers of tobacco products must now be licensed, and distributors may only sell to licensed retailers. Criminal penalties apply to the failure to obtain a license. All sellers must maintain records documenting their transactions of taxable tobacco products.

LIQUOR SALES TAX
RCW 82.08.150

Tax Base — Selling price of spirits in their original package. The term "spirits" includes any beverage containing alcohol obtained by distillation, including wines with more than 24 percent alcohol by volume.

Tax Rate

Sales to consumers: 20.5 percent

Basic rate	=	15.0%	RCW 82.08.150(1)
14% surtax rate	=	2.1%	RCW 82.08.150(4)
Additional rate	=	3.4%	RCW 82.08.150(6a)

Except for liquor purchased by the drink, consumers may purchase spirits only in their original packages and only through Washington State Liquor Control Board stores or their authorized agencies. (Hotels or clubs licensed under chapter 70.62 RCW with overnight sleeping accommodations and a restaurant liquor license may sell liquor by the bottle to registered guests for consumption in guest rooms, hospitality rooms, or at banquet facilities in the hotel or club.) The liquor sales tax is measured by the wholesale purchase price plus a markup by the Board. Retail sales tax does not apply to such purchases.

Sales to restaurant licensees: 13.7 percent

Basic rate	=	10.0%	RCW 82.08.150(2)
14% surtax rate	=	1.4%	RCW 82.08.150(4)
Additional rate	=	2.3%	RCW 82.08.150(6b)

Establishments that sell spirits, strong beer, beer, and wine for consumption on the premises must obtain a restaurant license. Since their purchases of spirits from the Liquor Control Board are for resale, a lower liquor sales tax rate has been provided for such "wholesale" purchases. Also, the Board allows a discount of 15 percent from the wholesale price plus markup before applying the lower tax rate. Sales of liquor by the drink are subject to state and local retail sales tax.

Levied by — State

Administration — Liquor Control Board. Statutorily, the Department of Revenue oversees collection of the liquor sales taxes, although the actual administration of the tax is handled by the Board. The tax is added to the Board's purchase price, plus markup, and is included in the selling price of spirits and strong beer. The Board transmits the receipts to the Department on a monthly basis. The Department, in turn, transmits the receipts to the State Treasurer, who distributes the funds on a quarterly basis.

Recent Collections ($000)

Fiscal Year	Collections*	% Change	% of All State Taxes
2009	$96,592	5.2%	0.6%
2008	91,798	7.8	0.5
2007	85,153	8.1	0.5
2006	78,806	6.3	0.5
2005	74,102	6.9	0.5
2004	69,317	9.4	0.5
2003	63,346	4.9	0.5
2002	60,391	5.2	0.5
2001	57,389	6.8	0.5
2000	53,756	8.0	0.5

*Includes liquor surtaxes

Distribution of Receipts

(1) Basic tax rates (15 and 10 percent tax rates):
- 65% state general fund
- 35% liquor excise tax fund which is distributed quarterly to:
  - 20% to counties on basis of unincorporated population.
  - 80% to cities on basis of incorporated population.
  - (NOTE: Prior to making the distribution to counties, sufficient funds are distributed to the county research services account to fund any legislative appropriations.)

(2) Surtax rates (additional 2.1 and 1.4 percent tax rates):
- 100% state general fund.

(3) Additional rates (additional 3.4 and 2.3 percent rates):
- 100% state general fund. (Health services account until July 1, 2009)

Exemptions

Sales to the federal government for resale through commissaries at military installations.

History

The liquor sales tax was adopted as part of the 1935 Revenue Act at a rate of 10 percent. In 1939, the Legislature extended the retail sales tax to sales by the Liquor Control Board. An additional tax, known as the war liquor tax, of 10 percent was added in 1943. In 1949, both the original 10 percent tax and the war liquor tax were repealed. Two years later the current tax was adopted at a rate of 10 percent, and liquor was exempted from the retail sales tax. The rate was increased to 15 percent in 1959, except for Class H (restaurant) licensees. In 1982, surtaxes totaling 14 percent were added to the basic rate. Also in 1982 the definition of strong beer was increased from 4 percent alcohol to more than 8 percent. In 1993, a phase-in of the additional tax rates for the health services account was adopted; these reached the current levels on July 1, 1997. In 2003, strong beer (more than 8 percent alcohol by weight) was shifted from liquor sales tax to the beer excise tax.

In 2009, the receipts from the "additional" rates (3.4 percent for consumers and 2.3 percent for Class H) adopted in 1993 were shifted to the general fund, effective July 1, 2009, thereby ending the dedication of a portion of the tax for financing of health care.

Discussion/Major Issues

Washington is a liquor monopoly state, as are 17 other states, although some of these states are at the wholesale level only. The other 32 states allow sales of liquor through privately-owned wholesale and retail outlets, and there is no state control of liquor prices. Because of the monopoly, liquor in the original package can only be purchased in Washington through a Liquor Control Board store or one of its authorized contract stores. Because of the monopoly control, the state is able to increase the wholesale price of liquor it purchases for resale via a markup in the retail price, in addition to the taxes which are added.

Currently, the markup on distilled spirits as determined by the Board approximates 51.9 percent of the delivered cost, including a 6.5 percent increase effective on August 1, 2009. The latest increase in the markup was implemented pursuant to direction from the state Legislature in 2009 in order to help close a state budgetary shortfall.

In the annual report covering Fiscal Year 2008, the Liquor Control Board estimated that approximately 23 percent of the average retail cost of liquor was attributable to the markup in price applied by the Board. An additional 34 percent of the cost was due to the state liquor sales and liter taxes. Federal taxes represent 16 percent of the retail price and the remaining 27 percent was the manufacturer's price at the distillery.

Washington taxes on spirits have typically been among the highest in the nation. According to the latest published industry data,[1] in 2007 Washington ranked third among all states (behind New Hampshire and Rhode Island) in revenue from alcohol beverages in relation to adult population. Washington taxes, fees, and monopoly profits from all types of alcohol beverages amounted to $128.16 per capita, compared with the U.S. average of $78.48. Taxes on spirits were higher in Washington than in any other state. Revenue per gallon of spirits amounted to $118.29; this ranked first in the nation and was well above the national average of $68.71.

[1] Public Revenues from Alcohol Beverages, 2007, Distilled Spirits Council of the United States, Inc., January 2009.

LIQUOR LITER TAX
RCW 82.08.150

Tax Base — Sales of spirits in the original package. The term "spirits" means any beverage containing alcohol that is obtained by distillation, including wines with more than 24 percent alcohol by volume.

Tax Rate — $3.7708 per liter

The overall rate consists of the following:

- basic tax of $1.72 per liter (RCW 82.08.150(3)); plus
- surtax rate of 14 percent which adds $0.2408 per liter to the rate (RCW 82.08.150(4)); plus
- additional tax of $0.07 per liter (RCW 82.08.150(5)); plus
- additional tax of $0.41 per liter (RCW 82.08.150(6, c)); plus
- additional tax of $1.33 per liter (RCW 82.08.150(7, a).

Levied by — State

Recent Collections ($000)

Fiscal Year	Collections*	% Change	% of All State Taxes
2009	$125,116	2.1%	0.8%
2008	122,554	6.0	0.7
2007	115,566	6.6	0.7
2006	108,428	40.6	0.7
2005	77,124	4.5	0.6
2004	73,821	5.1	0.6
2003	70,213	1.6	0.6
2002	69,097	2.3	0.6
2001	67,561	2.7	0.6
2000	65,811	3.5	0.6

*Includes liquor surtaxes

Administration

Liquor Control Board. Statutorily, the Department of Revenue is responsible for the liquor liter tax, although calculation and payment of the tax is handled by the Board. The tax is included in the selling price of spirits by the Board, along with the liquor sales tax and the Board's markup in retail price. The Board transmits the receipts to the Department on a monthly basis. The Department, in turn, transmits the receipts to the State Treasurer, who deposits the funds in the proper accounts.

Distribution of Receipts

Basic rate & surtax ($1.9608)	-	state general fund.
Additional tax ($0.07)	-	state general fund (previously the violence reduction and drug enforcement account per RCW 69.50.520 until July 1, 2009).
Additional tax ($0.41)	-	state general fund (previously the health services account per RCW 43.72.900 until July 1, 2009).
Additional tax ($1.33)	-	state general fund (previously a small portion was dedicated to the health service account (2.3 percent) and to the violence reduction/drug enforcement account (0.2 percent) until July 1, 2009).

Exemptions

Sales to the federal government for resale through commissaries at military installations.

History

This tax was established in 1961. Initially it was levied on the basis of fluid ounces at a rate of 1.1 cents per ounce. The rate was increased in 1965 to 2 cents and in 1971 to 4 cents. In 1981, it was again increased to an equivalent of 5 cents per ounce, but the basis was changed to liters at the current basic rate of $1.72 per liter. Surtaxes were added in 1982, increasing the rate to $1.9608. The temporary 7 cent tax to fund drug education and enforcement programs was effective on July 1, 1989. In 1994, this rate was made permanent by the Legislature; it was approved by the voters in November 1994 (the first voter-approved tax extension or increase under Initiative 601). The additional tax for health care began on July 1, 1993, at a rate of 20 cents per liter; it was increased to 30 cents on July 1, 1995, and to the current 41 cents on July 1, 1997. The latest rate increase of $1.33 per liter was adopted in 2005, effective on July 1, 2005.

In 2009, the receipts from the 7 cent tax for drug programs, the 41 cent tax for health care, and the portion of the $1.33 tax, a small portion of which also went to these two accounts, were shifted to the general fund, effective July 1, 2009.

Discussion/Major Issues See liquor sales tax.

WINE TAX
RCW 66.24.210

Tax Base — Wine sold to distributors, to the Liquor Control Board, directly to consumers on the winery premises, and direct shipments to consumers and retailers. Consumers also pay retail sales tax on wine in the original container and on wine consumed on-premises of the seller.

Tax Rate — Table wines: $0.2292 per liter
- $0.2025 per liter (RCW 66.24.210(1));
- $0.0142 per liter (7% surtax, RCW 66.24.210(2));
- $0.0025 per liter (RCW 66.24.210(3); and
- $0.01 per liter (RCW 66.24.210(4)).

Fortified wines: $0.4536 per liter (more than 14% alcohol by volume)
- $0.2025 per liter (RCW 66.24.210(1));
- $0.0142 per liter (7% surtax, RCW 66.24.210(2));
- $0.0025 per liter (RCW 66.24.210(3); and
- $0.2344 per liter (RCW 66.24.210(4)).

Cider: $0.0814 per liter (table wines with alcohol content between 0.5% and 7% by volume made from apples or pears)
- $0.0359 per liter (RCW 66.24.210(1));
- $0.0025 per liter (7% surtax, RCW 66.24.210(2));
- $0.0018 per liter (RCW 66.24.210(4));
- $0.0005 per liter (RCW 66.24.210(3); and
- $0.0407 per liter (RCW 66.24.210(5)).

Levied by — State

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$21,736	1.9%	0.1%
2008	21,339	(1.5)	0.1
2007	21,656	10.6	0.1
2006	19,588	11.6	0.1
2005	17,548	0.3	0.1
2004	17,488	2.0	0.1
2003	17,147	11.2	0.1
2002	15,418	1.2	0.1
2001	15,235	0.5	0.1
2000	15,163	(1.5)	0.1

Distribution of Receipts

(1) Basic tax of 20 cents per liter (3.59 cents for cider); receipts go to the liquor revolving fund from which expenses of the Board are first funded and then any excess funds are distributed on a quarterly basis per RCW 66.08.190 as follows:

0.3% to certain border cities and counties for law enforcement costs;

99.7% distributed as follows:

50% state general fund;
10% all counties on the basis of unincorporated population;
40% all cities on the basis of population.

(2) 0.25 cents per liter for all wine; receipts distributed quarterly to Washington State University for wine and grape research per RCW 66.08.180(6);

(3) 1.42 cents per liter (0.25 cents for cider); receipts from the 7 percent surtax go to the state general fund; RCWs 66.24.210(2) and 82.02.030;

(4) 1 cent per liter for table wines, 23.44 cents per liter for fortified wines, and 0.18 cents for cider; receipts go to the state general fund per RCW 66.24.210(4);

(5) 0.25 cents per liter (0.05 cents for cider) goes to the Washington Wine Commission to finance their activities (RCW 66.24.210(3)); and

(6) 4.07 cents per liter for cider; receipts go to the state general fund; RCW 66.24.210(5b).

Administration

Liquor Control Board. Wholesale purchasers of wine report the tax on a monthly basis; the payment is due by the 20th day of the following month.

Exemptions and Refunds

- Exemption for sales to the Armed Forces;
- Exemption for wine shipped in bulk between wineries, RCW 66.24.210(1); and
- Refund for tax paid on wine that is destroyed, RCW 66.24.305.

History

The wine tax was established in 1935, one year after the beer tax. The initial rate was 10 cents per gallon and wine was also subject to the 10 percent liquor sales tax. In 1969 direct importation of wine from other states was allowed (previously wine was only obtainable through the Liquor Control Board). Wine was removed from the 10 and 15 percent liquor sales taxes but subject to a special 26 percent excise tax, in addition to the 10 cent gallonage tax. In 1973 the 26 percent tax was repealed but the 10 cent tax was increased to 75 cents.

In 1981 the tax was converted to the metric basis and the basic rate of 20.25 cents per liter was established. The surtax for the general fund was added in 1982. The additional one-quarter cent tax for the wine commission was established in 1987 and was scheduled to expire in 1993, but in that year it was extended until 2001 and then made permanent. The additional rates of 1 cent and 23.44 cents for funding of drug programs were adopted in 1989. They were scheduled to expire in 1995, but in 1994 the Legislature and the voters made this tax permanent. The separate tax rates for cider wine were established in 1996.

The law was amended in 2006 to allow shipments of wine from wineries directly to retailers or consumers. In 2009, earmarking of a portion of the wine tax receipts for the violence reduction/drug enforcement account and the health services account was discontinued, starting on July 1, 2009.

Discussion/Major Issues

Many wineries have been established in Washington in recent years, and this has been a bright spot in Washington's agricultural economy. Some of the wineries are small, family-operated enterprises.

BEER TAX
RCW 66.24.290

Tax Base — Brewers or distributors of beer pay a tax for the privilege of manufacturing or selling beer in Washington. The tax applies to each 31 gallon barrel or its equivalent in cans and bottles. Beer is also subject to retail sales tax, whether purchased in the original container or for consumption on-premises of the seller.

Tax Rate — $8.08 per barrel

The overall rate consists of the following:

- basic tax of $1.30 per barrel (RCW 66.24.290(1)); plus
- additional tax of $2.00 per barrel (RCW 66.24.290(2)).
- additional tax of $4.78 per barrel (RCW 66.24.290(3,a)). Exemption from this tax rate is provided for small breweries on the first 60,000 barrels produced each year, RCW 66.24.290(3,b). However, RCW 66.24.290(4) imposes an additional tax of $1.482 on these same barrels.

Tax Levied by — State

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$32,415	2.8%	0.2%
2008	31,517	1.9	0.2
2007	30,916	1.8	0.2
2006	30,370	1.6	0.2
2005	29,899	(2.9)	0.2
2004	30,799	3.3	0.2
2003	29,819	3.1	0.2
2002	28,913	(4.1)	0.2
2001	30,136	6.6	0.3
2000	28,268	(7.8)	0.2

Administration

Liquor Control Board. Brewers and beer wholesalers report the tax each month; the payment is due by the 20th day of the following month.

Distribution of Receipts

(1) Basic tax of $1.30 per barrel; receipts are distributed as follows:

0.3% to certain border cities and counties for law enforcement costs;

99.7% distributed as follows:

20% all counties on the basis of unincorporated population; and

80% all cities on the basis of population.

(2) $2.00 per barrel; receipts go to the state general fund (RCWs 66.24.290(2); and

(3) $4.78 per barrel; receipts go to the state general fund (RCWs 66.24.290(3,c).

(4) $1.482 tax for barrels exempted from the $4.78 rate; 3 percent of the receipts are distributed to border cities and counties per RCW 66.08.195 and the remainder goes to the state general fund.

Exemptions and Refunds

- Exemption for sales to the Armed Forces.
- Refund for tax paid on exported beer, RCW 66.24.300.
- Refund for tax paid on unsalable beer that is destroyed, RCW 66.24.305.
- Exemption only from the $4.78 rate for small breweries for the first 60,000 barrels produced each year.

History

This tax was enacted in 1934 at $1.00 per barrel. In 1965 the rate was increased to $1.50 for canned and bottled beer (31 gallon barrel equivalent). The $1.00 and $1.50 rates were combined in 1981 and increased to a basic rate of $2.60. The following year surtaxes were added, increasing the overall rate to $2.782. In 1989 an additional temporary tax of $2.00 for drug programs was adopted; the tax was made permanent in 1994. The additional tax for health care was established in 1993 at $0.96 per barrel with automatic increases to $2.39 on July 1, 1995, and then to $4.78 on July 1, 1997. In 1997 the rate of the basic tax was

reduced from $2.60 to $1.30 per barrel and the 7 percent surtax was repealed. The latest change occurred in 2003 when strong beer (more than 8 percent alcohol by weight) was shifted from the liquor sales tax and made subject to this tax.

Through Fiscal Year 2009 a portion of the tax was earmarked for the violence reduction/drug enforcement account and the health services account. These dedicated revenues were eliminated effective July 1, 2009.

Discussion/Major Issues

Because of large increases in state and federal taxes on beer manufacturers in recent years, there may be concern among the industry and consumers that the tax burden on beer has become excessive.

MOTOR VEHICLE FUEL TAX
Chapter 82.36 RCW

Tax Base — Each gallon of motor vehicle fuel which is imported, produced, or delivered from a "terminal rack" in the state. A terminal rack is the platform or bay at which motor vehicle fuel from a refinery or terminal is delivered into trucks, trailers, or rail cars. The term motor vehicle fuel includes gasoline and other inflammable gas or liquids that are used to propel motor vehicles or boats, except that it does not include special fuels such as diesel and propane which are subject to the special fuel tax.

Tax Rate — 37.5 cents per gallon.

The federal government also taxes motor vehicle fuel at 18.4 cents per gallon and diesel fuel at 24.4 cents per gallon.

Levied by — State

Counties. An additional gas tax is authorized for counties or regional transportation investment districts (RTIDs) for local transportation purposes (RCWs 82.80.010, 82.80.110, and 82.80.120). The maximum rate is 10 percent of the state tax (i.e., currently 3.4 cents per gallon) and the tax must be approved by the voters. The local taxes under RCWs 82.80.010 and 82.80.110 are to be administered by the Department of Revenue, rather than the Department of Licensing. Administration of the local tax for an RTID (RCW 82.80.120) was shifted from the Department of Revenue to the Department of Licensing in 2006. Any local taxes pursuant to these statutes are to be added to the state tax rate. This authority was instituted in 1990 and broadened in 2003, but no county or RTID has yet adopted such a local gas tax.

Border area cities. Per chapter 82.47 RCW, adopted in 1991, cities that are located within ten miles of an international border crossing or transit districts that include such a border crossing may levy an additional local gas tax. The maximum rate is one cent per gallon, and the receipts must be devoted to street improvements. Such a tax would be locally administered. To date, this tax has been imposed by the cities of Blaine, Sumas, and Nooksack and the Point Roberts transit district.

Administration

Department of Licensing (or Department of Revenue for the 3.4 cent local tax levied by counties). Suppliers, importers, blenders, and licensed exporters of motor vehicle fuel must file a monthly report indicating the number of gallons of fuel produced, removed from terminal facilities, imported into the state, or exported from Washington (by licensed exporters) and include payment of the tax. The

report is due by the 25th of the following month. If the amount of tax due equals $50,000 or more, payment must be made by electronic funds transfer which is due by the 26th day of the following month.

The amounts of state (and federal) gas taxes are passed on to retailers and are included in the pump price paid by consumers. Persons who use motor vehicle fuel off of the public highways may claim a refund of the gas tax. However, retail sales tax is deducted from the amount of the refund.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$965,761	1.8%	6.2%
2008	949,099	4.0	5.6
2007	912,688	8.5	5.4
2006	841,009	11.7	5.5
2005	753,068	2.6	5.5
2004	734,091	19.5	5.6
2003	614,473	1.3	5.1
2002	606,497	(0.9)	5.1
2001	611,723	(3.8)	5.2
2000	636,198	8.4	5.4

Exemptions and Refunds

- for motor fuel suppliers acting as distributors, 0.0025 per gallon, for all other licensees 0.0031 of the net gallonage may be deducted for losses in handling;
- fuel sold to foreign diplomatic and consular missions;
- fuel used exclusively for racing, if it is illegal to use the fuel on public highways;
- refund for fuel used in pumping fuel by a power take-off unit;
- refund for fuel used for auxiliary equipment not used for motive power;
- refund for urban transportation systems;
- refund for marine and other nonhighway uses of motor vehicle fuel;*
- refund for nonprofit providers of transportation to persons with special needs;
- refund for fuel used in manufacturing, cleaning, and dyeing;*
- refund for exported fuel;
- refund for fuel lost or destroyed due to fire, flood, leakage, etc.;
- credit for suppliers who fail to receive consideration from purchasers.

*NOTE: Motor vehicle fuel that is used in this state for nonhighway purposes is subject to retail sales and use tax. The appropriate amount of state and local sales/use tax is applied to such fuel and deducted from the amount of motor vehicle fuel tax to be refunded to off-highway users.

Distribution of Receipts

Distribution of the motor vehicle fuel and special fuel taxes is accomplished according to complex formulas. Various transportation programs receive dedicated portions of the tax pursuant to statute. Distribution of revenues is specified in RCW 46.68.090, which is summarized below:

23 CENTS OF THE 37.5 CENT TAX (after payment of refunds and admin. expenses):

44.387%	motor vehicle fund for state highway purposes
3.2609%	Special Category "C" projects requiring bond financing
2.3283%	Puget Sound ferry operations
2.3726%	Puget Sound ferry capital construction account
7.5597%	Urban arterial trust account
5.6739%	Transportation improvement account for projects in urban areas
10.6961%	Distribution to cities and towns
19.2287%	Distribution to counties
1.9565%	County arterial preservation account
2.5363%	Rural arterial trust account

5 CENTS OF THE 37.5 CENT TAX (from 2003 rate increase):

100.0%	Dedicated to bond retirement for the transportation projects authorized in 2003.

6 CENTS OF THE 37.5 CENT TAX (from 2005 and 2006 rate increases):

8.3333%	Cities and towns, for use per RCW 46.68.110
8.3333%	Counties, for use per RCW 46.68.120
83.3334%	Transportation partnership account, for use per RCW 46.68.290

3.5 CENTS OF THE 37.5 CENT TAX (from 2007 and 2008 rate increases):

100.0%	Transportation partnership account, for use per RCW 46.68.290

History

Adopted in 1921 at a rate of 1 cent per gallon, this is the third oldest state tax (apart from the property tax), after the insurance premiums and inheritance taxes. Rate changes occurred as follows:

1921 - 1 cents	1967 - 9 cents	1990 - 22 cents
1924 - 2 "	1977 - 11 "	1991 - 23 "
1929 - 3 "	1979 - 12 "	2003 - 28 "
1931 - 4 "	1981 - 13.5 "	2005 - 31 "
1933 - 5 "	1982 - 12 "	2006 - 34 "
1949 - 6.5 "	1883 - 16 "	2007 - 36 "
1961 - 7.5 "	1984 - 18 "	2008 - 37.5 "

Refunds for off-highway use were established in 1933. From 1935 until 1947 a tax on fuel oil of one-quarter cent per gallon was collected. The 18th amendment, requiring dedication of gas tax revenues for roads, was adopted in 1944. From 1978 until 1983, the tax rate fluctuated according to the average price of fuel and highway budget needs. Initially the rate could range between 9 and 12 cents, then from 12 to 16 cents. The variable rate was repealed in 1983. In 1979, the Legislature authorized a local gas tax for the city of Seattle for construction of the West Seattle bridge, but this authority was never utilized and it expired on June 30, 1985. In 1990, enabling legislation for county gas taxes was approved, and in 1991 the border areas tax of 1 cent was authorized.

In 1998 the statute was largely rewritten to shift the burden of reporting gas tax from distributors to the owner of the fuel at the time it was initially delivered from a refinery or terminal facility in the state. This new tax "at the rack" is intended to reduce evasion of motor vehicle fuel tax and reduce compliance costs by greatly reducing the number of taxpayers that are liable for reporting the tax.

In 2003, the local gas tax statute equal to 10 percent of the state tax rate was allowed to be levied by counties that are included in a regional transportation investment district or the RTID itself. The legislation transferred responsibility for administration of such a local gas tax from the Department of Licensing to the Department of Revenue; this was reversed in 2006 for a local gas tax imposed by an RTID (but not a county gas tax).

Discussion/Major Issues

The motor vehicle fuel tax is a major revenue source in Washington, ranking fourth in collections after the retail sales tax, the B&O tax, and the state property tax levy. Administratively, it is inexpensive to collect, since only a small number of taxpayers report and pay the tax.

Compared with other states, Washington's 37.5 cent gas tax rate is currently the highest in the country; followed by West Virginia (32.2 cents); Rhode Island (32 cents); Pennsylvania (31.2 cents); and Wisconsin (30.9 cents). In eight states, motor vehicle fuel is subject to sales tax in addition to the fuel tax.

Pursuant to the 18th amendment to the State Constitution approved by the voters in 1944, motor vehicle fuel tax revenues, along with other vehicle-related fees, may be used only for highway purposes. This is the largest tax source that is "earmarked" for a specific governmental expenditure program. (Arguably, the state property tax levy is similarly devoted to a particular program, K-12 education.) Earmarking does guarantee a certain level of funding to the specified program. However, it tends to remove the favored program from the scrutiny which other programs receive through the executive and legislative budget process. Over time, needs change and earmarking may make it more difficult for policy makers to properly consider and debate the needs of all governmental expenditures.

The motor vehicle fuel tax is levied on volume rather than price. Thus, receipts are influenced by consumption patterns more than changes in the retail selling price. As the average fuel efficiency of vehicles rises, gas tax revenues tend to fall, or at least increase at a lesser rate. Similarly, the tax fails to take advantage of inflationary increases in fuel prices.

Motor vehicle fuel represents one of the largest categories of tangible goods purchased by consumers in Washington which is not subject to retail sales tax. In theory, the sales tax is intended to be a broad-based tax on consumption; its receipts are devoted to the state general fund, to be used for general purposes as decided by the Legislature during the biennial budget process. Excluding motor vehicle fuel from sales tax not only artificially restricts the base of the sales tax but also deprives the general fund of a major source of revenue. There are examples of other products which are subject to excise taxes at both the wholesale and retail level (e.g., cigarettes).

Legislation in 2009 directed DOL to study the possibility of transferring administration of the motor fuel taxes to the Department of Revenue. After consulting with DOR, a final report by DOL was due to the Legislature by November 1, 2009. The report recommended that DOL retain their current administrative responsibilities.

SPECIAL FUEL TAX
Chapters 82.38 and 70.149 RCW

Tax Base

All combustible gases and liquids used to propel motor vehicles, except motor vehicle fuel (gasoline). The principal types of fuel subject to the tax are diesel, biodiesel, natural gas, propane, and butane. The tax is measured by gallons.

Similar to the motor vehicle fuel tax, the special fuel tax is now applied when the fuel is imported, produced, or delivered from a "terminal rack" within the state, instead of at the distributor level. The terminal rack is the platform from which the fuel is delivered into trucks, trailers, or rail cars from a refinery or import terminal.

An insurance fee also applies to each gallon of petroleum-based product (including stove oil, diesel, or kerosene) used for space heating (RCW 70.149.080). This pollution liability insurance fee is scheduled to expire on June 1, 2013. (NOTE: Heating oil is also subject to retail sales tax when purchased by consumers.)

Tax Rate

Same as motor vehicle fuel tax rate: 37.5 cents per gallon.

The federal government taxes diesel fuel at 24.4 cents per gallon, propane at 18.3 cents, and natural gas at 4.3 cents.

To encourage the use of nonpolluting fuels, RCW 82.38.075 provides an alternate fee schedule for natural gas or propane in lieu of the special fuel tax, based on the gross tonnage of the alternative fuel vehicle. The annual fee schedule ranges from $141 to $2,087 plus a $5 handling fee and is adjusted based on changes in the motor vehicle fuel tax rate enacted since 1977.

Heating oil insurance fee: 1.2 cents per gallon per RCW 70.149.080.

Counties. An additional special fuel tax may also be levied by counties or regional transportation investment districts (RTIDs) for local transportation purposes (RCWs 82.80.010, 82.80.110, and 82.80.120). The maximum rate is 10 percent of the state tax (i.e., currently 3.4 cents per gallon) and the tax must be approved by the voters. The local tax for counties is to be administered by the Department of Revenue, rather than the Department of Licensing, and is added to the state rate. The local tax for an RTID is to be administered by the Department of Licensing. This authority was instituted in 1990 and extended in 2003, but no county or RTID has yet adopted such a local special fuel tax.

Border area cities. Per chapter 82.47 RCW, adopted in 1991, cities that are located within ten miles of an international border crossing or transit districts that include such a border crossing may levy an additional local special fuel tax. The maximum rate is 1 cent per gallon, and the receipts must be devoted to street improvements.

Such a tax would be locally administered. To date, this tax has been imposed by the cities of Blaine, Sumas, and Nooksack and the Point Roberts transit district.

Levied by — State

Administration — Department of Licensing (or Department of Revenue for the 3.4 cent local taxes by counties). Special fuel is taxed according to the intended use. Non-dyed (clear) special fuel is intended for use on the public highways and is subject to special fuel tax at the terminal rack. The terminal rack suppliers remit the fuel tax directly to the Department of Licensing. Also, special fuel importers must report and remit the tax on imported special fuel. Special fuel producers (blenders) must remit tax when the produced fuel is sold. The tax is due by the 25th day of the month immediately following the reporting period. Dyed special fuel is subject to sales tax instead of the special fuel tax, because it is intended for off-road use only. The retail sales tax applies to such fuel; it is paid by the consumer and remitted to the Department of Revenue by the retail vendor.

The heating oil insurance fee is remitted by heating oil distributors annually.

Recent Collections* ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$213,699	(7.2)%	1.4%
2008	230,282	3.8	1.4
2007	221,934	4.2	1.3
2006	212,913	4.8	1.4
2005	203,129	31.8	1.5
2004	154,146	24.2	1.2
2003	124,145	4.3	1.0
2002	119,045	3.8	1.0
2001	114,655	(9.0)	1.0
2000	125,955	7.6	1.1

*Special fuel tax only; does not include heating oil insurance fee

Distribution of Receipts — The special fuel tax goes to the motor vehicle fund and is distributed in the same manner as the motor vehicle fuel tax (RCW 46.68.090).

The heating oil insurance fee is deposited in the heating oil pollution liability trust account.

Exemptions and Refunds

- fuel used in government vehicles for street construction and repair;
- publicly owned fire fighting equipment;
- special construction equipment defined in RCW 46.04.552;
- power take-off and pumping equipment;
- federally-owned vehicles;
- special fuel used for heating;
- fuel used for incidental moving of equipment used principally on private property;
- nonprofit providers of transportation for persons with special transportation needs;
- refrigeration units, mixing units or other equipment powered by separate motors from separate fuel tanks;
- waste vegetable oil as defined in RCW 82.08.0205, if the oil is used to manufacture biodiesel;
- urban passenger transportation systems;
- exemption for fuel used in vehicles engaged in logging operations on federal lands;
- refund for special fuel not used on public highways;
- refund for exported special fuel;
- refund for taxes paid erroneously or illegally;
- refund for special fuel that is lost or destroyed via fire, flood, or explosion;
- refund for special fuel of more than 500 gallons that is lost as a result of leakage or other casualties.

History

Special fuels were initially subject to the motor vehicle fuel tax that was adopted in 1921. A separate "use" fuel tax was established in 1941 which levied a 5 cent per gallon tax on diesel fuel. The current special fuel tax statute was adopted in 1971 with a rate of 9 cents per gallon. Subsequent rate changes are the same as for the motor vehicle fuel tax.

The heating oil insurance fee was established in 1995 at 0.6 cents per gallon and the rate was doubled in 2004. It was originally scheduled to expire on June 1, 2001, but was extended for six years in 2000 and an additional six years in 2006.

Discussion/Major Issues

The purpose of the tax is to supplement the motor vehicle fuel tax by imposing a tax on all fuels which are not subject to the motor vehicle fuel tax but which are used to propel motor vehicles on the highways of the state.

AIRCRAFT FUEL TAX
Chapter 82.42 RCW

Tax Base — Each gallon of fuel sold, delivered, or used in aircraft (except fuel used by commercial and other exempt aircraft) within the state. NOTE: Aircraft fuel is also subject to retail sales/use tax.

Tax Rate — 11 cents per gallon

Levied by — State

Administration — Department of Licensing. Distributors of aircraft fuel report the tax on a monthly basis; the tax return is due by the 25th of the succeeding month.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$1,999	(33.3)%	0.0%
2008	2,995	4.2	0.0
2007	2,874	10.5	0.0
2006	2,602	1.4	0.0
2005	2,565	12.5	0.0
2004	2,281	32.1	0.0
2003	1,727	(5.0)	0.0
2002	1,817	(7.6)	0.0
2001	1,966	20.5	0.0
2000	1,632	25.1	0.0

Distribution of Receipts

Aeronautics account within the state general fund. Proceeds are used by the Aeronautics Division of the Department of Transportation.

Exemptions

- fuel for aircraft that operate at least 95 percent of the time from private airfields and are used principally for agricultural spraying;
- aircraft fuel that is sold for export;
- fuel for use in commercial air carriers;

- fuel used for aircraft testing or experimental purposes;
- fuel used in training of crews for purchasers of commercial airlines;
- fuel used by local commuter airlines;
- fuel used for emergency medical transport;
- aircraft fuel imported into the state and then sold in interstate commerce;
- aircraft fuel sold to the federal government.

History

The tax was adopted in 1967 at a rate of 2 cents per gallon. A variable tax rate calculation was established in 1982 and the minimum tax of 5 cents was added in 1983. The variable rate was discontinued in 2003, and the statutory rate was set at 10 cents per gallon. As a result of significantly increased export sales in 1989, the statute pertaining to the export exemption was clarified in 1989 to require detailed reporting of data on such sales.

Changes in the aircraft fuel tax rate occurred as follows:

July 1982	-	5.0 cents/gallon
January 1983	-	3.0 "
May 1983	-	5.0 "
July 1989	-	5.5 "
January 1991	-	6.5 "
July 1991	-	6.0 "
January 1997	-	6.5 "
July 1998	-	6.0 "
July 2000	-	6.5 "
January 2001	-	7.5 "
July 2003	-	10.0 "
July 2005	-	11.0 "

Discussion/Major Issues

Because of the exemption of fuel used by commercial airlines, the aircraft fuel tax is mostly paid by private owners of small aircraft which are used for personal or business purposes.

CONVENTION CENTER TAXES
RCW 36.100.040(4 and 5)

REVISED: December, 2010

Tax Base — Charges for lodging within King County. The taxes apply only to hotels and motels in King County with at least 60 units. The transient lodging taxes apply only when a lodging unit is used for a continuous period of less than one month (longer use is considered as a rental of real property, rather than a "license" to use the property).

Tax Rate

COUNTY-WIDE TAX. Transient rental tax – King County (RCW 36.100.040(4))

Rates:
7.0 percent - within the city of Seattle
2.8 percent - throughout the remainder of King County

ADDITIONAL TAX. Transient rental tax – within Seattle (RCW 36.100.040(5))

Rate: 2 percent

The additional tax that applies within Seattle is levied on the same charges for accommodations as the 7.0 - 2.8 percent tax; however, it is limited to hotel facilities within the city of Seattle. Further, the 2 percent tax is credited against the state retail sales tax, so that it does not increase the cost of room rentals to customers. Thus, the effect of this tax is to shift funds from the state general fund to the public facilities district on a temporary basis. RCW 36.100.040(6) stipulates that the receipts of the 2.0 percent additional tax must be repaid by the public facilities district to the state, starting on June 30, 2012 (first full fiscal year following the transfer of the tax to the PFD on November 30, 2010). The purpose of the additional 2.0 percent tax is to increase the bonding capacity of the PFD.

Levied by

Both taxes are levied by the Washington State Convention Center Public Facilities District. Although the PFD owns and operates the Washington State Convention Center (starting November 30, 2010), it is considered as a local taxing district.

Administration

Department of Revenue. The tax is reported on the Combined Excise Tax Return by hotels, motels, and other facilities that provide lodging on a temporary basis.

Distribution of Receipts

COUNTY-WIDE TAX. Proceeds of the 7.0% - 2.8% convention center tax are devoted to the convention center facility, located in Seattle. Prior to November 30, 2101, receipts were deposited into two accounts within the state treasury: (1) 85.71 percent for the state convention and trade center account (used for acquisition, design, and construction of facilities and retirement of bonds) and (2) 14.29 percent for the state convention and trade center operations account. Effective November 30, 2010, the two parts of the state convention center tax were abolished, and all of the tax receipts are now distributed to the Public Facilities District.

ADDITIONAL TAX. Receipts of the 2 percent tax are taken from the state general fund due to the crediting against state sales tax and are transferred to the Public Facilities District. The tax proceeds are used for payment of principal and interest on bonds for the facility, as well as for repayment of the sales tax to the state.

Recent Collections (both taxes) ($000)

Considered as state revenues through November, 2010. Starting in December, 2010, the collections will be considered as local revenue, attributable to the Public Facilities District.

Fiscal Year	Collections	% Change	% of All State Taxes
2010	$50,809	(11.3)%	-.-
2009	57,253	(6.8)	0.4%
2008	61,463	9.8	0.4
2007	55,995	13.1	0.3
2006	49,514	15.3	0.3
2005	42,948	5.5	0.3
2004	40,703	5.9	0.3
2003	38,432	3.3	0.3
2002	37,190	(7.6)	0.3
2001	40,254	21.5	0.3
2000	33,132	8.4	0.3

Exemptions, Deductions and Credits

Temporary medical housing which is exempt from sales tax under RCW 82.08.997 is not subject to the convention center taxes.

History

This tax was first effective on April 1, 1982, at rates of 3 percent (Seattle) and 2 percent (rest of King County). From January 1, 1983, through June 30, 1988, the Seattle rate was increased to 5 percent, but the rate stayed at 2 percent throughout the remainder of the county. On July 1, 1988, the rates became 6 and 2.4 percent respectively, and on January 1, 1993, the 7.0 and 2.8 percent rates took effect.

Legislation in 1995 eliminated the previous "change date" when the current tax rates would drop to 6 and 2.4 percent. However, the statute continues to require the calculation and certification by the State Treasurer. Also in 1995, the Legislature authorized the additional 2 percent tax which is credited against the state sales tax and which is used for expansion of the convention center facility. However, the 1995 statute specified that this tax could not be levied before January 1, 2000, the date on which the 2 percent tax was implemented.

In 2002 the tax base was clarified so that long-term rentals would not be subject to the tax, even though the same individual units were not utilized for each of the 30 plus days.

A major change in the ownership and financing of the state convention center facility took place on November 30, 2010, pursuant to SSB 6889 from the 2010 legislative session (Chapter 15, Laws of 2010, Special Session). This legislation transferred the convention and trade center facility, and the taxes which finance the facility, from the public, nonprofit corporation which previous owned and operated the facility to a local public facilities district. The legislation specified that the transfer was to take place sometime during fiscal year 2011; the transfer took place on November 30, 2010.

Discussion/Major Issues

There are approximately 227 hotels in King County that report the convention center tax.

One of the purposes for constructing a major convention and trade facility was to increase tourism within the state. It was presumed that the hotel/motel industry would benefit, particularly the larger hotels near the convention and trade center. This accounts for the two-tier rate structure and the exclusion of smaller hotel facilities.

The convention center tax is in addition to the retail sales tax. Thus, the combined tax rate for hotels and motels with 60 or more units within Seattle is presently 15.6 percent (the local transit tax on accommodations is only 0.6 percent instead of 0.8 percent, the 2009 increase of 0.5 percent in the RTA sales tax does not apply, and the 0.1 percent mental health tax does not apply, due to the limitation in RCW 67.28.181). Such a high rate may discourage some tourists/convention planners. Other large cities throughout the country have special hotel occupancy taxes at relatively high rates, but the combined rate in few cities exceeds Seattle's rate.

LOCAL HOTEL-MOTEL TAX (State-Shared)
RCW 67.28.180

Tax Base

Charges for lodging at hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities for continuous periods of less than one month.

Tax Rate

Up to 2 percent - all cities and counties that levy the tax have adopted the maximum rate. Pursuant to RCW 67.28.1801, the tax is credited against the state retail sales tax (currently 6.5 percent) so that the hotel-motel tax is not an additional tax for the customer but represents sharing of the state retail sales tax receipts on lodging with cities and counties.

Levied by

Cities and counties. Currently 139 cities and 37 counties impose the tax. Since 1975, the county tax must allow a credit for the amount of any tax levied by cities within the county, thus precluding both the city and county tax from applying to the same lodging transaction. However, RCW 67.28.180(2)(b) allows a county to continue levying the tax when a city also levies the tax, if the county had pledged the tax receipts to payment of principal and interest of revenue or general obligation bonds issued by a city or by the county prior to June 26, 1975. This exception allowed the cities of Bellevue and Yakima to levy the tax in addition to King and Yakima Counties. Thus, the state gives up 4 percent of the state sales tax on room rentals in these cities. (In 2007, the double-dipping for Yakima County was allowed to continue beyond 2012 until January, 1, 2021.)

According to RCW 67.28.180(2)(c), additional cities in counties where "double dipping" occurs are prohibited from levying the tax, unless the city has already pledged the revenues toward retirement of revenue or general obligation bonds, until the county bonds are retired. Thus, Seattle and other cities in King County will have to wait until the original Kingdome bonds and now those for Safeco and Qwest fields are retired to levy the 2 percent tax. Any bonds that finance new projects after March 1991 must be retired by 2013 in order for both the county and city to levy the tax.

Administration

Department of Revenue (RCW 67.28.200). Unlike certain other state-collected local taxes, no reimbursement for cost of collection is allowed for the Department. Transient rental income is reported by hotels and motels on their Combined Excise Tax Return; the funds are distributed monthly by the State Treasurer to the levying jurisdictions.

Recent Distributions ($000)

In calendar year 2009 a total of $36.9 million was distributed from the state to 139 cities and 37 counties via the state-credited local 2 percent hotel-motel tax program.

Calendar Year	Cities	Counties
2009	$14,917	$21,988
2008	16,756	25,713
2007	16,044	24,624
2006	14,334	21,727
2005	12,432	18,943
2004	11,511	17,519
2003	10,787	16,262
2002	10,266	16,226
2001	10,391	17,271
2000	10,567	17,304

Distribution of Receipts

All receipts collected by the Department are distributed by the State Treasurer to cities and counties within two months following their receipt from the hotels and motels. Hotel-motel tax receipts may be used for promotion of tourism or construction and operation of tourism-related facilities, as well as the operational expenses of special events to attract tourists (RCW 67.28.1815 and .1816). Further, RCW 67.28.184 stipulates that a city may not use hotel-motel tax receipts for a facility intended to house a professional sports franchise if the county is already using its tax receipts for such a purpose.

Exemptions, Deductions and Credits

- emergency lodging provided to homeless persons.
- RCW 67.28.200 allows municipalities to establish "reasonable" exemptions.

History

The tax was authorized in 1967 for King County to provide funding for the King County Stadium (Kingdome). It was broadened in 1970 to include the cities of Tacoma and Spokane and in 1973 to any city or county. The requirement that the city tax must be credited against the county tax (except for Bellevue and Yakima) was added in 1975. A variety of expanded uses of the tax occurred in 1973 (convention centers), 1979 (arts facilities and tourist promotion), 1985 (capital improvements in stadiums), 1986 (tourism strategies in distressed areas and tall ships in Grays Harbor County), 1987 (agricultural promotion), and 1988 (steam railroads). Additional uses were authorized from 1991 until

1997, when the Legislature repealed the specific uses of hotel-motel tax funds and instead allowed the tax to be devoted to any tourism-related purpose.

In 2002 the tax base was clarified so that long-term rentals would not be subject to the tax, even though the same individual units were not utilized for each of the 30 plus days.

Discussion/Major Issues

Approximately 3,180 hotels and motels reported transient rental income in jurisdictions which levy the local tax.

This tax represents a means for the state to provide financial assistance for local facilities and tourist promotion efforts without going through the budgetary process and with no additional tax burden for hotel-motel customers. Smaller jurisdictions may not be able to utilize the receipts for construction and operation of stadiums or other facilities, but most can use financial help for tourist promotion costs.

Hotel and motel facilities are required to report transient rental income (not the actual tax) for each jurisdiction in which they do business. This can cause difficulties for chain establishments but is no more complicated than the reporting requirements for local sales tax purposes for firms that make sales from multiple locations.

SPECIAL LOCAL HOTEL-MOTEL TAXES
Chapters 67.28, 67.40, 35.101 and 36.100 RCW

Tax Base

SPECIAL HOTEL-MOTEL TAX. Charges for lodging at hotels, motels, rooming houses, private campgrounds, recreational vehicle parks, and similar facilities for continuous periods of less than one month.

ROOM CHARGE. A fee applies to each room that is rented for less than 30 days in lodging facilities that have 40 or more rooms; it is based on the number of days the room is rented.

Tax Rates

HOTEL-MOTEL TAX. 2 percent, with certain exceptions for jurisdictions which prior to 1997 were authorized to levy up to 3 percent (RCW 67.28.181).

Some of the special lodging tax rates depend upon the number of rooms at the establishment. Generally, these taxes are devoted to financing local convention center facilities; it is believed that the larger hotels have more to benefit in the way of conventions and thus a higher rate is justified for establishments with more rooms. Examples are:

Cowlitz County and all five cities in that county:
2% for up to 39 rooms; 3% for 40 or more rooms.

Bellevue
Special hotel-motel tax: 3% for up to 59 rooms;
Bellevue convention center tax: 3% for 60 or more rooms;
State convention center tax: 2.8% for 60 or more rooms.

Pierce County and most cities in that county*
2% for up to 25 rooms; 5% for 26 or more rooms.

Spokane County and all 12 cities (except Airway Heights)
no tax for up to 39 rooms; 2% for 40 or more rooms.

Airway Heights:
1.9% for up to 39 rooms; 3.9% for 40 or more rooms.

*except Fife, Lakewood and Puyallup

The combined rate of state and local retail sales tax (except the Regional Transportation Authority tax), the state convention center tax, and any special hotel-motel taxes may not exceed 12 percent in any municipality except the city of Seattle,

where the maximum rate is 15.2 percent (thus precluding any special hotel-motel tax in Seattle). (RCW 67.28.181(2,c)) However, a higher aggregate rate cap applies for jurisdictions which previously levied higher hotel-motel tax rates. (See example for Bellevue in the discussion section below.) Also, it is important to note that the statutory limit of 15.2 percent does not include the local sales tax for high capacity transit; thus, the actual rate limit within Seattle is 15.6 percent.

ROOM CHARGE. The new room charge was authorized in 2003. It allows certain cities and counties to impose a fee of up to $2 per day for each day that a lodging unit is rented (in facilities with 40 or more units). The statute provides for classification of lodging units with different rates for each; such classifications may be based on total number of units available, total lodging revenues, or the specific location within a tourism promotion area. (RCW 35.101.050)

Levied by

HOTEL-MOTEL TAX. Cities and counties, pursuant to RCW 67.28.181. Unlike the state-shared 2 percent hotel-motel tax, these taxes are not credited against the state sales tax, so there is an additional burden for consumers. Currently, 26 counties and 109 cities levy additional special hotel-motel taxes.

Also, public facilities districts (PFDs) may levy an additional lodging tax of up to 2 percent, pursuant to RCW 36.100.040; such tax is restricted to facilities with at least 40 units. It is believed that one PFD does levy the tax under this authorization.

ROOM CHARGE. The daily room charge may be levied by any county or city. However, in King County the legislative authority must be comprised of at least two local jurisdictions. Currently, two counties and six cities have imposed the room charge.

Administration

Department of Revenue. An amendment in 2009 authorized reimbursement for collection costs by the Department for the room fee, pursuant to contract between the local jurisdiction and the Department. Both the special hotel-motel tax and the daily room charge are reported by hotels and motels on the Combined Excise Tax Return and the funds are distributed by the State Treasurer on a monthly basis.

Distribution of Receipts

Special hotel-motel taxes are returned to the appropriate city, county, or public facility district within two months following their receipt from the hotels and motels. Use of the funds is restricted to promotion of tourism or construction and operation of tourism-related facilities.

Receipts of the daily room charge are deposited by the State Treasurer in the local tourism promotion account and are distributed to levying jurisdictions monthly. The receipts must be used for tourism promotion programs.

Exemptions, Deductions and Credits

The special hotel-motel taxes must allow exemption for lodging of homeless persons via a voucher program which provides reimbursement by a public agency or private organization that offers emergency food and shelter services.

RCW 67.28.200 allows municipalities that impose a local hotel-motel tax to provide for "reasonable" exemptions.

Recent Distributions ($000)

In calendar year 2009 $26.5 million was distributed to cities and counties in special local hotel-motel taxes. During the same period a total of $3.7 million was produced for tourism promotion activities as a result of the room charge.

	Special Hotel-Motel Tax		Daily Charge on Rooms	
Calendar Year	Cities	Counties	Cities	Counties
2009	$18,457	$8,088	$1,412	$2,306
2008	20,127	8,593	1,415	2,474
2007	20,022	7,908	1,433	2,536
2006	17,685	6,896	1,152	2,447
2005	15,377	5,989	1,182	2,231
2004	13,999	5,449	193	739
2003	13,547	4,938	- -	- -
2002	13,171	4,521	- -	- -
2001	13,196	4,260	- -	- -
2000	13,422	4,294	- -	- -

History

The initial additional hotel-motel tax was authorized in 1982 when Bellevue was allowed to levy a 3 percent tax to finance its convention center (at the same time that the state convention center tax on lodging was imposed in Seattle and the remainder of King County). In 1987, a 2 percent tax was provided for the convention center in Pierce County; cities within the same county could also levy the tax. The following year 3 percent taxes were authorized for Ocean Shores, Yakima County, and Pacific County, as well as the 2 percent tax for the public facility district in Spokane County. In 1991, authority for a 3 percent tax was provided for Westport, Friday Harbor, and San Juan County. In 1993,

special hotel-motel taxes were extended for Grays Harbor County, Cowlitz County, and Pasco, followed by a 2 percent tax in Snohomish County the following year. In 1995, new authority was enacted for hotel-motel taxes in Chelan, Leavenworth, Wenatchee, and East Wenatchee. Also, in that year the authority for a tax by public facility districts was extended from Spokane County to any county.

A separate convention center tax was authorized in 1987 for Pierce County and cities within the same county pursuant to RCW 67.28.182 at a rate of 2 percent. The allowable tax rate was increased to 5 percent in 1995. This statute was repealed in 1997 but the authority was rolled into RCW 67.28.181.

Legislation enacted in 1997 and 1998 repealed all of the various special hotel-motel taxes which had been allowed for particular jurisdictions and replaced these statutes with generic authorization for any municipality.

In 2003, a tourist promotion daily charge on rooms of up to $2 per day per room was authorized to provide additional local funding for promotion of tourism. Originally, the authority was limited to 38 counties other than King. The room charge was extended to King County in 2009; however, the legislative authority must be comprised of at least two local jurisdictions.

Discussion/Major Issues

Approximately 2,680 firms report special hotel-motel taxes and about 150 lodging establishments currently report the daily room charge.

Over the past decade there had been a growing number of special hotel-motel taxes authorized for certain cities and counties. Generally, the permitted use of the funds was for a tourist-related activity or facility. There were many requests by other local governments for similar taxing authority, as jurisdictions competed to attract tourists. With the new uniform authority for such taxes in any municipality, there has been a significant increase in the number of levying jurisdictions, starting in 1998.

RCW 67.28.181(1) applies a 12 percent limit on the combined sales and hotel-motel tax rates (except for the RTA sales tax) in cities other than Seattle. With grandfathering of previously imposed hotel-motel taxes provided by the statute, the maximum combined tax rate for Bellevue is 14 percent. As a result, the local sales tax rate which applies in the city of Bellevue on lodging facilities with 60 units or more must be reduced. Otherwise, the aggregate tax rate on such sales would total 14.2 percent (state convention center tax, 2.8 percent; municipal special hotel-motel tax rate, 3 percent; state retail sales tax rate, 6.5 percent; and aggregate local retail sales tax rate, 1.9 percent = 14.2 percent). The excess tax rate of 0.2 percent is taken from the King County transit tax rate of 0.9 percent.

Unlike the 2 percent state-shared local hotel-motel tax, the special local taxes are in addition to the combined state and local retail sales tax. Thus, the overall sales and hotel-motel tax

rate is in the range of approximately 10 to 11 percent for most jurisdictions. While comparable special lodging taxes are levied in tourist destination cities in many other states, the combined tax rate in Washington is considered to be quite high and may have a detrimental impact on efforts to encourage tourism and conventions in this state.

SOLID WASTE COLLECTION TAX
RCW 82.18.020

Tax Base — Charges for solid waste collection services by firms that collect, transfer, store, or dispose of solid waste.

Tax Rate — 3.6 percent

Levied By — State

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$32,480	(0.8)%	0.2%
2008	32,751	4.3	0.2
2007	31,392	5.9	0.2
2006	29,644	6.4	0.2
2005	27,869	3.8	0.2
2004	26,849	4.9	0.2
2003	25,604	3.3	0.2
2002	24,785	(0.9)	0.2
2001	25,003	7.6	0.2
2000	23,237	0.2	0.2

Administration — Department of Revenue. Solid waste collection firms collect the tax from their customers and report the tax on their Combined Excise Tax Return. The tax is considered the liability of the customer, not the collection firm; therefore it is classified as a selective sales tax rather than a specialized business tax. The solid waste firm also has B&O tax liability under the service classification on their charges to the customer.

Distribution of Receipts

Public works assistance account - used to provide financial assistance to local governments for repair and maintenance of public works projects (chapter 43.155 RCW).

Exemptions, Deductions and Credits

- the federal government;
- charges between solid waste collection firms.

History

The tax was enacted in 1986 as a refuse collection tax. Previously, collection of solid waste had been subject to public utility tax. In 1989, the statute was amended and the name of the tax was changed from "refuse" to "solid waste" collection tax. A companion 1 percent solid waste collection tax was levied on customers of refuse collection firms from 1989 through June 30, 1995.

Discussion/Major Issues

Approximately 265 firms report this tax. Revenues are used by the state to help fund repair and maintenance of local government public works projects (streets, sewers, etc.). Some taxpayers have felt the tax receipts should be devoted exclusively to the development of solid waste landfills, rather than more generally used for local public works projects.

WOOD STOVE FEE
RCW 70.94.483

Tax Base — Retail sales of solid fuel burning devices.

Tax Rate — The current fee is $30 per stove. The statute allows the Department of Ecology to adjust the rate above $30 based on changes in the consumer price index, but no adjustment has been made to date.

Levied by — State

Administration — Department of Revenue. Vendors of wood stoves report the collections on their Combined Excise Tax Return. The tax rate is determined by the Department of Ecology (the base rate of $30 is specified in statute, subject to adjustment for inflation).

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$320	7.0%	0.0%
2008	299	2.0	0.0
2007	293	1.7	0.0
2006	288	28.0	0.0
2005	225	9.8	0.0
2004	205	(12.4)	0.0
2003	234	(28.2)	0.0
2002	326	39.9	0.0
2001	233	(4.1)	0.0
2000	243	(14.7)	0.0

Distribution of Receipts

Wood stove education and enforcement account. The funds are used by the Department of Ecology to educate consumers about the effects of wood stove smoke upon air pollution and to enforce burning restrictions during periods of impaired air quality.

Exemptions, Deductions and Credits — None

History

The initial wood stove fee was established at a rate of $5 effective January 1, 1988. In 1990 the fee amount was increased to $15. The following year it was doubled to the current $30 rate, and the former exemption for masonry fireplaces was repealed.

Discussion/Major Issues

There are about 130 taxpayers who report wood stove fees.

The fee represents a "user tax" whereby persons that cause a certain governmental program to be necessary are required to pay for the costs of that program. Environmental restrictions on wood-burning stoves, higher prices for firewood, and the increased use of natural gas for home heating have impacted the demand for wood-burning stoves. Yet collections of the fee in recent years have increased, even despite the slow-down in residential construction.

BROKERED NATURAL GAS USE TAX
RCWs 82.12.022 and 82.14.230

Tax Base — Natural or manufactured gas that is consumed within the state, if the supplier was not subject to the state public utility tax. The tax is paid by the in-state user and is measured by the value of the gas when delivered to the customer. It excludes costs of transportation if such costs were subject to the public utility tax; otherwise the tax includes charges for transportation of the gas to the customer.

Tax Rate — State: 3.852 percent (the rate must be the same as the gas distribution rate under the state public utility tax).

Cities: maximum of 6 percent (the rate must be the same as the city applies to natural gas businesses under the municipal utility tax).

Levied by — State - RCW 82.12.022

Cities - RCW 82.14.230

Administration — Department of Revenue for the state tax. Cities contract with the Department for collection of the local utility taxes. Both state and local taxes are reported on an addendum to the Combined Excise Tax Return.

Recent Collections ($000) STATE TAX

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$46,730	13.5%	0.3%
2008	41,154	15.9	0.2
2007	35,506	(11.6)	0.2
2006	40,158	35.0	0.3
2005	29,745	23.0	0.2
2004	24,178	0.8	0.2
2003	23,977	(7.1)	0.2
2002	25,811	(15.8)	0.2
2001	30,669	106.7	0.3
2000	14,835	14.4	0.1

Recent Collections ($000) CITY TAXES (currently 51 cities)

Fiscal Year	Collections	% Change
2009	$12,967	14.3%
2008	11,345	10.2
2007	10,293	(5.1)
2006	10,845	27.4
2005	8,510	28.7
2004	6,614	(10.3)
2003	7,370	60.1
2002	4,604	(31.7)
2001	6,737	63.2
2000	4,128	25.4

Distribution of Receipts

State tax - general fund

City tax - used for general purposes

Exemptions, Deductions and Credits

- natural gas that is subject to state or municipal utility tax is exempt from use tax.
- credit is provided for any taxes similar to the state or local public utility taxes or state or local "use" taxes paid in other states on the same natural/manufactured gas.
- deferral of the tax is allowed for direct service industries (DSIs) that purchase electric power from the Bonneville Power Administration if they construct and operate gas fired generating facilities. If the firm maintains previous employment levels, the deferred tax need not be repaid.
- natural or manufactured gas used in aluminum smelters, until January 1, 2012.

History

The state and municipal taxes on brokered natural or manufactured gas were adopted by the Legislature in 1989; the effective date of the taxes was July 1, 1990.

Discussion/Major Issues

The need for these taxes was a result of federal deregulation of the natural gas industry. Increasingly, large industrial and institutional users of gas have been able to make purchases of gas from sellers in other states through brokers; this enables large purchasers to take advantage of differentials on the spot market for natural gas. Although the gas may be delivered through the pipeline of a local gas company, the transaction is considered to take

place out of state. Some utilities had been reporting retail sales tax on such sales and some purchasers had reported use tax, but there was confusion about the tax liability of such transactions until the Legislature enacted the 1989 statute.

There are currently 274 taxpayers that report use tax on natural/manufactured gas. The Department currently administers the municipal use tax on natural/manufactured gas for 46 cities, although not every one of them receives revenues each year depending upon when the taxable transactions occur.

RENTAL CAR TAXES
RCW 82.08.020(2), plus local tax statutes

Tax Base — Rental of automobiles. Rental cars are defined as passenger cars which are rented by rental car companies to customers, without drivers, for periods not in excess of 30 consecutive days. Rentals are also subject to state and local retail sales tax.

Tax Rate

State - 5.9 percent

Local
- 1 percent tax authorized for any county, RCW 82.14.049.
- 2 percent tax authorized for King County, RCW 82.14.360(2).
- 2.172 percent tax authorized for high capacity rapid transit, RCW 81.104.160; a rate of 0.8 percent is levied by the Regional Transit Authority.
- 1.944 percent tax authorized for a City Transportation Authority to finance a monorail system, RCW 35.95A.080(4). This tax is not levied.
- 0.805 percent tax (13.64 percent of the state rental car rate) authorized for King, Snohomish, or Pierce counties for high occupancy vehicle lanes, RCW 81.100.060. This tax has not been levied.

The combined rental car rate is currently 9.7 percent in King County (plus retail sales tax).

Levied by

State

Local
- currently, four counties levy the 1 percent county tax: Franklin, King, Pierce, and Spokane counties.
- King County imposes the additional 2 percent tax for Safeco Field.
- The Regional Transportation Authority levies a tax of 0.8 percent in the metropolitan areas of King, Pierce, and Snohomish counties.

Administration — Department of Revenue. Rental car companies collect the state and local tax from customers and report the taxes on an addendum to the Combined Excise Tax Return. Thus, the same reporting frequency as used for retail sales and B&O tax applies to the rental car return.

Exemptions, Deductions and Credits

- vehicles rented or loaned to customers by auto repair businesses.
- vehicles licensed and operated as taxicabs.

Recent Collections

STATE TAX: ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$22,768	(5.9)%	0.1%
2008	24,207	4.6	0.1
2007	23,152	5.5	0.1
2006	21,954	13.9	0.1
2005	19,282	(4.5)	0.1
2004	20,181	(2.1)	0.2
2003	20,622	0.4	0.2
2002	20,544	(6.8)	0.2
2001	22,032	4.4	0.2
2000	21,111	6.8	0.2

LOCAL TAX COLLECTIONS: ($000)

Fiscal Year	County 1%	King Co 2%	RTA 0.8%
2009	$3,351	$5,522	$2,527
2008	3,511	5,725	2,543
2007	2,448	5,502	3,372
2006	3,214	5,298	2,360
2005	2,914	4,773	2,151
2004	3,006	4,926	2,221
2003	2,998	4,917	2,176
2002	2,986	4,927	2,191
2001	5,351	5,372	2,407
2000	4,228	5,511	2,602

Distribution of Receipts

State 5.9% rate: Receipts of the state tax are deposited into the multimodal transportation account per RCW 47.66.070.

County 1% rate: After deduction of the state administrative cost, the local receipts are distributed to the appropriate counties, to be used only for construction or operation of public sports stadiums or for youth or amateur sports activities or facilities (no more than 25 percent of the proceeds may be used for youth activities).

County 0.805%: Receipts used to finance HOV lanes. (Tax is not levied.)

King Co. 2% rate: After deduction of the state administrative cost, the local receipts are distributed to King County, to be used only for financing the principal and interest payments for bonds or for related design and preconstruction costs for Safeco Field in Seattle.

RTA 0.8% rate: Proceeds of the tax are devoted to financing a high capacity, rapid transit system.

Monorail 1.944%: Receipts dedicated to a monorail system. (Tax is not levied.)

History

The initial rental car tax was adopted in 1992 and the state rate was first effective on January 1, 1993. Four counties implemented the 1 percent local tax in October 1992. In 1995, the Legislature authorized the additional 2 percent local tax for King County to provide funding for construction of the professional baseball stadium in Seattle, and the King County Council imposed the tax effective for collection on January 1, 1996. The local tax for high capacity transit was authorized by the Legislature in 1992 and was first levied by the Regional Transit Authority, effective April 1, 1997, at a rate of 0.8 percent.

The state tax was previously distributed in the same manner as the motor vehicle excise tax. With the repeal of the motor vehicle excise tax, effective January 1, 2000, the receipts of the state rental car tax were transferred into the newly created multimodal transportation account in 2000.

In 2002 authority for a similar local rental car tax, previously contained in RCW 35.58.273, was repealed. This allowed for a tax of up to 1.944 percent for funding of mass transit programs by cities, but the tax had never been implemented in any city. Instead, this financing source was transferred to financing a monorail system.

Discussion/Major Issues

Approximately 140 firms currently report rental car tax.

The legislative intent in enacting the state and 1 percent county rental car tax in 1992 was that the new taxes would replace the motor vehicle excise tax (MVET) but not increase the overall burden of tax for rental car companies. Previously, the MVET applied to all rental cars located in the state, even those only temporarily used in the state for short periods of time, and no apportionment of the tax was provided to reflect the time the vehicle was actually operated in Washington. Instead, the new tax shifts the burden directly to the customers and better reflects actual use of the vehicles within the state.

The combined tax rate for rental car customers is quite high. Including the retail sales tax, the combined tax rate for car rentals in most of King County is currently 19.2 percent (9.7 percent in state and county rental car taxes plus 9.5 percent in state and local sales taxes).

TELEPHONE TAXES
RCWs 82.14B.030, 80.36.430, and 43.20A.725(5)

Tax Base — Telephone access lines (both switched and radio access lines)

Tax Rate

State -

- Enhanced 911 Tax: up to 20 cents per month for each switched and radio access line (RCW 82.14B.030 (3 & 4)). The State Enhanced 911 Coordinator recommends the tax rate for switched lines to the Utilities and Transportation Commission, and the Commission formally determines the rate for the following year. The current rate is the maximum 20 cents.

- Telephone assistance (WTAP) tax: rate of up to 14 cents per month for each switched telephone line (RCW 80.36.430). The actual rate is determined annually by the Department of Revenue, based on the Department of Social and Health Services (DSHS) budget for this program; currently it is 13 cents per switched line.

- Telecommunications relay service (TRS) tax: rate of up to 19 cents per month for each switched telephone line (RCW 43.20A.725(5)). The rate of this tax is computed annually by the Department of Revenue, based on budgetary information submitted by the DSHS Office of Deaf and Hard of Hearing. The current rate is 11 cents per switched telephone line.

Counties - County enhanced 911 tax: up to 50 cents per month for each switched and radio access line, RCW 82.14B.030(1 & 2).

Current Maximum State/Local Tax Rates:

Switched lines	= 94 cents per month
Radio access (wireless) lines	= 70 cents per month

Levied by — State and counties

Administration

These taxes are collected by telephone companies from the customer; the amount of the tax is separately stated on billings to the customer. The state tax receipts are reported on the state Combined Excise Tax Return and are remitted to the Department of Revenue. Chapter 82.72 RCW provides administrative authority for the WTAP and TRS excise taxes previously collected by DSHS.

Counties are responsible for administering the county 911 tax via local ordinance, and the tax is paid directly to the County Treasurer by the telephone companies.

Distribution of Receipts

State enhanced 911 tax (both switched and wireless): Proceeds go to the enhanced 911 account per RCW 38.52.540 and are used to fund the state 911 program and to assist counties in implementing enhanced 911 telephone services.

WTAP tax: Receipts are deposited in the telephone assistance fund which is administered by DSHS to provide financial assistance for local exchange services to needy families that utilize various DSHS services (see RCW 80.36.410 - 475). Up to 8 percent of the receipts go to the Department of Commerce for costs of providing community service voice mail services. In 2009, the Legislature required that DSHS provide $1 million of the WTAP funds to the Military Department during the 2009-2011 Biennium to support the WIN 211 program.

TRS tax: Proceeds are used by the DSHS Office of Deaf and Hard of Hearing to provide telecommunications equipment and services to persons with a hearing or speech impairment.

County enhanced 911 tax: Local funds are used to finance the county emergency services communication system.

Exemptions

- federal and foreign governments.
- enrolled members of Indian tribes.
- any activity which the state or counties are prohibited from taxing under the state constitution or the constitution or laws of the U.S.

Recent Collections ($000)

STATE ENHANCED 911 TAX

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$20,192	7.1%	0.1%
2008	18,856	10.5	0.1
2007	17,057	(2.5)	0.1
2006	17,486	4.9	0.1
2005	16,677	3.5	0.1
2004	16,115	58.4	0.1
2003	10,172	18.3	0.1
2002	8,595	(6.4)	0.1
2001	9,187	(4.2)	0.1
2000	9,588	15.3	0.1

STATE TELEPHONE ASSISTANCE (WTAP) TAX

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$4,988	(10.1)%	0.0%
2008	5,551	4.2	0.0
2007	5,326	(5.0)	0.0
2006	5,605	11.5	0.0
2005	5,026	(9.1)	0.0
2004	5,529	4.0	0.0
2003	5,318	(3.9)	0.0
2002	5,490	(4.7)	0.0
2001	5,762	(0.3)	0.0
2000	5,778	5.4	0.0

STATE TELECOMMUNICATIONS RELAY SERVICE (TRS) TAX

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$4,554	(0.5)%	0.0%
2008	4,576	32.1	0.0
2007	3,464	(17.0)	0.0
2006	4,171	(22.9)	0.0
2005	5,413	(9.5)	0.0
2004	5,980	4.0	0.0
2003	5,749	(3.5)	0.0
2002	5,957	(9.1)	0.1
2001	6,551	(1.2)	0.1
2000	6,633	-.-	0.1

According to data reported by counties to the State Auditor via the Local Government Financial Reporting System, counties collected a total of $42.2 million in county 911 telephone taxes during calendar year 2008. Thirty-one counties reported a total of $19.5 million from the county 911 tax on switched lines, and 26 counties reported a total of $22.7 million from wireless lines.

History

The original county tax on switched telephone lines was authorized in 1981; the tax had to be imposed on a countywide basis. In 1987, the county legislative authority was permitted to levy the tax on behalf of an emergency service communication district which could serve an area less than countywide. The state enhanced 911 excise tax was approved by the voters in 1991 (Referendum 42); the tax was first effective on January 1, 1992. The state

rate has always been the maximum 20 cents per switched line to ensure funding for the implementation of an enhanced 911 telephone system on a statewide basis. The county tax on wireless lines was authorized by the Legislature in 1994 at a maximum rate of 25 cents per line. In 2002, the state tax was extended to wireless telephones and the maximum rate of the county tax on wireless lines was increased to 50 cents. Also, in 2002 responsibility for collecting the state enhanced 911 telephone tax was transferred from the State Military Department to the Department of Revenue.

The TRS tax which funds telephone services for persons with hearing difficulties was established in 1987 at a maximum rate of 10 cents per switched line. The WTAP tax that funds telecommunication services for low-income households was also adopted in 1987 at a maximum rate of 16 cents per switched line. Both taxes were administered by the Department of Social and Health Services through the end of Fiscal Year 2004; responsibility for collecting these taxes was transferred to the Department of Revenue effective July 1, 2004.

Discussion/Major Issues

There are currently 99 wireline companies that report the 911 and the line taxes; 42 wireless companies report the 911 tax.

These revenue sources fund the acquisition and operation of "911" emergency systems, as well as telecommunication services for individuals who are hard of hearing and certain low-income households. Legislation adopted in 1992 mandated statewide implementation of "enhanced" 911 emergency communications (systems which recognize the telephone number and location of the caller) by December 31, 1998.

REPLACEMENT VEHICLE TIRE FEE
RCW 70.95.510

Tax Base — Retail sales of new replacement vehicle tires. The tax does not apply to tires that are installed on a new or used vehicle when it is purchased, nor does it include retreaded tires.

Tax Rate — $1.00 per tire. Vendors are allowed to retain 10 percent of the fee receipts to cover their costs of collection.

Levied by — State

Administration — Department of Revenue. Vendors of new replacement vehicle tires report the collections on their Combined Excise Tax Return. Like the retail sales tax, the fee receipts are considered as trust funds of the state and must be collected from purchasers by the vendor and paid to the state.

Recent Collections (90 percent of fee receipts) ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$3,602	(5.3)%	0.0%
2008	3,802	0.3	0.0
2007	3,789	18.7	0.0
2006	3,193	-.-	0.0

Distribution of Receipts

Waste tire removal account per RCW 70.95.521. The funds are used by the Department of Ecology to clean up and prevent unauthorized piles of waste vehicle tires.

Exemptions, Deductions and Credits — None

History

A similar fee was established in 1985. Initially, the rate was 0.12 percent of the gross receipts derived from retail sales of replacement vehicle tires. The rate was changed to $1.00 per tire in 1989. This earlier fee expired on September 30, 1994. The current fee was adopted by the Legislature in 2005, effective on July 1, 2005. It was originally scheduled to expire on July 1, 2010, but in 2009 the expiration date was repealed.

Discussion/Major Issues — Approximately 850 taxpayers report the replacement tire fee.

GENERAL BUSINESS TAXES

Taxes imposed on most business activities for the privilege of engaging in business

- **Business and Occupation Tax**

- **Municipal Business Taxes**

BUSINESS AND OCCUPATION TAX
Chapter 82.04 RCW

Tax Base — Gross receipts of all businesses operating in Washington, as a measure of the privilege of engaging in business. The term "gross receipts" means gross income, gross sales, or the value of products, whichever is applicable to a particular business.

Tax Rate — As of January 2010, ten different business and occupation (B&O) tax rates apply to various classifications of business activities. These are summarized as follows:

Manufacturing, wholesaling, and certain other activities*.....	0.484%
Retailing, retail sellers of digital goods, environmental cleanup, and radioactive waste cleanup for the U.S.	0.471%
Extracting timber & manufacturing timber/wood products:**.....	0.3424%
Manufacturing aluminum (until 1/1/2012); repair of commercial aircraft (until 7/1/2011); manufacturing or selling commercial aircraft & components (until July 1, 2024); and printing/publishing newspapers.....	0.2904%
Travel agents, tour operators, stevedoring, freight brokers, licensed boarding homes, repair of aircraft, manufacturing computer microchips or semiconductor materials, solar energy equipment manufacturing (until 6/30/2014), international investment management services	0.275%
Processing meat (at wholesale); processing soybeans, canola, and dry peas; manufacturing wheat into flour, raw seafood, fresh fruit, vegetables and dairy products; (starting 7/1/2012); warehousing/reselling of prescription drugs; and manufacturing biodiesel/alcohol fuel	0.138%
Disposal of low-level radioactive waste	3.3%
Development of aerospace products.....	0.9%
Games of chance/pari-mutuel wagering***	1.63%
Services; public/nonprofit hospitals; all other activities	1.5%

*Extracting, extracting and processing for hire, commissions of insurance agents/ brokers, printing and publishing, child care, income derived from royalties, warehousing, radio and television broadcasting, public road construction, government contracting, treatment of chemical dependencies, retailing of interstate transportation equipment and services (inspecting, testing, labeling, storing) provided for firms that can salmon products, advertising income of newspapers associated with on-line editions (until 6/30/2011).

**The tax rate for extracting/wholesaling of timber and manufacturing of timber or wood products includes a surtax of 0.052 percent (RCW 82.04.261). The basic B&O tax rate on these activities is 0.2904 percent (until July 1, 2024) plus the permanent surtax enacted in 2006, the receipts of which are dedicated to the forest and fish support account.

***Includes the service rate. Applies to operators of certain gambling activities which gross more than $50,000 annually and wagering at horse races.

Businesses are taxable according to the activities in which they engage and may be subject to more than one tax rate, depending upon the source of their income. Further, firms are taxed according to their final level of activity in Washington. Thus, a firm that manufactures a product and sells it at wholesale within the state is taxed as a wholesaler, not a manufacturer. (Technically, such firms report on both the manufacturing and wholesaling tax lines but take a multiple activities tax credit for the manufacturing activity.)

Four principal tax rate classifications accounted for 98 percent of total B&O tax liability, prior to credits, in Fiscal Year 2009. These percentages do NOT reflect the industrial classification of the firms, only the tax lines on the tax return:

0.484 Percent:		
Manufacturing*	=	3.9%
Wholesaling**	=	20.4
Other activities	=	2.3
0.2904 Percent		
Various preferential activities	=	3.1%
0.471 Percent: Retailing	=	24.5%
1.5 Percent: Services***	=	43.9%

*Basically, out-of-state sales of products produced in Washington, not including commercial aircraft which is subject to the 0.2904% rate.
**Including in-state sales by manufacturers.
***Business and personal services, plus financial and real estate.

Levied by State

Traditionally, there has been no statutory or administrative relationship between the state B&O tax and the local gross receipts taxes levied by some cities. However, legislation adopted in 2003 required cities to adopt their local business taxes according to a model ordinance, which is linked with the state B&O tax definitions.

Administration

Department of Revenue. Firms register with the Department by filing a Master Business Application (Form #BLS 700-028) with the Department of Licensing before they commence operations. The fee for the Master Business License is $15 ($20 if the firm is registering a trade name). The Department of Revenue assigns the applicant to monthly, quarterly, or annual reporting frequency for state excise tax purposes depending upon the type and estimated level of business activity. Each firm is assigned to an industrial classification, based on the applicant's description of the firm's primary activity. The six-digit number reflects the North American Industrial Classification System (NAICS), an identification system used by the federal governments of the U.S., Canada, and Mexico.

The B&O tax is generally reported on the Combined Excise Tax Return which is sent to registered taxpayers. Other specialized tax returns may be sent to selected types of taxpayers, e.g., a "B&O Activities" return or a "Retailing and Other Activities" return. Also, aerospace, timber, and certain other firms that qualify for a reduced tax rate must file specialized tax returns and submit them electronically. All monthly taxpayers are required to file their returns electronically and to submit payment via electronic funds transfer. The due date for monthly reporters is the 25th of the following month. Quarterly filers report by the end of the month following the close of the quarter, and annual taxpayers file by the end of January for the prior calendar year. Firms other than monthly reporters are also encouraged to file their tax returns and submit payments electronically. Information on "E-file" is available on the Department's web page at: http://dor.wa.gov.

Firms whose annual gross income does not exceed $28,000 are not required to file excise tax returns if they have no other state excise taxes to report (RCW 82.32.045(4)). However, any business that collects any retail sales tax must file, regardless of the amount of sales tax. A small business tax credit (RCW 82.04.4451) relieves a major portion of B&O tax liability for many small firms. For example, a firm subject to the 0.484 percent tax rate would incur no B&O tax liability until annual income exceeds $86,777. During Fiscal Year 2009 approximately 197,000 firms benefited from the small business credit; an estimated 120,000 firms paid no B&O tax, and an additional 77,000 firms had their tax liability reduced because of this credit.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$2,650,526	(7.8)%	17.0%
2008	2,874,339	6.0	16.9
2007	2,712,048	9.5	16.1
2006	2,477,831	9.2	16.1
2005	2,269,105	9.7	16.4
2004	2,067,872	7.5	15.9
2003	1,923,370	(1.8)	15.9
2002	1,958,283	(2.7)	16.6
2001	2,012,403	8.5	16.9
2000	1,854,948	1.5	15.7

Distribution of Receipts

State general fund, with the following exceptions:

- the 0.13 percent tax on games of chance and pari-mutuel wagering which is deposited in the problem gambling account ($495,000 in FY 2009); and

- the 0.052 percent surtax on extracting of timber and manufacturing of timber and wood products for the forest and fish support account ($3.5 million in FY 2009).

Until June 30, 2009, the tax on public and nonprofit hospitals, which represented about 3.3 percent of Fiscal Year 2009 collections, was dedicated to the health services account. However, this account was eliminated at the start of Fiscal Year 2010 and the receipts now go to the general fund.

Major Business Tax Incentives

Listed below are some of the important B&O tax incentive programs intended to encourage business expansion in Washington. Some of these incentives were indicated above under the tax rate section (especially under the 0.2904; 0.275, and 0.138 percent categories), since they offer reduced business tax rates. Following this section is a more general listing of some examples of B&O tax exemptions, credits, deferrals, and other tax preference items. There is not a bright-line distinction between a business tax incentive program and a more routine type of tax exemption, and certainly businesses can benefit from some of the exemptions listed in that section as well.

Some of the following programs require that participants report annually to the Department and provide data on the utilization of the tax incentive and related employment statistics. Various "accountability" statutes require the Department to report some of these data to the Legislature in the form of annual descriptive statistics. Further, some of the tax incentive statutes require an

evaluation to determine the effectiveness of the program, often shortly before the scheduled termination of the program. These evaluations are to be conducted either by the Department or by the staff of legislative fiscal committees.

- Credit for R&D expenditures by certain high technology firms (expires 1/1/2015).
- Credit for new employment ($1,000 per job) by computer programming and software development firms in rural counties (expires 1/1/2011).
- Credit for new employment ($3,000 per job) by semiconductor manufacturers (expires 12 years after the effective date, which has yet to occur).
- Credit for all income derived by firms that offer information technology help-desk services in rural counties (expires 1/1/2011).
- Credit for property and leasehold taxes paid on facilities used in the production of commercial aircraft by aerospace manufacturing firms (expires 7/1/2024) and property taxes paid on aluminum smelters (expires 1/1/2012).
- Exemption for income from manufacturing semiconductor microchips (expires nine years after the effective date, which has yet to occur).
- Exemption for income of processors of fresh fruit and vegetables, dairy products, and seafood products, if the products are shipped out of state (expires 7/1/2012).
- Credit for pre-production expenditures by commercial aircraft manufacturers and other expenditures associated with development of aerospace products by nonmanufacturers, e.g., tooling (expires 7/1/2024).
- Credit for up to 20 percent of employee training costs for firms that participate in the rural county sales tax deferral program.
- Credit for one-half of the cost of customized training programs at community or technical colleges for employees (until 7/1/2016).

Other Exemptions, Deductions and Credits

The B&O tax is basically a tax on gross business receipts with no deduction for costs of doing business, such as payments for raw materials or wages paid to employees. Nonetheless, many exemptions, deductions, and credits are provided for specific types of business activities. Some of the major ones are summarized below.

EXAMPLES OF EXEMPTIONS:
- salaries and wages received by employees (not considered as engaging in business);
- income from the sale or rental of real estate;
- agricultural producers who grow crops or raise animals for sale at wholesale;
- operating income of public utilities (subject instead to public utility tax);
- international banking facilities;
- credit unions;
- insurance premiums (subject instead to insurance premiums tax);
- commuter ride-sharing and nonprofit transportation of persons with special needs;
- fund-raising activities of nonprofit organizations;
- health care organizations (subject to insurance premiums tax);
- nonprofit adult boarding homes;

- nonprofit cancer care centers;
- day care provided by churches;
- income of the American Red Cross;
- nonprofit sheltered workshops and group training facilities;
- grants and income received by local governments (except for proprietary activities);
- federal grants for small business for R&D purposes;
- direct sales by out-of-state firms via manufacturers' representatives;
- accommodation sales between firms that sell the same type of product;
- income of small timber harvesters.

EXAMPLES OF DEDUCTIONS:
- income which the state may not tax for constitutional reasons (e.g., interstate commerce);
- membership dues, contributions and donations, and tuition fees;
- investment income of nonfinancial businesses and dividends of subsidiary firms;
- network advertising representing the out-of-state income of radio/TV broadcasters;
- cash discounts taken by purchasers;
- credit losses incurred by taxpayers who use accrual accounting;
- sales representing federal and state gas taxes;
- interest from first mortgage residential loans and certain agricultural loans;
- government grants for nonprofit social/health programs and community health centers;
- income of nonprofit artistic and cultural organizations;
- income from biodiesel, alcohol (E-85), and wood biomass fuels (expires 7/1/2015).

EXAMPLES OF TAX CREDITS:
- small business credit ranging from $35 to $70 per month;
- payments for ride-sharing/commute trip reduction programs (expires 7/1/2013);
- gross receipts taxes paid in other states or countries by manufacturers or extractors;
- $3,000 credit for new jobs created by international service firms;
- purchases of electricity/natural gas by aluminum smelters;
- contributions for donations to community revitalization "main street" programs;
- $1.00 per gallon tax paid on carbonated beverage syrup;
- contributions to motion picture competitiveness program (expires 7/1/2011);
- credit equivalent to state/local sales tax for upgrades of commercial appliances to meet energy standards (expires 7/1/2010);
- $3 per ton of biomass used to produce electricity (expires 6/30/2015).

History

The Business Activities Tax of 1933 was the state's first gross receipts tax on business. It was adopted as a temporary, emergency revenue measure during the Depression. The gross receipts form of taxation was upheld by the State Supreme Court in 1933 when it determined that a gross receipts tax was a proper measure of the privilege of engaging in business, rather than a tax on income.

Two years later, the Revenue Act of 1935 included the current B&O tax as a replacement for the Business Activities Tax. Initial tax rates were 0.25 percent for all business activities, except services which were taxed at 0.5 percent. Subsequent rate increases were enacted via surtaxes in 1951, 1955, 1959, 1976, 1982, and 1983. Over the years a number of specialized tax rates, typically at lower levels, were created for particular business activities, so that by the mid-1990s there were as many as 13 different B&O tax rates. In 1998, many of the specialized rates were consolidated into the existing 0.275 or 0.138 percent rates.

Two major attempts to broaden the B&O tax base - one successful, one not - occurred just before and just after the 1960s. In 1959, the Legislature attempted to extend the tax to income derived from the rental of real estate. However, the State Supreme Court ruled that the tax constituted double taxation, because the income was essentially derived from the real estate itself and this was already subject to property taxes. In 1970, the tax was broadened to include financial institutions under the service classification, following a revision in federal tax requirements.

The initial tax incentive to encourage economic development was enacted in 1965. This manufacturer's tax credit was intended to help manufacturing firms invest in new facilities. Another credit was adopted two years later; this continues to assist firms with costs incurred in upgrading pollution control facilities. The B&O tax was used to help deal with personal property taxes on business inventories; from 1974 through 1983 an increasing percentage of the inventory tax was creditable against B&O tax liability until inventories were exempted outright from property tax.

In the mid-1980s a major issue arose concerning the potential for double taxation of the same income for firms that operate in multiple states. The U.S. Supreme Court ruled in 1987 that Washington's B&O tax presented this possibility. In response, "multiple activity" tax credits were enacted for in-state firms that both manufacture and sell at wholesale or retail and for firms that operate both in Washington and in other states.

Major changes to the B&O rate structure occurred in 1993. New classifications for business services were created with rates as high as 2.5 percent, and existing rates were increased. By 1997 the new classifications were eliminated and the tax rates for all activities were returned to the pre-1993 levels. Also, in 1993 public and nonprofit hospitals were made fully taxable at the service rate, with the receipts dedicated to health care programs.

Prior to 1994, the B&O tax featured a threshold equivalent to $1,000 of taxable income per month. If a firm had gross receipts above this level, the B&O tax fully applied to all of the firm's income. In 1994 the current small business tax credit was adopted; this provided significantly broader tax relief for very small companies.

A major change in the tax for the distribution industry was enacted in 1998. The B&O tax intentionally pyramids, i.e., different firms at different levels in the chain of production are each subject to the tax. Thus, the same product can be subject to tax multiple times. This can present an advantage for integrated firms, e.g., those that distribute products they own to their retail outlets. To help offset that advantage, since 1955 a tax on "internal

distributions" was applied to firms that distribute products they own to two or more of their own outlets. However, the internal distribution tax was repealed in 1998.

A variety of business incentives were adopted in recent years, starting primarily in 2003. These include preferential tax rates on manufacturing commercial aircraft, smelting of aluminum, production of semiconductor materials, and most recently timber harvesting and manufacturing of timber and wood products. The total exemption of income derived from processing fresh fruit and vegetables dates from 2005; it was expanded to include dairy and seafood products in 2006.

Two new taxes for specialized funds were instituted in the past two years: the 0.13 percent tax on games of chance and pari-mutuel wagering in 2005 and the additional 0.052 percent surtax for the timber industry in 2006.

Although technically subject to tax previously, legislation in 2009 specifically extended retail sales tax to digital goods, digital codes, and digital automated services. The bill also created specific B&O tax classifications for sellers of digital goods – 0.471 percent for retailers and 0.484 percent for wholesalers. Also in 2009, a permanently reduced tax rate of 0.2904 percent was allowed for printing and publishing of newspapers.

Discussion/Major Issues

As of July 2009, there were 804,145 firms registered with the Department for state excise tax purposes (excluding timber tax accounts and other taxes in lieu of property tax). However, many of the registered firms are temporarily inactive or are below the $28,000 filing threshold. Over 325,000 businesses were assigned to nonreporter status, meaning that they neither had to pay B&O taxes nor were required to submit tax returns. During Fiscal Year 2009 there were approximately 318,000 firms that actually had B&O tax liability (prior to credits) during the year.

Washington's B&O tax is unique; no other state, with the possible exception of Ohio, relies exclusively upon a comprehensive gross receipts tax on all businesses as its principal business tax. (Note: a variety of cities in other states do impose gross receipts business taxes, as do certain cities in Washington.) However, several other states do have elements of a gross receipts tax:

- West Virginia used to levy a similar gross receipts tax on all businesses, but their business and occupation tax is now confined to utilities.
- Several states - e.g., Hawaii, and New Mexico - impose a gross receipts tax which is in essence a broader form of sales tax. Although they include services, wholesalers, and even manufacturers in the gross receipts tax base, neither state has a separate retail sales tax and they also impose a corporate net income tax.
- Delaware also levies a gross receipts tax on business. It has a variety of tax rates, like Washington's B&O tax. However, Delaware also imposes a corporate net income tax on businesses.

- Texas levies a form of value-added tax. In 2006, Texas restructured its corporate franchise tax so that an element of the calculation considers gross receipts less wages paid (a form of value-added tax).
- Several corporate income tax states have an element of this tax which imposes an alternative minimum tax based on gross receipts for firms with low taxable net income. Examples include Kentucky and New Jersey.
- Other unique business taxes: New Hampshire has a business enterprise tax which features an element of gross receipts in the calculation; Nevada levies a modified business tax measured by wages paid to employees; and Michigan's new business tax considers both taxable and gross income.

The state of Ohio has phased out its former corporate net income tax and replaced it with a Commercial Activities Tax measured by gross receipts. Thus, Ohio is the only state similar to Washington in terms of business taxation, i.e., reliance on a comprehensive gross receipts business tax with no corporate tax AND an additional retail sales tax. However, the Ohio tax features a very high threshold for tax liability and much lower tax rates, as compared to Washington's B&O tax; firms are not subject to Ohio's business tax unless their gross receipts exceed $1 million.

Most other states (44) rely upon a corporate net income tax, plus a personal income tax for the income of noncorporate firms, similar to the federal tax. Washington's business tax generates a much larger portion of total state revenues than do corporate income taxes in most other states. This, plus the fact that businesses pay a significant share of the retail sales tax on supplies and non-manufacturing equipment, results in a relatively heavy initial tax burden for businesses in Washington, compared with many other states.

A gross receipts tax has several important advantages. It is easy to understand, simple to calculate for taxpayers, and auditing is relatively uncomplicated. The complex determination of net income is avoided, and there is no need to apportion business income among states for most multistate operations. (Some interstate service businesses may apportion their income, based on separate accounting or the cost of doing business within Washington and in other states.) The tax is deductible for federal income tax purposes as a cost of doing business. There is no discrimination due to the structure of the firm - corporations and noncorporate firms are treated alike. It is generally easier for a company to forecast its sales than its profits, so it may be easier to include the amount of the tax in its prices, if market conditions permit.

A gross receipts tax assures that profitable businesses and those organized as nonprofit are taxed the same for engaging in the same activity. And it assures that even firms that are intentionally operated at low profit margins, e.g., by paying abnormally high salaries to its owners, will pay some tax to the state for the government services they enjoy. Economically, the tax encourages firms to operate with maximum efficiency. Finally, a gross receipts tax can be more productive in terms of revenue generation, and it is one of the more stable revenue sources because collections do not typically fluctuate to the same degree that many other forms of business taxes do over the course of the business cycle. However, as witnessed during this latest recession, even B&O tax revenues can be

adversely impacted by economic down-turns; Fiscal Year 2009 B&O collections were 7.8 percent lower than the prior year.

Despite some advantages, the negative features of a gross receipts tax can be significant. Most importantly, it imposes a heavy burden on new and small businesses that may not have reached their maximum level of operating efficiency or have yet to fully develop their markets and as a result are less profitable. Because established, profitable firms are favored at the expense of new, start-up businesses, the tax is often viewed as a detriment to economic development.

Because the tax does not consider profit potential, there is continual pressure on the Legislature to grant new preferential tax rates or provide other incentives to industries that have difficulty competing either in local or global markets. One of the state's primary industries, agricultural production, is entirely exempt from the tax.

Washington's gross receipts tax pyramids. This means that income derived from the same product may be taxed at multiple levels of the chain of production. This favors vertically integrated companies and is a hardship for firms that operate only at a single level.

Finally, the tax favors low-volume, high-profit types of business activities. For example, compare the profit margins of two different service industries: legal services, with typical net profits before taxes of, say, 18 percent, and barber/beauty shops with an average margin of about 5 percent. The applicable B&O tax rate is the same for both industries at 1.5 percent. But the effective tax rate measured against the firm's profits is very different: 8 percent for the legal services firm compared with 30 percent for the barber/beauty shop.

MUNICIPAL BUSINESS TAXES
Chapter 35.102 RCW

Tax Base

Traditionally, there have been four different types of tax bases that have been used by cities for their taxes upon businesses:

- gross receipts or gross income;
- fees based on a particular type of activity;
- fees based on the number of employees; and
- fees based on floor space (square footage of buildings).

Until 2003 there were few statutory guidelines relating to the tax bases of municipal business taxes. In that year the Legislature enacted a more uniform system for such taxes, based upon a model ordinance which is to be formulated by cities working through the Association of Washington Cities (AWC). Codified as chapter 35.102 RCW, the new municipal B&O tax ties many of the definitions to the state B&O tax in chapter 82.04 RCW and state excise tax administrative procedures in chapter 82.32 RCW. The model ordinance is intended to preserve some degree of flexibility for cities, but it does contain some mandatory provisions such as a $20,000 minimum tax threshold for small businesses. RCW 35.102.130 requires that starting on January 1, 2008, municipal business taxes must provide for allocation and apportionment of gross income. Income for most business activities is to be allocated to the place where the activity occurs, whereas service income is to be apportioned based on payroll and the service-related income of the taxpayer. A new provision added in 2006 stipulates that income from printing or publishing of newspapers or magazines be allocated to the location where the printing activity is managed (as opposed to where the presses are located).

Tax Rate

GENERAL BUSINESS ACTIVITIES: RCW 35.21.710 sets a maximum rate of 0.2 percent for city taxes on business activities that are measured by gross receipts or gross income. However, if a city levied a higher rate on January 1, 1982, the rate need not be reduced, but future increases were limited to a maximum of 10 percent (i.e., 0.22 percent) and the amount that the rate could be increased annually was 2 percent (i.e., 0.004 percent per year). The city may increase the tax rate above these maximums if approved by the voters of the jurisdiction (RCW 35.21.711).

UTILITIES: RCW 35.21.870 sets a maximum rate of 6 percent on electrical, natural gas, steam energy, and telephone businesses, unless a higher rate is approved by the voters. Cities that levied a higher rate on April 20, 1982, were required to reduce the rate to 6 percent over a ten-year period, unless the higher rate was approved by the voters. There is no limit on the rate for other utilities, e.g., garbage, water, and sewer services.

OTHER REQUIREMENTS AND RATE LIMITS:

- Any license fee or tax on gross receipts/income that is imposed on retailing businesses must be levied at a single and uniform rate (RCWs 35.21.710 and 35A.82.050).

- Competitive telephone service must be taxed as a retailing activity which is limited to a rate of 0.2 percent (RCW 35.21.710 and 35A.82.050).

- Other telephone businesses operating within the city, if measured by gross receipts/income, must be taxed at a uniform rate which can be as high as 6 percent. The tax may apply to 100 percent of intrastate toll service. If the tax is levied on charges to other telecommunications companies for connection fees, switching charges, access charges, interstate service, or network telephone service purchased for resale, such tax must be at the same rate which applies to competitive telephone service, i.e., a maximum of 0.2 percent. (RCWs 35.21.712, .714 and .715 and 35A.82.055, .060 and .065)

- Any license fee or tax on financial institutions is limited to the rate which applies to other service activities and the definitions, deductions, and exemptions which pertain to the state B&O tax on financial institutions must also apply for the municipal tax (RCW 82.14A.010). The Department of Revenue is required to promulgate a rule defining the uniform apportionment of income of financial institutions for purposes of the local business taxes (RCW 82.14A.020); there are four rules which address this subject: WAC 458.28.010 – 458.28.040.

- Income of trucking firms is subject to allocation for purposes of determining the appropriate measure of local business taxes (RCWs 35.21.840-.850).

- Cities may not impose a gross receipts tax on intellectual property creating activities. A city may tax income received from royalties, but only if the taxpayer is domiciled within the same city (RCW 35.21.855).

- Cities may tax internet service providers but at a rate no higher than the general service rate (RCW 35.21.717).

VOTER APPROVAL: Any new or increased municipal business and occupation tax is subject to a referendum procedure (RCW 35.21.706). This allows the filing of a referendum petition to challenge a new or increased tax within seven days of the imposing ordinance. After the ballot title is prepared, the petitioner has 30 days to collect signatures. If at least 15 percent of the voters of the jurisdiction sign the petition, then the ordinance imposing or increasing the business tax will appear on the next ballot for approval by the electorate.

Recent Collections

According to data reported by local governments to the State Auditor via the Local Government Financial Reporting System, municipal business taxes collected during calendar year 2008 amounted to $984 million. Further breakdown of the city collections by specific type of B&O or utility tax is as follows:

	Calendar 2008	# Cities Reporting
General business and occupation tax	$287,149,602	42
Utility taxes on city's own utility	224,876,613	76
Utility taxes on private utilities	396,771,441	218
Utility taxes on government utilities	46,259,789	87
Utility consumer taxes	28,695,459	101
TOTAL CITY BUSINESS TAXES	$983,752,904	

Levied by

Cities and towns only, except for financing a transit system per RCW 35.95.040 (see below). Counties are not authorized to levy general purpose B&O or utility taxes (although several counties levy a franchise fee on cable TV firms). The authority to levy municipal business taxes and license fees appears in several statutes in Title 35 RCW:

- RCW 35.21.710: General requirements for taxes measured by gross receipts and the 0.2 percent rate limit for all cities. (NOTE: This statute does not specifically state that cities may levy a business tax; rather it merely requires uniformity of rates on retailing and establishes the overall rate limit.)

- RCW 35.22.280: first class cities. The law lists many specific powers for first class cities. None of the various subsections specifically state that such cities may levy municipal business taxes. Subsection 2 allows cities to provide for the payment of the debts and expenses of the (municipal) corporation. Subsection 32 allows cities to "grant licenses for any lawful purpose, and to fix by ordinance the amount to be paid therefor." RCW 35.22.570 grants first class cities all powers that are given to other cities by Title 35 RCW, including specific authority for municipal business taxes.

- RCW 35.23.440(8): second class cities. This statute lists the powers of cities with populations ranging from 10,000 to 20,000 at the time of incorporation. This subsection permits a municipal license tax for purposes of revenue and regulation upon occupations, trades, and all businesses.

- RCW 35.27.370(9): towns. This statute provides authority for municipal corporations with populations from 300 to 1,500 at the time of incorporation

to license all businesses and fix the rates of such license taxes for purposes of regulation and revenue. RCW 35.27.500 authorizes towns to impose a "street poll tax" of up to $2.00 annually upon each adult resident.

- RCW 35A.82.020 and .050: cities chartered under the optional municipal code. Authority is provided to such cities, regardless of size, to license businesses or impose excise taxes for purposes of regulation or revenue.

- RCW 35.95.040. Authority is provided to a city, county, county transportation authority, or public transportation benefit area to levy a gross receipts tax to finance a municipal transportation system.

GENERAL BUSINESS TAXES

According to information compiled by the AWC, as of January 1, 2009, there are 38 cities that levy a B&O tax on businesses which is measured by a percentage of the firm's gross receipts:

Aberdeen	Granite Falls	Port Townsend
Algona	Hoquiam	Rainier
Bainbridge Island	Issaquah	Raymond
Bellevue	Kelso	Roy
Bellingham	Lacey	Ruston
Bremerton	Lake Forest Park	Seattle
Burien	Long Beach	Shelton
Cosmopolis	Longview	Snoqualmie
Darrington	Mercer Island	Tacoma
Des Moines	North Bend	Tumwater
Dupont	Ocean Shores	Westport
Everett	Olympia	Yelm
Everson	Pacific	

The number of cities levying a gross receipts tax and the average rates for the four major business categories were as follows:

Retail businesses	-	36 cities; 0.160 percent
Wholesale businesses	-	37 cities; 0.150 percent
Manufacturing businesses	-	37 cities; 0.148 percent
Service businesses	-	36 cities; 0.200 percent

In addition to the reported 38 cities using gross receipts, there were many municipalities that reported using another type of tax base for their annual municipal business tax or license fee. Some cities that levy a local B&O tax on gross receipts also impose additional annual license fees. And many have a variety of additional fees on specific activities, such as home occupation licenses or fees for cabarets.

Approximately 193 cities reported to AWC in 2008 that they levy business license fees. Most of these are comprised of a fixed dollar amount of license fee that is paid annually, although a few are limited to an initial one-time license fee for registration. Many of these are fixed fees while some vary the fee according to the type of business activity; the average business license fee is $44. Thirty-five cities reported measuring the annual business tax by the number of employees. Typically, they levy a fixed dollar amount, plus a graduated fee depending upon the firm's employment. Finally, three cities – Bothell, Pasco, and Snohomish -- reported using square footage of the business as a measure of the annual license fee.

UTILITY TAXES

The 2008 AWC survey identified cities that indicated they levied a municipal tax on one or more types of utility services. Many cities levy their utility taxes at the statutory maximum of 6 percent, although some have higher voter-approved rates. The major types of utilities, the average tax rate, and the number of cities reporting a utility tax in 2008 were:

Type of Utility	Average Tax Rate	# Reporting
Natural gas	5.88%	139
Electric	5.85	196
Telephone	5.88	193
Garbage	7.64	145
Water	7.84	154
Sewer	7.71	143
Storm drainage	7.24	67
Cable television	5.53	119

In general, a municipal utility tax levied on a utility activity operated by the same city applies to all customers of that utility, even if they live outside the boundaries of the city. But a municipal utility tax levied upon privately-owned utility companies only applies to customers who reside within the city.

Administration — City Clerk, Treasurer, or other financial officer (e.g., Department of Revenue and Consumer Affairs in the City of Seattle).

Distribution of Receipts — Not specified in statute; presumed to be used for general purposes of the municipality, except for the local tax pursuant to RCW 35.95.040 which must be used to finance a municipal transportation system.

Exemptions

- Minimum tax threshold of $20,000 in annual gross receipts, RCW 35.102.040(2,b).
- Credits to avoid multiple taxation or taxes on interstate commerce, RCW 35.102.060.
- Deduction for professional employer organizations for actual costs paid to employees, RCW 35.102.160 and 82.04.540(2).

History

It is not known when cities first began taxing business activities within their jurisdiction. Presumably, they first imposed license fees of a specified dollar amount. The use of gross receipts as a measure of the municipal business taxes probably began sometime after the initial state gross receipts tax, the Business Activities Tax of 1933 (succeeded by the B&O tax in 1935). Limitation of rates to 0.2 percent for general business activities and 6 percent for utilities was enacted in 1982. Legislation requiring uniformity in local B&O taxes was adopted in 2003; see discussion of chapter 35.102 RCW above.

Discussion/Major Issues

Municipal business taxes are locally levied and collected. Unlike the property tax and the local sales tax, the state has had little involvement in the administration of these taxes. There has traditionally been little uniformity in tax rates and tax bases, which may be confusing for firms that do business in more than one city which levies a tax on general business activities. It is believed that the new requirements of chapter 35.102 RCW will significantly improve the uniformity of local B&O taxes and reduce the potential for double taxation of the same income for inter-jurisdictional transactions.

The only statewide source of collection data for local business taxes is the annual reports made to the State Auditor as required by RCW 35.21.710, but this statute requires only reporting of taxes levied on retailers. There has been concern that not all cities have reported municipal business tax revenues and that the data may be incomplete, since it is not audited by the state.

The tax on general business activities, particularly as measured by gross receipts, has only been levied in a relatively small number of cities. Some cities, particularly those in Eastern Washington, have tried unsuccessfully to convince their voters to authorize the tax. In at least one instance, a local B&O tax was adopted by municipal ordinance but public sentiment forced its subsequent repeal.

SELECTIVE BUSINESS TAXES

**Taxes imposed on specific business activities,
usually for the privilege of engaging in business,
even though the burden may be shifted forward to consumers**

- **Public Utility Tax**
- **Insurance Premiums Tax**
- **Food Fish/Shellfish Tax**
- **Hazardous Substance Tax**
- **Soft Drinks Syrup Tax**
- **Petroleum Products Tax**
- **Oil Spill Tax**
- **Litter Tax**
- **Parimutuel Tax**
- **Intermediate Care Facilities (ICF) Tax**
- **Local Gambling Taxes**

PUBLIC UTILITY TAX
Chapter 82.16 RCW

Tax Base — Gross income derived from operation of public and privately owned utilities, including the general categories of transportation, communications, and the supply of energy and water. Income from utility operations is taxed under the public utility tax and is in lieu of the B&O tax; other income of the utility firm (e.g. retail sales of tangible personal property) is subject to B&O tax. Unlike the B&O tax which pyramids (i.e. different firms may be taxable on income derived from the same product), the public utility tax applies only on sales to consumers.

Tax Rate — Six different rates apply, depending upon the specific utility activity. The current rates, including permanent surtaxes, are:

Distribution of water	5.029%
Generation/distribution of electrical power	3.873
Telegraph companies, distribution of natural gas, and collection of sewerage	3.852
Urban transportation and watercraft vessels under 65 feet in length	0.642
Hauling of logs on public highways (until 6/30/2013)	1.3696
Railroads, railroad car companies, motor transportation, and all other public service businesses	1.926

Motor and urban transportation include the operation of motor driven vehicles used in transporting persons or property on a for-hire basis. The urban classification applies when the origination and destination: (1) is within the same city, (2) extends no more than five miles beyond the same city, or (3) is between cities that are no more than five miles apart. Other for-hire transportation is reported under the motor classification.

Levied by — State

Many cities levy similar taxes on public utilities that operate within their jurisdiction. See section on municipal business taxes.

Administration — Department of Revenue. Utility firms report either monthly, quarterly, or annually on the Public Utility Addendum to the Combined Excise Tax Return. Monthly taxpayers must file electronically and pay by electronic funds transfer.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$386,101	1.5%	2.5%
2008	380,538	4.2	2.3
2007	365,173	7.4	2.2
2006	339,874	11.9	2.2
2005	303,778	3.7	2.2
2004	292,831	8.5	2.3
2003	269,821	(1.7)	2.2
2002	274,581	2.6	2.3
2001	267,624	8.6	2.3
2000	246,383	11.3	2.1

Based on accrued tax liability for Fiscal Year 2009, the following indicates the breakdown of tax liability by major type of utility:

Distribution of electricity	-	58.2%
Distribution of natural gas	-	19.9
Distribution of water	-	11.3
Collection of sewerage	-	2.4
Motor/rail transportation	-	6.4
Urban transportation	-	0.8
Other public service	-	1.0

Distribution of Receipts

Most of the public utility tax goes to the state general fund - 96.8 percent in Fiscal Year 2009. The remainder of the receipts are earmarked for the public works assistance account which provides financial assistance to local government for maintenance of public facilities: (1) 20 percent of the basic 4.7 percent tax on water distribution, and (2) 60 percent of the basic 3.6 percent tax on sewerage collection (both excluding the 7 percent surtax).

Exemptions, Deductions and Credits

EXAMPLES OF EXEMPTIONS AND CREDITS

- income less than $2,000 per month;

- providing ride-sharing for commuters and transportation of elderly and handicapped persons;
- income of small irrigation districts;
- electricity sold to certain electrolytic processing businesses (expires 6/30/2019);
- electric power or natural/manufactured gas sold to aluminum smelters;
- credit for one-half of contributions made to rural electric utility economic development projects (expires 6/30/2011);
- credit for income of electric/gas utilities from sales of power to direct service industries (DSIs);
- credit for electric and natural gas utilities that provide billing discounts to low-income customers;
- credit for payments for self-generated energy (expires 6/30/2020);
- credit for investment cost recovery payments (expires 6/30/2016).

EXAMPLES OF DEDUCTIONS

- purchases for resale, cash discounts, and credit losses;
- receipts from taxes (municipal utilities pay the state utility tax but may deduct local taxes levied to support the utility);
- income from interstate transportation of persons or property;
- income from providing public transit service by a public transportation agency;
- payments by one utility to another for jointly providing the same service to customers;
- revenue derived from the distribution of water by irrigation districts;
- interstate transportation via "through freight billing" and shipments to ports for export;
- distribution of water by nonprofit water associations;
- processing and disposal of sewerage (public utility tax applies only to collection);
- costs of producing energy via cogeneration (projects begun before 1990) and expenditures for more efficient energy use;
- payments to residential builders/owners for costs of meeting the state energy code;
- payments by electric and gas utilities to customers for improved energy efficiency;
- exported power;
- a portion of the income for power companies whose customers are geographically dispersed;
- income from hauling agricultural products to marine export facilities;
- sales of power for resale, including to entities that are not subject to public utility tax.

History

Utility operations were included under the 1933 Business Activities Tax. Rates were 3 percent for most utilities, 2 percent for distribution of gas, 0.5 percent for urban transportation and vessels, and 1.5 percent for all other public services. Two years later the public utility tax was established as a separate tax, but the same rates were retained.

Surtaxes were applied in the following years: 1951 (10 percent), 1957 (increased to 20 percent); 1982 (4 percent in April, increased to 7 percent in July). Other major changes to the tax occurred as follows:

1971 - rate for distribution of gas increased from 2.4 to 3 percent;
1981 - competitive telephone service subject to sales tax instead of public utility tax;
1982 - lower tax rate for distribution of gas eliminated, increasing the rate to 3.6 percent;
1983 - telephone service is a retail sale subject to sales/B&O tax, not public utility tax;
1985 - funding for local public works via public utility tax: water distribution increased from 0.3852 to 0.5029 percent, collection of garbage transferred from B&O tax to 0.5029 percent public utility tax, and collection of sewerage transferred from B&O tax to 0.3852 percent public utility tax;

1986 - garbage collection returned to B&O tax and new refuse collection tax; warehousing transferred from public utility to B&O tax;
1989 - pursuant to a court decision in the Washington Water Power case, generation of electric power for sale out of state is exempt from public utility and B&O tax; rate increase from 0.3852 to 3.873 percent for power produced in Washington;
1993 - deduction for income that represents the cost of capital facilities received by municipal utilities from customers is repealed;
1994 - two new deductions established: (1) for payments by employers in conjunction with commuter trip reduction programs, and (2) a portion of the income of power companies whose customers are geographically dispersed, based on wholesale power costs and the state average electric power rate;
1996 - rate reduction from 3.852 to 1.926 percent for railroad/railroad car companies;
2001 - deduction provided for electric and natural gas companies that provide rate discounts to low-income customers; tax credit for natural gas purchased to supply direct service industries;
2004 - sales of electric power to aluminum smelters;
2005 - tax credit allowed for payments to customers that generate their own electrical power via renewable resources (expires 6/30/2020);
2009 - rate reduction from 1.8 to 1.28 percent (plus 7% surtax) for transporting logs on public highways (expires 6/30/2013).

Discussion/Major Issues

The public utility tax is reported by about 8,700 firms. Approximately 135 electric companies account for nearly 60 percent of the tax liability. The tax is essentially passed on to consumers for regulated utilities, since it is considered in setting rates that may be charged for utility service. Thus, the tax has the effect of being an indirect sales tax on utility services. Some utility services, such as power and water, are essential household expenditures. A consumption tax on these necessary services is quite regressive because of the proportionately heavy impact for low-income households.

The public utility tax on transportation generally applies only to trips that originate and terminate within the state. Transportation that crosses the state's boundaries is considered to be interstate commerce and not taxable under the U.S. Constitution. It is believed, however, that the state could tax the in-state portion of certain interstate transportation activities, particularly the hauling of goods, if a reasonable apportionment formula could be developed.

However, the taxation of flights that carry passengers or U.S. mail within the state is preempted by federal law as explained in Excise Tax Advisory 2006.16.179, issued on September 6, 2001. Federal law also generally preempts taxing the in-state transportation of passengers traveling in interstate commerce by motor carrier (e.g., bus) and the in-state rail transportation of passengers, mail, or express carried by Amtrak or a rail carrier subsidiary of Amtrak.

INSURANCE PREMIUMS TAX
RCW 48.14.020 and .0201

Tax Base — Net premiums collected or received by authorized insurers, except title insurers and fraternal benefit societies. In addition to private insurers, this includes health maintenance organizations, health care service contractors, and self-funded multiple employer welfare arrangements. Ocean marine and foreign trade insurers are subject to tax on their net underwriting profit - net premiums received less net losses paid.

Tax Rate — 2 percent - all taxable premiums except ocean marine and foreign trade.

0.95 percent - ocean marine and foreign trade.

Levied by — State

Administration — Office of the Insurance Commissioner. Insurance companies file tax returns by March 1 reporting premiums received during the previous calendar year. Insurers owing more than $400 for a given calendar year must prepay their premium tax for the following year, as follows: 45 percent of the prior year's tax due by June 15; 25 percent due by September 15; and 25 percent due by December 15. Reconciliation and payment of the remaining tax is due when the tax return is filed on March 1.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$408,464	(1.6)%	2.6%
2008	415,028	5.9	2.4
2007	391,949	3.5	2.3
2006	378,804	6.0	2.5
2005	357,381	3.4	2.6
2004	345,614	9.1	2.7
2003	316,689	8.7	2.6
2002	291,250	4.1	2.5
2001	279,777	7.2	2.4
2000	260,949	9.2	2.2

Distribution of Receipts

Premium taxes paid on fire insurance premiums are distributed as follows:

40 percent - volunteer fire fighters' relief and pension fund (RCW 41.24.030);
25 percent - cities with full-time fire departments (RCW 41.16.050);
20 percent - fire service training account (RCW 43.43.944);
15 percent - state general fund.

Premium taxes paid by health care organizations (RCW 48.14.0201):

100 percent - state general fund (until 6/30/2009 = health services account).

All other premium taxes - state general fund.

The amounts distributed by fund for collections in Fiscal Year 2009 ($000) were:

State general fund	$249,051
Health services account	$147,101 (to general fund starting 7/1/2009)
Volunteer firefighters' pensions	$ 5,794
Cities with full-time fire depts.	$ 3,621
Fire service training account	$ 2,897

Exemptions, Deductions and Credits

- title insurers (subject to tax under service classification of B&O tax);
- pensions, annuities, and profit-sharing plans;
- premiums and prepayments for coverage under the state health insurance coverage access act (chapter 48.41 RCW);
- premiums for medical/dental insurance of state employees prior to July 1, 1990;
- fraternal benefit societies;
- prepayments for health care services provided under Medicare, the state's Basic Health Plan, or a managed care contract program under a pilot project when prepayments are received prior to July 1, 2009;
- receipts by health care service contractors as prepayments for health care services included within the definition of dentistry (RCW 18.32.020);
- assessments for Washington State Health Insurance (RCWs 48.41 & 48.14.022(2));
- subsidized premiums received from Basic Health Plan (RCW 70.47.130);
- premiums from Federal Employees Health Benefit Act (5 USC Sec. 8901(f)(1));
- premiums for policies issued pursuant to the Federal Crop Insurance Act;
- assessments levied against insurance companies by the guaranty associations prior to April 1, 1993, and after July 27, 1997, to fund claims against insolvent companies may be credited against the tax with one-fifth of the assessment allowed as a credit annually for up to five years.

History

The insurance premiums tax was the first state tax imposed in Washington. It was established in 1891, two years after statehood. The initial rate was the same rate that presently exists, 2 percent. In 1911 the retaliatory provision (see below) was adopted. In 1937 the rate was reduced to 1 percent for domestic companies and increased to 2.25 percent for foreign companies. The foreign rate again became 2 percent in 1949 and a lower rate of 0.75 percent for ocean marine insurance was established. In 1982 the three tax rates were increased by 0.16 percent, and a 4 percent surtax was applied. The foreign and domestic rates were merged into a single rate of 2 percent in 1986, with the ocean marine rate remaining at 0.95 percent.

In 1993 the Legislature eliminated a tax credit for assessments to guaranty associations which pay the claims of policyholders of companies that become insolvent. However, the tax credit was reenacted in 1997.

Legislation in 1993 shifted health care companies - health maintenance organizations (HMOs) and health care service contractors (HCSCs) - from the B&O tax to the insurance premiums tax, by imposing the 2 percent premiums tax on their premiums and prepayments, effective January 1, 1994, with the revenues devoted to the health services account. As of January 1, 2000, no local government jurisdiction may impose a similar tax on the premiums of HMOs or HCSCs.

In 2009, the Legislature eliminated earmarking of the tax on health care insurance. From 1994 through June 30, 2009, these amounts were deposited into the health services account.

Discussion/Major Issues

The insurance premiums tax is in lieu of business and occupation tax, as well as all other taxes except real and personal property taxes and excise taxes applied thereon (RCW 48.14.080). Also, RCW 82.04.320 reaffirms the exemption of insurance premiums from B&O tax. It should be noted, however, that insurance companies do pay B&O tax on income derived from any other activities in which they engage.

Washington insurance law contains a retaliatory provision (RCW 48.14.040) which provides for higher tax rates on foreign and alien companies (those headquartered in another state or country) if those states or countries charge a higher tax rate on Washington-based insurance companies doing business in their jurisdictions.

FOOD FISH/SHELLFISH TAX
Chapter 82.27 RCW

Tax Base — Enhanced food fish, including shellfish and anadromous game fish (e.g., steelhead). The tax applies to the first commercial possession by an owner of such fish within the state and is measured by the value of the fish when first landed. The term "enhanced" refers to species of fish which are developed by the state through various hatchery and other programs of the Department of Fish and Wildlife. Taxable fish include those which originated in the territorial waters of Washington, salmon from the waters of Washington, Oregon, or British Columbia, and Chinook salmon from the waters of southeast Alaska which are caught by trolling.

Tax Rates

Chinook, coho and chum salmon, anadromous game fish and eggs	5.62%
Sea urchins and cucumbers*	4.92**
Pink and sockeye salmon and eggs	3.37
Other food fish and eggs and shellfish	2.25
Oysters	0.09

*Harvesters also pay an annual license under chapter 77.70 RCW.
**On January 1, 2011, the tax rate returns to 2.25 percent.

Levied by — State

Administration — Department of Revenue. The tax is reported on an addendum to the Combined Excise Tax Return by the owner of the fish at the time of the first commercial possession. Fish taxpayers report on a monthly or quarterly reporting frequency.

Distribution of Receipts — State general fund, except the tax on anadromous game fish which is deposited in the wildlife fund. Also, the increased tax on sea urchins and sea cucumbers (the amount attributable to the portion of the tax rate above 2.25 percent) is deposited respectively in the sea urchin dive fishery account and the sea cucumber dive fishery account until December 31, 2010.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$1,963	(23.5)%	0.0%
2008	2,567	7.3	0.0
2007	2,385	20.5	0.0
2006	1,980	(59.1)	0.0
2005	4,838	184.9	0.0
2004	1,698	(8.2)	0.0
2003	1,850	24.2	0.0
2002	1,490	3.7	0.0
2001	1,437	(3.0)	0.0
2000	1,481	17.2	0.0

Exemptions, Deductions and Credits

- Tuna, mackerel, and jack fish;
- Commercially grown fish and shellfish which are under the control of the grower, e.g., fish raised from eggs or fry and shellfish larva that are artificially set;
- Food fish shipped into Washington which is already processed (frozen or packaged for retail sale) when it enters the state;
- Food fish which is raised from eggs or fry by fish farmers;
- Food fish shipped from outside the state if proper documentation indicating the origination of the fish is provided;
- Persons in possession of enhanced food fish who are liable for this tax may deduct from the price paid to the person from whom they purchased the enhanced food fish (except oysters) an amount equal to one-half of the food fish tax. This enables the fish buyer to shift 50 percent of the fish tax liability to the fisherman; and
- A credit is allowed for the amount of any tax paid upon the same food fish to any legally established taxing authority, if proper documentation is provided.

History

The present statute was enacted by the 1980 Legislature and the tax was effective on July 1, 1980. This replaced a previous fish tax pursuant to chapter 75.32 RCW which was administered by the Department of Fisheries.

The initial rates were 5 percent, 3 percent, 2 percent, and 0.07 percent. In 1982 two surtaxes were applied (4 percent on July 1, 1982, and an additional 3 percent on October 1, 1982), and the rates were again increased on January 1, 1994, by 5 percent, raising the rates to their current levels. In 1983 anadromous game fish were added to the tax. Legislation in 1985 substantially revised statutory definitions and clarified the origination of fish that are subject to tax. In 1999, the rate on sea urchins and cucumbers was increased temporarily to provide

additional funding for programs relating to these fisheries. In 2005 the temporary rate increase on urchins and cucumbers was extended for an additional five years, through the end of 2010.

Discussion/Major Issues

Approximately 11,100 fishers and fish dealers (including charter boats, shellfish harvesters, and wholesale dealers) currently have commercial licenses; however, only about 400 taxpayers actually report fish tax annually. The tax is similar in nature to a severance tax, levied on the value of extracted natural resources. It is not a general business tax, and persons engaged in commercial fishing and processing are also liable for business and occupation tax under the extracting, manufacturing, or wholesaling classifications.

Revenue collections for the fish tax fluctuate widely because of the seasonality of the industry and environmental, biological, and economic factors. These include winter and summer runs, low stream flow due to drought and agricultural practices, different cycles of wild versus hatchery fish, ocean and hatchery survival rates, and wholesale prices. In recent years, the trend in revenue collections has been downward as the industry contracts.

HAZARDOUS SUBSTANCE TAX
Chapter 82.21 RCW

Tax Base — The wholesale value of certain substances which are defined as hazardous by statute or determined to cause a threat to human health or the environment by the Department of Ecology (DOE). The tax is a privilege tax on the first possession of the items within the state. Specifically, the tax applies to petroleum products, pesticides, and certain chemicals. There are currently over 8,000 different hazardous substances which DOE has identified as being subject to the tax.

Tax Rate — 0.7 percent

Levied by — State

Recent Collections ($000)

Fiscal Year	Collections*	% Change	% of All State Taxes
2009	$127,055	(2.4)%	0.8%
2008	130,189	16.6	0.8
2007	111,702	23.0	0.7
2006	90,810	12.2	0.6
2005	80,929	17.4	0.6
2004	68,921	35.9	0.5
2003	50,721	12.3	0.4
2002	45,172	(37.7)	0.4
2001	72,455	46.5	0.6
2000	49,472	50.1	0.4

*Includes receipts for both state and local toxics accounts. Of the Fiscal Year 2009 total, the state toxics account received $59.7 million and $67.3 million went to the local account.

Distribution of Receipts — Toxics control accounts per RCW 70.105D.070.

Of the total receipts, 47.1 percent is allocated to the state toxics control account for use by DOE for cleanup of hazardous waste sites and related planning and regulation activities. The remaining 52.9 percent of the revenues go to the local toxics control account for use as grant funds to local governments for hazardous waste programs.

Administration — Department of Revenue. Firms that possess taxable hazardous substances report the tax on their Combined Excise Tax Return. The Department of Ecology determines which substances are subject to the tax.

Exemptions, Deductions and Credits

- previously taxed hazardous substances (thus effectively limiting the tax to the first possession);
- products to be used for personal or domestic, and not business, purposes;
- minimal amounts of hazardous substances, not including petroleum products or pesticides, in the possession of retailers;
- alumina or natural gas;
- persons or activities which cannot be taxed under the federal Constitution;
- products within the state before March 1, 1989;
- credit for tax paid on fuel exported from the state in vehicle fuel tanks;
- credit for the amount of similar taxes paid on the same product in other states.

History

The current hazardous substance tax results from passage of Initiative 97 by the voters in November 1988; the tax became effective on March 1, 1989. Prior to March of 1989 a similar hazardous substance tax had been levied since January 1, 1988; the rate of this tax was 0.8 percent compared with the existing 0.7 percent tax, but it did not cover as many substances and the revenues were therefore lower. Specifically, the earlier tax did not include petroleum products that were destined for export from the state.

Legislation in 2002 updated the references to the taxable products as defined in federal law.

Discussion/Major Issues

Identification of firms that are liable for the hazardous substance tax remains a problem, particularly for smaller firms or ones that use such products infrequently. Also, there may be a problem for some firms in identifying which of their substances or products are hazardous and accurately accounting for purchases of these specific items.

Approximately 550 firms reported hazardous substance tax. Any tax that is product-based and applies to virtually thousands of specific items is bound to be complex, and educating taxpayers of their liability is a continuing problem. Another difficulty for taxpayers and auditors is ascertaining whether the tax on individual substances was previously paid by the supplier. Finally, collections tend to be volatile, since a large portion of the tax is related to petroleum products and the value of these fluctuates with international oil prices.

SOFT DRINKS SYRUP TAX
Chapter 82.64 RCW

Tax Base — Syrup used in making carbonated beverages. Syrup is defined as a concentrated liquid to which carbonated water is added to produce a carbonated beverage. The tax is imposed on wholesale or retail sales of such syrup within the state.

Tax Rate — $1.00 per gallon.

Levied By — State

Administration — Department of Revenue. The tax is collected by wholesalers from retail purchasers (i.e., restaurants and others who sell fountain soft drinks) or reported directly by wholesalers who use syrup to bottle non-trademarked beverages. The tax is reported on the Combined Excise Tax Return.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$8,365	-.-%	0.1%
2008	(1,305)	-.-	0.0
2007	9,313	(1.1)	0.1
2006	9,413	(2.8)	0.1
2005	9,688	(45.7)	0.1
2004	17,846	92.0	0.1
2003	9,293	1.0	0.1
2002	9,205	(0.8)	0.1
2001	9,278	(6.3)	0.1
2000	9,901	0.1	0.1

NOTE: The large receipts for Fiscal Year 2004 were attributable to audits; similarly the net negative receipts for Fiscal Year 2008 were due to a large refund.

Exemptions, Deductions and Credits

- successive sales of previously taxed syrup;
- beverages/syrup exported from the state;
- sales of trademarked syrup to bottlers;
- syrup which was subject to the tax prior to June 1, 1991;
- syrup subject to similar taxes in other states or countries.

A B&O tax credit for syrup taxes paid was enacted in 2006. While this does not directly affect the syrup tax, it does allow syrup taxpayers to credit their syrup tax liability against the state business tax, thereby shifting the impact of the syrup tax from firms that use carbonated beverage syrup to the state general fund. The credit was phased in from Fiscal Year 2007 to Fiscal Year 2010. Starting on July 1, 2009, 100 percent of syrup tax paid is eligible for crediting against the state B&O tax.

Distribution of Receipts — State general fund. (Violence reduction/drug enforcement account until July 1, 2009 (RCW 69.50.520).)

History

The tax was adopted in 1989, effective on July 1, 1989. Originally it applied to either canned and bottled carbonated beverages at a rate of 0.084 cents per ounce (roughly one cent per 12 ounce container) plus a tax of 75 cents per gallon for syrup used to produce carbonated beverages. Initially, the tax was scheduled to be in effect for six years before expiring on July 1, 1995. In 1991 the tax was modified from a first possession tax to one that applies at both the wholesale and retail level, but an exemption is provided for subsequent sales of previously taxed products.

At the November 1994 election the voters approved Referendum 43 (the first voter-approved tax increase under Initiative 601) which extended the tax by eliminating the expiration date. In addition to increasing cigarette tax rates which also fund the violence prevention and drug enforcement account, this measure repealed the carbonated beverage tax on canned and bottled drinks but increased the 75 cent tax that applies to syrup used in making such beverages to $1.00 per gallon. These changes were effective on July 1, 1995.

In 2009, dedication of the syrup tax receipts to the violence reduction and drug enforcement account was repealed.

Discussion/Major Issues

Approximately 190 taxpayers currently report syrup tax. The number of firms from whom they collect the tax is unknown.

The original carbonated beverage and syrup tax was enacted as part of a comprehensive funding package to combat alcohol and drug abuse in Washington. Partial explanation for the tax lies in the assumption that youth represent much of the consumption of soft drinks, while the programs funded by the tax are largely directed toward youth violence and drug problems. However, starting on July 1, 2009, the tax was no longer dedicated to the violence reduction and drug enforcement account, but instead was deposited in the state general fund.

PETROLEUM PRODUCTS TAX
Chapter 82.23A RCW

Tax Base — The wholesale value of products derived from crude oil. The tax is imposed as a privilege tax on the possession of petroleum products within the state.

Tax Rate — 0.5 percent

Levied By — State. The tax includes a "trigger" mechanism based on the amount of funds in the pollution liability insurance program account. The tax will only be imposed for a succeeding calendar quarter if: (1) the tax was levied the prior quarter and the account balance is less than $15 million; or (2) the tax was not levied the prior quarter and the balance is less than $7.5 million. The tax was effective in the early 1990s and again during Fiscal Year 2004. Most recently, the tax was reactivated on July 1, 2009, and is currently being imposed. The entire tax is currently scheduled to expire on June 1, 2013.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$609	-.-%	0.0%
2008	(416)	-.-	0.0
2007	(280)	-.-	0.0
2006	41	-.-	0.0
2005	3,688	(86.1)	0.0
2004	26,534	-.-	0.2
2003	- -	-.-	-.-
2002	- -	-.-	-.-
2001	- -	-.-	-.-
2000	- -	-.-	-.-
1999	- -	-.-	-.-
1998	- -	-.-	-.-
1997	- -	-.-	-.-
1996	- -	-.-	-.-
1995	- -	-.-	-.-
1994	- -	-.-	-.-
1993	5,139	(61.5)%	0.1
1992	13,346	(20.0)	0.2
1991	16,682	26.0	0.2
1990	13,236	-.-	0.2

*Note: Collections (or refunds) between FY 2005 and 2009 represent audit activity.

Administration — Department of Revenue. Firms that import, manufacture, or sell petroleum products report on an addendum to the Combined Excise Tax Return.

Distribution of Receipts

Pollution liability insurance program trust account, used to help owners of underground storage tanks obtain insurance, so that tanks can be upgraded or replaced.

Exemptions, Deductions and Credits

- previously taxed petroleum products (thus effectively limiting the tax to the first possession);
- products to be used for personal or domestic, and not business, purposes;
- persons or activities which cannot be taxed under the federal Constitution;
- products within the state before July 1, 1989;
- petroleum fuels used in processing petroleum products;
- products which are exported from Washington as fuel;
- petroleum products which are already packaged for sale to consumers;
- liquefiable gases such as butane, ethane, and propane;
- credit for tax paid on fuel exported from the state in vehicle fuel tanks;
- credit for the amount of similar taxes paid on the same product in other states.

History

The tax was adopted in 1989. It was imposed until July 1, 1993, when the required fund balance was reached and the tax was temporarily suspended. It was reimposed during Fiscal Year 2004 and now since July 1, 2009. The original legislation included a June 1, 1995, expiration date. This was extended by six years in 1995, by another six years in 2000, and most recently another six years in 2006; the present expiration date is June 1, 2013.

Discussion/Major Issues

There are 146 taxpayers that currently report petroleum products tax.

The tax is intended to fund a state program which will provide insurance for owners of underground tanks used to store petroleum products. The federal Environmental Protection Agency has mandated that states address the problem of potential leaking tanks. Because of the high cost of repairing leaking tanks, the cost of liability insurance has been prohibitive for many tank owners. The state program is intended to make such insurance available at an affordable cost.

OIL SPILL TAX
Chapter 82.23B RCW

Tax Base — Crude oil or petroleum products which are transported by ship or barge in navigable waters of the state and off-loaded at an in-state marine terminal.

Tax Rate — 4 cents per 42 gallon barrel. The law allows a tax rate of 5 cents per barrel, but 1 cent of the rate is contingent upon the fund balance in the oil spill response account. The full 5 cent rate was in effect from the initial imposition of the tax on October 1, 1991, until January 1, 2002, when the 1 cent rate was temporarily curtailed. The 1 cent response rate was reimposed on April 1, 2007, and it remained in effect until October 1, 2009.

Levied by — State

Administration — Department of Revenue. The owner of the taxable products when they are off-loaded into the storage tanks of a marine terminal is liable for the tax. Operators of marine terminals collect the tax from importers of the taxable products and report the tax on a monthly basis on a specialized tax return. Alternatively, the Department may allow direct payment of the tax by the importer. The return is due on the 25th of the month following the taxable activity.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$4,966	9.2%	0.0%
2008	4,547	51.5	0.0
2007	3,000	(43.1)	0.0
2006	5,277	(14.5)	0.0
2005	6,170	8.1	0.0
2004	5,708	16.5	0.0
2003	4,898	(11.9)	0.0
2002	5,561	(6.6)	0.0
2001	5,955	5.1	0.1
2000	5,664	85.4	0.0

Distribution of Receipts

There are two parts to the tax rate, each of which funds a different activity relating to oil spill protection. RCW 82.23B.020(1) levies a 1 cent per barrel tax, the receipts of which are deposited into an oil spill response account. These funds are used to cover state response costs to oil spills which involve clean-up costs in excess of $50,000. RCW 82.23B.020(2) levies a 4 cent per barrel tax, the receipts of which go to the oil spill administration account. They are used to fund oil spill prevention, response, and restoration programs, primarily in the Office of Marine Safety and the Departments of Ecology and Fish and Wildlife, and administrative costs of the Office of Marine Safety, as well as tax collection costs of the Department of Revenue.

Imposition of the 1 cent tax for clean-up costs is contingent upon the fund balance in the response account. At the close of each calendar quarter, the Office of Financial Management determines the fund balance. If the balance is less than $9 million, then the tax remains in effect; if the balance is reached, then the tax is to be suspended for the following quarter. If the tax was not imposed during the previous quarter and the balance is less than $8 million, then the tax will be reimposed. Further, the law has provided for transferring excess funds from the response account to the administration account.

Exemptions, Deductions or Credits

- subsequent transportation of previously taxed products within the state;
- credit for products which are exported from the state, including bunker fuel and aircraft jet fuel consumed in the processing of exporting petroleum products;
- credit or refund for products which are used for purposes other than fuel;
- credit or refund for products which are used as components or ingredients of manufactured items other than fuel.

History

The tax was instituted in 1991 and was first effective on October 1, 1991. The initial tax rates were 3 cents for the administration account and 2 cents for the response account. The statute created an Office of Marine Safety to develop and administer the program. The original law specified that the function would be transferred to the Department of Ecology on July 1, 1997. In 1998, the current 4 cent and 1 cent rates became effective. An amendment in 1992 changed the imposition of the tax from the owner of the products just prior to off-loading to the owner at the time the products are transferred into storage tanks. A shift in the tax rates, transferring additional revenues from the response account into the administration account, occurred in 1997. Trigger levels for the 1 cent tax were reduced by $1 million in 1999.

The history of the changes in oil spill tax rates is shown below:

	Administration Rate	Response Rate
Oct. 1, 1991	3	2
Jan. 1, 1998	4	1
Jan. 1, 2002	4	0
April 1, 2007	4	1
Oct. 1, 2009	4	0

Discussion/Major Issues

The tax is intended to fund a program to prevent oil spills on navigable waters and to help finance the cost of spill clean-up by making the owner of the products contribute to the state's cost. Fewer than 20 firms currently pay the tax. There has been confusion regarding the appropriate tax base. In the initial years some taxpayers significantly overpaid the tax, presumably because they did not understand the export credit. This resulted in large subsequent credits, which have made it difficult to forecast the future receipts accruing to the two accounts. Because of the magnitude of export tax credits and increased imports of oil into the state via pipeline (which are not subject to this tax), the tax base has not been stable and tax receipts have fluctuated rather dramatically in some years. Also, there has been volatility in receipts as a result of audit assessments and refunds. This has made administration of the oil spill programs difficult from a budgetary and planning perspective.

LITTER TAX
Chapter 82.19 RCW

Tax Base — The value of products manufactured and sold within the state and the gross proceeds of products sold at wholesale or retail for the following 13 categories of products:

- food for human or pet consumption;
- groceries;
- cigarettes and tobacco products;
- soft drinks and carbonated waters;
- beer and malt beverages;
- wine;
- newspapers and magazines;
- household paper and paper products;
- glass containers;
- metal containers;
- plastic or fiber containers;
- cleaning agents and toiletries;
- sundry products of drugstores other than drugs.

In lieu of separate accounting for all products, the Department's administrative rule, WAC 458.20.243, allows drugstores to report tax on 50 percent of their total sales and grocery stores to report tax on 95 percent of their total sales.

Tax Rate — 0.015 percent

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$8,848	(3.1)%	0.1%
2008	9,133	14.7	0.1
2007	7,962	0.7	0.0
2006	7,909	10.0	0.1
2005	7,190	3.1	0.1
2004	6,973	11.9	0.1
2003	6,229	1.3	0.1
2002	6,149	3.8	0.1
2001	5,926	1.3	0.1
2000	5,851	(14.3)	0.1

Levied by State

Administration

Department of Revenue. The litter tax is reported on the Combined Excise Tax Return by taxpayers who manufacture or sell any of the listed products.

Distribution of Receipts

Waste reduction, recycling, and litter control account. Funds are used by the Department of Ecology as follows: (1) from 40 to 50 percent for a litter patrol program employing youth to clean up public places; and (2) not more than 60 percent for public education and awareness programs relating to litter control and recycling, including development of markets for recycled products and cost of litter tax compliance.

Exemptions, Deductions and Credits

- items produced for consumption outside of the state;
- agricultural products by the original producer;
- sales for resale by grocery distribution cooperatives;
- food and beverages sold for consumption on-premises (including immediately adjacent and outdoor areas and food served by caterers).

History

The litter tax was included in the Model Litter Control and Recycling Act of 1971, the purpose of which is the effective control of litter within the state. The Act is codified as chapter 70.93 RCW and the litter tax initially appeared in RCW 70.93.120 until it was separately established as chapter 82.19 RCW in 1992. There have been no significant changes in the tax rate or base. However, a 1992 amendment provided that the Department could establish a taxable percentage of an industry's litter-related products which firms could choose to use in order to simplify the separate accounting for each type of litter product. In 1998, the reporting frequency was changed from once each year on the year-end tax return to require litter tax to be reported on each tax return throughout the year. In 2003, a new exemption was added for food and beverage items consumed on the premises of the seller.

From 1999 until 2008 the Department was required to perform a biennial analysis of litter tax compliance; this was repealed in 2008.

Discussion/Major Issues

Approximately 26,540 firms report litter tax.

Compliance problems for this tax are much improved over earlier years. The initial study done by the Department in 2001 estimated that over one-quarter of the potential tax liability, amounting to nearly $2 million, was not paid. The latest analysis indicates that noncompliance is now down to about 3 percent. Taxpayer education programs have been successful in informing taxpayers about their liability. Also, the change in the reporting frequency from once per year to each reporting period has helped to remind firms of their litter tax liability.

PARI-MUTUEL TAX
Chapter 67.16 RCW

Tax Base — Gross receipts of pari-mutuel machines at licensed horse racing events.

Tax Rate

Nonprofit races, maximum of 10 days (RCW 67.16.105(1))	=	exempt
Other race meets (RCW 67.16.105(2)):		
Prior year receipts, $50,000,000 or less	=	1.803 percent
Prior year receipts, more than $50,000,000	=	1.3 percent
Additional tax to fund nonprofit races (RCW 67.16.105(3))	=	0.1 percent
Additional tax to finance bonuses to owners of Washington-bred horses (RCW 67.16.102)	=	1 percent
Additional tax on exotic wagers to finance awards to breeders of Washington-bred horses (RCW 67.16.174)	=	1 percent

Distribution of Receipts

PROCEEDS OF THE 1.803 PERCENT AND 1.3 PERCENT TAXES:

Per RCW 67.16.100, these funds are used for operating expenses by the Horse Racing Commission and are deposited in the account created in RCW 67.16.280.

ADDITIONAL 0.1 PERCENT TAX:

Distributed on a pro rata per-race-day basis to nonprofit race meets to be used for purses at tracks that have operated for five consecutive years immediately preceding the year of payment. If the gross receipts from pari-mutuel machines are not sufficient to generate $300,000 annually from the additional 0.1 percent tax, the remaining amount is taken from the Horse Racing Commission's operating account.

ADDITIONAL 1 PERCENT TAX:

Distributed by the Commission to the owners of those Washington-bred horses that finish in first, second, third, or fourth place in races at which the additional 1 percent tax was collected. Interest on the amount in the owner's bonus fund account created in RCW 67.16.275 is used to support nonprofit race meets.

ADDITIONAL 1 PERCENT TAX

Distributed by the Commission to the breeders of those Washington-bred horses that finish in first, second, or third places in races at which an additional 6 percent is retained by the racing association on exotic wagers (wagers other than win, place, or show).

Levied by State

Administration Horse Racing Commission. Licensed racetrack operators withhold the percentage of gross receipts and report daily to the Commission.

Recent Collections ($000)

Fiscal Year	Collections*	% Change	% of All State Taxes
2009	$1,547	(15.6)%	0.0%
2008	1,832	(8.1)	0.0
2007	1,994	5.0	0.0
2006	1,899	3.4	0.0
2005	1,836	3.5	0.0
2004	1,774	(2.3)	0.0
2003	1,816	(4.4)	0.0
2002	1,900	1.8	0.0
2001	1,867	(8.0)	0.0
2000	2,030	(8.6)	0.0

*Excludes the additional 1 percent tax distributed to owners of Washington-bred horses, the additional 0.1 percent tax distributed to nonprofit tracks for purses, and the additional 1 percent tax on exotic wagers distributed to breeders of Washington-bred horses.

Exemptions

Race meets that are nonprofit in nature, last ten days or less in duration, and have an average daily handle of less than $120,000 are exempt from the additional 1 percent payment for owners of Washington-bred horses, the additional 1 percent tax on exotic wagers for breeders of Washington-bred horses, and from the 0.1 percent purse fund collection.

History

The tax was instituted in 1933 at a 5 percent rate. There were no major changes until 1979 when the rate was lowered to 4.5 percent for smaller meets. The rate schedule was revised in 1982, in 1985 when rates were reduced to a range from 0.5 to 4 percent, and again in 1991 when the top rate was reduced to 2.5 percent. In 1987 wagering at satellite locations was authorized. In 1998 a significant reduction in tax rates was implemented on a temporary basis. In 2000 these reduced rates were made permanent, effective July 1, 2001. In 2003 the tax rate for race meets with annual gross in-state pari-mutuel receipts of $50 million or less was increased from 0.52 percent of the daily gross receipts to 1.803 percent.

In 2004, advance deposit wagering (ADW) and full card simulcasting to satellite locations was authorized. ADW is the ability of Washington residents to wager on races, both in and outside the state, via telephone or by using the Internet. ADW is treated differently than pari-mutuel wagering, which can only take place at a licensed race track or authorized satellite location, and the receipts are distributed differently.

In 2009, the Horse Racing Commission was granted authority to collect and distribute the additional 1 percent tax on exotic wagers to the breeders of Washington-bred horses. The additional 1 percent is retained daily by the racing association and is paid to the Commission at the end of the licensed race meet.

Discussion/Major Issues

Until 1993, there were three major horse racing tracks in the state: Longacres in Renton, Yakima Meadows in Yakima, and Playfair in Spokane. All three facilities have ceased operations, resulting in a significant impact, not only on pari-mutuel tax revenues, but the entire horse racing industry in Washington. Legislation in 1995 (including deferral of retail sales tax) encouraged developers to build a new facility in Auburn; the Emerald Downs racetrack began operation in 1996.

In 1998 a major reduction in pari-mutuel tax rates was enacted first on a temporary basis and then the reduced rates became permanent. One consequence of the new rate structure was elimination of funds for the county and state fair funds.

INTERMEDIATE CARE FACILITIES (ICF) TAX
Chapter 82.65A RCW

Tax Base — Gross receipts of intermediate care facilities for mentally retarded persons received for services provided to mentally retarded persons. These facilities are certified by the Department of Social and Health Services (DSHS), as well as the federal Department of Health and Human Services. They receive Medicaid funds from the federal government.

Tax Rate — 6 percent

Levied by — State

Administration — Department of Revenue. The tax is reported on the Combined Excise Tax Return.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$9,931	0.6%	0.1%
2008	9,873	13.5	0.1
2007	8,698	3.9	0.1
2006	8,372	3.0	0.1
2005	8,129	(1.7)	0.1
2004	8,269	4.0	0.1
2003	7,952	(4.9)	0.1
2002	8,361	6.3	0.1
2001	7,867	(6.3)	0.1
2000	8,396	(1.8)	0.1

Distribution of Receipts

Although the statute does not specify the disposition, the receipts go to the state general fund and are used to fund the state's share of the cost of the facilities. Since federal funds are also available on a matching basis, the increased state funds result in increased funds derived from the federal government.

Exemptions, Deductions and Credits — None

History

This tax was adopted in 1992 and was first effective on April 1, 1992. It succeeded a similar tax that was approved the previous year. The 1991 statute levied a 20 percent tax on the Medicaid receipts of private and nonprofit hospitals. However, the federal government objected to the manner in which the tax was applied, so it was restructured the following year into a tax on facilities for the mentally retarded.

Discussion/Major Issues

The IMR tax is intended to increase state funding of services for the mentally retarded by taxing the total receipts of such facilities. The federal government matches the amount of state support for such programs and therefore the tax is a means for increasing the amount of federal funds received by the state.

Currently, there are 12 facilities that report IMR tax.

The statute contains a unique clause which will cause the tax to expire: (1) whenever federal matching funds become unavailable, or (2) the matching funds, as certified by DSHS, are substantially reduced pursuant to court order, or (3) if collection of the tax is prohibited by a court ruling.

LOCAL GAMBLING TAXES
RCW 9.46.110

Tax Base Gross receipts derived by operators of gambling activities, including punchboards, pulltabs, bingo, raffles, amusement games, and social card games. Also, fund-raising activities of charitable and nonprofit organizations pursuant to RCW 9.46.0233 that involve games of chance are subject to local taxes. Taxable receipts from bingo, raffles, and amusement games are net of the amount paid as prizes.

Tax Rate Maximum rates:

Amusement games	-	2 percent of gross receipts minus amounts paid out as prizes
Punchboards and pulltabs:		
by nonprofit organizations	-	10 percent, net of prizes
as commercial stimulant:		
based on gross receipts	-	5 percent
net of prizes	-	10 percent
Bingo and raffles	-	5 percent of gross receipts minus amounts paid out as prizes
Social card games	-	20 percent of gross revenue*

*For card rooms offering house-banked games, gross receipts are defined as the house's win after collecting all losing wagers from players and paying players with winning hands.

NOTE: Maximum rates for taxes on fund-raising events are not specified in statute, but several jurisdictions tax such events at rates ranging from 1 to 10 percent.

Levied by Cities, towns, and counties. The county tax may apply only in the unincorporated area, regardless of whether or not cities or towns in the same county levy the tax.

Administration Collection of these taxes is by local officials, e.g., the City Clerk and County Treasurer. Licensing and overall regulation of gambling activities are the responsibility of the State Gambling Commission. Upon a referral from a local taxing authority, the Commission may initiate license revocation actions for failure to pay gambling taxes. The Commission will seek reimbursement for costs incurred in pursuing gambling tax actions from the delinquent licensee (WAC 230.04.400 and .405).

Recent Collections

According to data reported to the State Auditor by local governments, local gambling taxes amounted to $37.4 million in calendar year 2008:

	Local Gambling Tax Collections ($ in thousands)	
	Cities (# reporting)	Counties (# reporting)
Punchboards/pulltabs	$ 5,632 (82)	$ 1,823 (11)
Bingo/raffles	125 (25)	164 (5)
Amusement games	230 (35)	16 (6)
Card rooms	17,194 (25)	4,738 (6)
Other (not specified)	7,437 (49)	34 (4)
TOTAL	$30,618	$ 6,775

Distribution of Receipts

According to RCW 9.46.113, revenues must be used primarily for local gambling enforcement programs by the city or county.

Exemptions

- charitable or nonprofit organizations with combined gross receipts of no more than $5,000 per year from conducting bingo or amusement games are not taxable on such activities, as long as there are no paid personnel who operate the games;
- the first $10,000 of net proceeds from raffles conducted by charitable or nonprofit organizations are exempt from tax.

History

The current statute allowing local government taxation of gambling was enacted in 1973, following approval the prior year of a constitutional amendment which permitted certain nonprofessional gambling activities. The maximum tax rates were established at 10 percent, and the following year the 5 percent rate for punchboards and pulltabs was adopted. In 1977 the maximum rate was lowered to 2 percent for amusement games and the nonprofit exemption was enacted. The 20 percent rate for card games was adopted in 1981. In 2000 the rate for bingo and raffles was reduced by 50 percent to 5 percent.

In 1941 the state imposed a tax on certain gambling activities conducted through mechanical devices, such as slot machines. The rates were 10 and 20 percent, depending upon the degree of skill required by the operator. The rates were doubled in 1947, but in 1952 the tax was effectively curtailed when slot machines were ruled to be a form of lottery

which was then not permissible under the constitution. The statute was formally repealed in 1973, when the local taxes were authorized.

A similar tax on coin-operated gambling devices (pulltab dispensing machines) was enacted in 1976 by the state at an annual rate of $200 per device. Technically, however, the rate was tied to a federal tax on such devices with a credit for the amount of state taxes (up to 80 percent of the federal rate). In 1984, the Commission obtained legislative approval for repeal of the tax which had risen to $350 and instead provided funding for regulation activities via a license fee based on volume. In 1997, the differential rates for punchboards and pulltabs were adopted.

Discussion/Major Issues

Chapter 9.46 RCW recognizes the "close relationship between professional gambling and organized crime" and therefore assigns to the Gambling Commission the close supervision and regulation of gambling activities. The Commission also collects license fees from operators of gambling activities. However, the state is not directly involved in administration or collection of the local gambling taxes, except for license revocations as indicated above.

PROPERTY TAXES

Taxes imposed annually on real and personal property which are measured by the value of the property

- **State and Local Property Taxes**

PROPERTY TAXES
Title 84 RCW

Tax Base

Property taxes apply to the assessed value of all taxable property, which includes all real and personal property located within the state, unless specifically exempted. Real property includes land, structures, and certain equipment that is affixed to the structure. Personal property includes machinery, supplies, certain utility property (e.g., dams), and items which are generally movable.

REAL PROPERTY. The assessed value of most real property is determined by the county assessor. The goal of the appraisal process is the fair market value of the property, according to its highest and best use. Appraisal methods used may include: (1) sales of comparable properties in the same area, (2) estimation of the cost to replace the structure, and (3) determination of the present value or the income potential of the property. A physical inspection of the parcel is required at least once every four years (six years, if annual statistical updating is utilized). In counties that revalue every four years, usually one-quarter of the parcels in the county are revalued each year. Some counties adjust the values each year between physical inspections based on statistical data. The county plans for revaluation of real property must receive prior approval of the Department of Revenue.

Legislation in 2009 mandated that all counties must adjust the assessed values for ALL parcels on an annual basis, starting no later than in 2014. This will impact the 19 counties which presently follow a multi-year schedule (17 on a four year cycle, one on a three year cycle, and one county revalues one-half of the parcels annually). Financial assistance to upgrade appraisal and computer systems and apply statistical indicators for the years between physical inspections is provided by the state. Funding for the program will come via a $5 fee on real estate affidavits that are filed with the sale of real property.

Not all property is valued according to the highest and best use criterion. Agricultural, open space, and timber lands that are approved for inclusion in the open space program are valued by considering only their current use, pursuant to a constitutional amendment adopted in 1968. For farm lands in the program, the values are determined by the assessor by capitalizing the net cash rental value of similar lands. Forest lands are likewise valued by considering only their use for growing timber. Their value is determined by the state, which annually updates statutory forest land values. Residential values of senior citizens/disabled homeowners eligible for property tax exemption are frozen as of the January 1, 1995, value (or the initial year of application if later than January 1, 1995) until the property is sold or the applicant is no longer eligible.

PERSONAL PROPERTY. Major types of personal property that are taxable consist of machinery, equipment, and supplies of businesses and farmers, nonattached mobile homes, state-assessed commercial boats, and most operating property of public utilities. Items that

are exempt include household goods, intangible personal property, and business inventories. Farm machinery is exempt from the state levy but subject to local levies. Owners of personal property list the items, their acquisition cost, and the year acquired with the county assessor each year. The assessor then determines the current assessed value.

Tax Rate

Property tax rates consist of the annual levy rates applied to the assessed value of taxable property by the various taxing districts, including the state and various local jurisdictions which have levy authority under state law. Currently, there are 1,842 taxing districts throughout the state. A taxing district's levy rate must apply uniformly throughout the district boundaries. However, because of the many overlapping jurisdictions, there are about 3,133 code areas in which a particular combination of levy rates may apply.

Property tax levy rates are expressed in terms of dollars per $1,000 of assessed value. For example, a rate of $1.00 means that for every $1,000 of assessed value the property owner will owe property taxes amounting to $1.00. As an illustration, property assessed at $100,000 would owe $100 in property taxes for a levy rate of $1.00.

REGULAR LEVIES. Taxing districts are authorized by state law to levy a certain rate each year without approval by the voters; these are commonly referred to as regular levies. In the aggregate, most local regular levies cannot exceed $5.90 of assessed value (RCW 84.52.043). However, some regular levies are outside of the $5.90 rate limit; these include levies for conservation futures, affordable housing, emergency medical services, and several other purposes. "Junior" taxing districts, e.g. fire, library, hospital, etc., have a designated statutory regular levy rate which, when combined with all other local levies in a particular tax code area, may exceed the maximum local rate of $5.90, if all districts were able to levy their maximum amounts. When this situation occurs, the rates must be prorated among the districts, according to a statutory mechanism for reducing certain junior district rates until the combined regular levy rate does not exceed the limit. Some local levies are authorized for a maximum number of years; for example, levies for park and recreation districts may extend for up to six years.

The state levy rate (for the support of schools) is set by statute at $3.60 per $1,000 of fair market value - not assessed value. Thus, for purposes of the state levy the actual rate that applies in each county must be adjusted by the relationship between the county's total assessed value of all property and the estimated market value. This relationship, or assessment ratio, is determined by studies conducted by the assessor and the Department. To illustrate, if the ratio of assessed to market value is determined to be 90 percent in a particular county, then the maximum state levy rate that is applied to the assessed value of each parcel would be $4.00 (i.e., $3.60/.9 = $4.00). However, the state levy is limited in the degree that it can increase each year (see discussion of regular levy limits below). Also, in 1996 a reduction of 4.7187 percent was applied to the state levy, and this reduction has been built into the levy base which determines the maximum amount of future levy rates under the various limitations.

LIMITS ON REGULAR LEVIES. In 1972, a constitutional limit of 1 percent was adopted by the voters; this applies to all regular levies (except port and public utility district levies). It states that the aggregate of such levies cannot exceed 1 percent of the current market value of any individual property (real or personal). This limit would equate to a regular levy rate of $10.00 per $1,000 of assessed value, if the property were assessed at its true and fair value. Since the assessed values in most counties are relatively close to market value, the adjustment in the state levy rate (to 100 percent value basis) is usually not extreme, and thus the constitutional limit is rarely approached.

In 1974, the Legislature adopted another limit--the "106 percent" limit. It first applied only to local regular levies but was extended to the state levy in 1979. The 106 percent limit restricted the growth in revenues a taxing district could receive from its regular levy to 6 percent above the highest amount levied for most districts and to the highest amount levied during the preceding three years for the state levy. Taxes resulting from value added to the tax rolls as a result of new construction were excluded from the limit. If the growth in the district's tax base was such that regular levy revenues would exceed the 106 percent limit, then the assessor adjusted the levy rate downward so that the limit was not exceeded. Taxing districts could request the voters to approve an override of the 106 percent limit. The 106 percent limit applied to total regular levy revenues from all property within a taxing district and not to an individual taxpayer's tax bill. However, the limit did reduce levy rates during times of rapid growth in property values and therefore helped to reduce the growth in taxes paid by property owners.

In 1997, the voters approved Referendum 47 which contained a major revision in the 106 percent limit on regular levies. Rather than being limited to 106 percent of previous levies, the regular property tax levies of taxing districts with a population of 10,000 or more were limited each year by a new limit factor. This factor was equal to the lesser of 106 percent or 100 percent plus the percentage change in inflation (as measured by the implicit price deflator for personal consumption). To authorize an increase above the previous year's levy up to the rate of inflation, the governing board of the district had to pass a resolution by a majority vote. Referendum 47 allowed the legislative authority of the district to return to the 106 percent limit by a showing of substantial need and a supermajority vote of the governing board. Districts whose population was less than 10,000 had to pass a single resolution by a majority vote of the governing board to raise their revenue above the level received in the previous year up to 106 percent.

Another property tax growth limit was approved by the voters in November 2000. Among other tax rollbacks, Initiative 722 would have further reduced the Referendum 47 limitations on regular levy increases to a maximum of 2 percent. However, this initiative was overturned in the courts.

At the November 2001 election the voters approved Initiative 747 which replaced the previous limits on the growth of taxing district regular levy revenues with a limit of 1 percent. The growth rate for state and local taxing district revenues specified in RCWs 84.55.005 and .0101 was a maximum of 1 percent or the rate of inflation, if that happened

to be less than 1 percent. Local districts could override the 1 percent limit, if authorized by a majority of the voters of the district. The regular levy limit first applied to property taxes which were due and payable in calendar year 2002. However, the constitutionality of I-747 was challenged, and in November 2007 the State Supreme Court ruled that the language did not adequately describe the effects of the initiative.

In response, the Legislature, meeting in special session after the court ruling was announced, adopted a similar statutory limit in late 2007. This is the 1 percent annual growth limitation which currently applies to regular property tax levies. The bill was retroactive to 2002, thus allowing taxing districts to maintain their "banked capacity" (unused levy authority) that accrued in the intervening years.

SPECIAL LEVIES. Most taxing districts may request additional property taxes from voters of the district. These proposals are presented in terms of a total dollar amount and the levy rate is then determined by the assessed value of the district. Special levies may be used for maintenance and operation purposes or for bond retirement for capital facilities when authorized by law. "M&O" levies are generally for a one-year period, except in the case of school districts and fire protection districts, which may request approval of special M&O levies for up to a four-year period. School and fire districts may also request approval of six-year levies to support construction or remodeling of facilities. In contrast, bond levies pay the annual principal and interest required for the term of the bond, typically 20 years. For taxing districts other than schools, special levies must be approved by a 60 percent majority of the votes cast. If the voter turnout does not equal 40 percent of the previous general election turnout, then approval requires at least 60 percent of a number equal to 40 percent of the prior general election vote. Pursuant to amendment to Article 7, Section 2 of the State Constitution which was approved by the voters in November 2007, M&O levies by school districts require only a simple majority of the total votes cast. There is no limit on the dollar amount of special levies, except that school M&O levies can not exceed 24 percent (with certain exceptions) of the district's prior year funding for basic education (RCW 84.52.0531).

M&O school levies amount to $1.6 billion annually and account for about 19 percent of all property taxes. The average statewide school M&O levy rate is $1.79 per $1,000. Total special levies, including those for capital purposes, exceed $3.1 billion and represent 35.7 percent of all property taxes.

AGGREGATE LEVIES. Total statewide levies for collection during calendar year 2009 amounted to $8.6 billion. More than one-half (55 percent) of total levies were attributable to K-12 schools; the state levy accounted for 21 percent; local special levies were the remaining 33 percent (18.9 percent for M&O levies and 14.1 percent for capital purposes). Counties represented 16.6 percent of total levies, and cities were 13.4 percent. The remaining 15.9 percent was for the various single purpose districts. The following table provides the dollar breakdown of 2009 property tax levies.

The 2009 statewide average levy rate amounted to $9.41 per $1,000 of assessed value. Among the 39 counties the average levy rates ranged from a low of $5.04 in San Juan

County to $13.35 in Franklin County. Assessed values for all property in a county are rarely at 100 percent of fair market value as a result of the revaluation cycles; the level indicated by the 2008 ratio was 88.7 percent. As a result, the "effective" levy rate in terms of the relationship between the property tax levies and market value of the property is somewhat less than is indicated by the levy rate. For taxes due in calendar year 2009 the statewide average effective property tax rate was 0.83 percent of the fair market value of taxable property. Thus, for example, the owner of property with a market value of $250,000 could expect annual property taxes to be $2,075 ($250,000 x .0083), based on average levels of assessment and average levy rates throughout the state. A closer approximation of the property tax rate in a particular area can be obtained by comparing the average assessment level and levy rate which prevailed in that county, rather than the statewide average.

Levied by State and local taxing districts as noted above.

PROPERTY TAX LEVIES BY MAJOR TYPE OF DISTRICT
Due in Calendar Year 2009 (dollars in millions)

	Regular Levies	Special Levies
School districts:		
State levy	$1,818.6	-.-
Local M&O levies	-.-	$ 1,634.5
Local bond & capital levies	-.-	1,217.3
Counties	1,395.3	41.9
Cities and Towns	1,101.3	58.8
Special purpose districts:		
Fire protection	470.4	48.2
Ports	162.0	-.-
Libraries	230.0	15.6
Hospitals	67.1	31.9
Emergency medical service	243.4	1.2
Other districts	72.3	31.4
TOTAL LEVIES	$5,560.4	$3,080.8

AUTHORIZED REGULAR AND SPECIAL LEVY RATES
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES
(omits benefit assessments, earmarked levies, and districts that levy only for capital purposes)

Taxing District / Purpose	Maximum Levy (Regular/Special)		Approx. No. of Levying Districts	RCW Citation
Special levy authority	-.-	(S)	--	84.52.052
Special levies - bonds	-.-	(S)	--	84.52.056
State levy	$3.60*	(R)	1	84.52.065
County - general purposes	1.80	(R)	39	84.52.043
County road	2.25	(R)	39	36.82.040
County - criminal justice	0.50	(R)	--	84.52.135
County - levy for refunds	-.-	(R)	2	84.68.040
County - veterans assistance	0.27	(R)	34	73.08.080
County - mental health/dev. disability	0.025	(R)	39	71.20.110
County - hospital	0.50	(R)	--	36.62.090
County - lands assessment fund	0.125	(R)	--	36.33.140
County - airport district	0.75	(R)	--	14.08.290
City - general purposes	3.375	(R)	281	84.52.043
City - pensions for firemen	0.225	(R)	44	41.16.060
City - disincorporation levy	0.50	(R)	--	35.07.180
City - accident fund	0.75	(R)	--	35.31.060
City - accident fund (code cities)	0.75	(R)	--	35A.31.070
City - lowlands & waterways	0.75	(R)	--	35.56.190
City (unclassified) - sewers	1.25	(R)	--	35.30.020
City (2nd class) - publicity fund	0.625	(R)	--	35.23.470
City (disincorporated) - bonds	0.50	(R)	--	35.07.180
City - monorail systems	1.50	(R)	--	35.95A.100
City/Co. - affordable housing	0.50	(R)	1	82.52.105
School - special levies up to 6 years	-.-	(S)	32	84.52.053
School - M & O levy	-.-**	(S)	271	84.52.0531
School – bonds	-.-	(S)	216	28A.530.110
Fire	0.50	(R)	394	52.16.130
Fire	0.50	(R)	393	52.16.140
Fire	0.50	(R)	136	52.16.160
Fire - 2 - 6 years	-.-	(S)	13	84.52.130
Fire – bonds - less than 2 years	-.-	(S)	82	52.16.080
Fire – protection from prorationing	0.25	(R)	--	84.52.125
Regional fire districts	0.50	(R)	--	52.26.140(1a)
Regional fire districts	0.50	(R)	--	52.26.140(1b)

*Rate is adjusted to reflect assessment on basis of full market value in each county.
**Generally 24 percent of the district's prior year allocation with certain exceptions

(Continued)

AUTHORIZED REGULAR AND SPECIAL LEVY RATES
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES
(continued)

Taxing District / Purpose	Maximum Levy (Regular/Special)		Approx. No. of Levying Districts	RCW Citation
Regional fire districts	0.50	(R)	--	52.26.140(1c)
Regional fire districts	-.-	(S)	--	52.26.140(2)
Port - general purposes	0.45	(R)	73	53.36.020
Port - G.O. bonds	-.-	(R)	9	53.36.020
Port - industrial development	0.45	(R)	1	53.36.100
Port - dredging/canals	0.45	(R)	--	53.36.070
Port - dissolution	0.45	(R)	--	53.47.040
Rail	-.-	(S)	--	36.60.040
Road & bridge service	-.-	(S)	--	36.83.030(1)
Road & bridge service - bonds	-.-	(S)	--	36.83.030(2)
Library districts (rural county)	0.50	(R)	--	27.12.050
Library districts (intercounty)	0.50	(R)	5	27.12.150
Library (island districts)	0.50	(R)	3	27.12.420
Library - bonds	-.-	(S)	6	27.12.222
Library - capital facilities area	-.-	(S)	7	27.15.050
Public utility	0.45	(R)	4	54.16.080
Water - district formation	1.25	(S)	5	57.04.050
Water - bonds	-.-	(S)	3	57.20.105
Irrigation	0.25	(R)	--	87.84.070
Hospital	0.75	(R)	57	70.44.060(6)
Hospital - bonds	-.-	(S)	29	70.44.060(6)
Cemetery	0.1125	(R)	88	68.52.310
Solid waste disposal	-.-	(S)	4	36.58.150
Flood control zone	-.-	(S)	--	86.15.160(1)
Flood control zone	0.50	(R)	5	86.15.160(3)
Flood control - river improvement	0.25	(R)	--	86.12.010
Flood control (intercounty)	0.25	(S)	--	86.13.010
Ferry	0.75*	(R)	--	36.54.130
Ferry	-.-	(S)	--	36.54.140
Metropolitan park	0.75	(R)	7	35.61.210
Metropolitan park	-.-	(S)	--	35.61.300(3b)
Park & recreation	0.60	(R)	11	36.69.145
Park & recreation - bonds	-.-	(S)	23	36.69.140
Park & recreation service area	0.60	(R)	--	36.68.525
Park & recreation service area - bonds	-.-	(S)	--	36.68.520

*Maximum ferry district levy in King County is $0.075

(Continued)

AUTHORIZED REGULAR AND SPECIAL LEVY RATES
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES
(continued)

Taxing District / Purpose	Maximum Levy (Regular/Special)		Approx. No. of Levying Districts	RCW Citation
Air pollution control	0.25	(S)	--	70.94.091
Emergency medical service	0.50	(R)	192	84.52.069
Emergency medical service - bonds	-.-	(S)	8	84.52.052
Metropolitan municipal corp.	0.25	(S)	--	35.58.090
Cultural arts	0.25	(R)	--	67.38.130(1)
Cultural arts	-.-	(S)	--	67.38.130(2)
Cultural arts	-.-	(R)	--	67.38.130(3)
Transportation benefit	-.-	(S)	1	36.73.060
Mosquito control	0.25	(S)	--	17.28.100
Mosquito control - bonds	-.-	(S)	--	17.28.260
Mosquito control	0.50	(S)	3	17.28.252
Conservation futures	0.0625	(R)	13	84.34.230
Reclamation district	-.-	(R)	--	89.30.391
Transportation benefit	-.-	(S)	1	36.73.060
Transit capacity (King Co.)	0.075	(R)	- -	84.52.140

Administration

LOCAL. The same property tax rates are applied to individual real and personal property values, and the tax is collected at the county level. The assessment function for most types of property is the responsibility of the county assessor. In addition to determining the value of real and personal property for tax purposes, the assessor calculates and certifies levy rates for most taxing districts, assuring that the limitation on regular levies and statutory maximum levy rates are not exceeded. The assessor compiles an assessment roll showing the assessed value of all taxable property. The assessor also processes applications for senior citizens exemptions and the farm and agricultural land category of the open space program.

The county treasurer maintains the tax roll which indicates the amount of levies that are due for each parcel and prepares the annual statement of taxes due which is sent to owners in mid-February. Owners must pay at least one-half of the tax by April 30, and the remainder is due by October 31. The treasurer receives the payments and distributes the funds to the accounts of the appropriate taxing districts, including the state.

STATE. The Department of Revenue is also involved in the administration of property taxes in order to assure uniformity throughout the state. Major programs conducted at the state level include:

- promulgation of administrative rules and procedures;
- providing technical assistance and training;
- development of manuals, forms, and maps;
- assistance with complex appraisals, upon request of the assessor;
- assessment of inter-county utility companies;
- administration of exemptions for nonprofit organizations;
- conducting and reviewing ratio studies to determine the average assessment level in each county;
- calculation of the state school levy rate;
- valuation and collection of state levy on commercial vessels;
- annual updating of the statutory forest land values;
- review and approval of county revaluation plans and programs; and
- collection of senior citizen property tax deferrals.

APPEALS. Property owners who disagree with the established amount of their assessed value may appeal to the County Board of Equalization. In the July session, the Board reviews appeals and may order a change in valuation based on the facts presented by the owner and the assessor. (Successful appeals are typically those in which the owner can demonstrate that the assessed value does not reflect market values, e.g., by citing examples by recent comparable sales in the same vicinity.) Appeals may also be made to the State Board of Tax Appeals which, like the County Board, decides only questions of property valuation -- not levy rates or the amount of tax that is due. The State Board also hears appeals from utilities on the valuations made by the Department of Revenue.

PENALTIES. If payment is not received by the due dates, certain penalties apply. A penalty of 3 percent is added to the entire year's tax if the first half payment is not received by May 31 and an additional 8 percent is added if the tax remains delinquent on November 30. All delinquencies are assessed interest at the rate of 12 percent per annum. If the taxes remain unpaid for three years, the county may commence foreclosure proceedings to sell the property. The minimum bid is the amount of delinquent taxes, interest, and costs.

Recent Statewide Levy Statistics

STATE AND LOCAL ASSESSED VALUES AND LEVIES
Values and Total Levies in Millions of Dollars

Calendar Year*	Total Assessed Value	Total State/ Local Levies	Average Levy Rate	Effective Tax Rate**
2009	$921,214	$8,642	$9.41	$0.83
2008	846,377	8,203	9.72	0.84
2007	739,687	7,727	10.48	0.92
2006	634,883	7,212	11.32	1.02
2005	573,619	6,863	11.87	1.09
2004	536,478	6,531	12.21	1.12
2003	506,839	6,254	12.33	1.11
2002	478,688	5,978	12.52	1.13
2001	441,192	5,710	12.96	1.16
2000	404,657	5,412	13.39	1.20

*Values and levies established the prior year which are payable in the indicated years.
**Total levies divided by estimated market value derived from indicated assessment ratios.

STATE PROPERTY TAX LEVY

By Fiscal Year Due	State Levy ($000)	% Change	% of All State Taxes
2009	$1,785,323	2.5%	11.4%
2008	1,741,819	3.2	10.3
2007	1,688,282	3.4	10.0
2006	1,632,815	2.7	10.6
2005	1,589,947	4.3	11.5
2004	1,524,255	2.8	11.7
2003	1,482,680	3.6	12.2
2002	1,431,434	4.7	12.1
2001	1,367,696	2.9	11.5
2000	1,328,690	4.2	11.3

Distribution of Receipts

State levy - state general fund, for the support of basic education.

Initiative 728, adopted in 2000, required that a portion of the state levy be dedicated to the student achievement fund and education construction account (RCW 84.52.068). However, this statute was repealed by the Legislature in 2009. Therefore, all of the state levy receipts now go to the general fund.

Local levies - deposited to the account of the taxing district by the county treasurer to be used for purposes specified by the levy, e.g., the regular levy in most cases is used for general operations of the district, whereas the proceeds of special bond levies are applied to the annual principal and interest payments. Under "tax increment financing" legislation adopted in 2001, increased local property tax revenues within the vicinity of a public improvement may be used to retire the bonds which financed the project.

Exemptions, Credits and Deductions

EXAMPLES OF EXEMPTIONS: PUBLICLY-OWNED PROPERTY
- property owned by federal, state, and local governments;
- foreign consulates;
- interstate bridges;
- leaseholds of public property (subject to leasehold excise tax);
- property of public corporations in special review districts;
- low-income housing owned by public corporations;
- military housing located on federal land under the military housing privatization initiative of 1996.

EXAMPLES OF EXEMPTIONS: NONPROFIT ORGANIZATIONS (app. fees repealed in 2007)
- churches, parsonages, convents, and administrative offices of religious organizations;
- cemeteries;
- nonsectarian benevolent and charitable organizations;
- thrift stores that sell only donated merchandise;
- camp facilities of religious organizations;
- youth character-building organizations;
- veterans organizations;
- humane societies;
- the American Red Cross;
- public assembly halls and meeting places;
- day care centers and orphanages;
- libraries operated by nonprofit organizations;
- nonprofit hospitals and kidney dialysis facilities;
- nonprofit nursing homes;
- nonprofit cancer clinics, blood banks, and certain medical research facilities;

- homes for the aging (based on percentage of residents that would qualify for senior citizen exemption;
- shelters for the homeless providing emergency or transitional housing;
- privately owned schools and colleges;
- art, scientific, and historical collections and museums;
- performing arts organizations;
- sheltered workshops for the developmentally disabled;
- conservation futures and development rights for ecological systems, open space, and farm lands;
- rental housing facilities for very low-income families (< 50% of county median income).

EXAMPLES OF EXEMPTIONS: PRIVATELY-OWNED PROPERTY
- rehabilitation of historic property (ten-year exemption of increased value);
- cemeteries;
- senior citizen and disabled homeowners (see below);
- widows/widowers of veterans – similar to senior citizens exemption;
- certain home improvements (three-year exemption of increased value);
- multi-unit housing facilities in urban growth areas of certain large cities;
- property used to produce biodiesel, wood biomass, or alcohol fuel or as an anaerobic digester;
- farm machinery (exempt from state levy only).

EXAMPLES OF EXEMPTIONS: PERSONAL PROPERTY
- certain intangible assets, e.g. cash, stocks, bonds, bank accounts, etc.;
- household goods and personal effects;
- motor vehicles;
- farm machinery (exempt from state levy but subject to local levies);
- $15,000 of personal property for head of household;
- commercial vessels in the state for less than 120 days per year;
- recreational boats (subject to watercraft excise tax);
- goods in transit through the state;
- agricultural products following harvest, nursery stock, and crops growing on January 1;
- business inventory (items held for sale);
- custom computer software (total exemption);
- "canned" computer software (100% taxable the first year; 50% taxable second year; then exempt).

DEFERRAL AND ALTERNATE ASSESSMENT PROGRAMS
- deferral of tax up to 80 percent of equity for senior citizen and disabled homeowners who are eligible for the exemption (see below) and have disposable income of less than $40,000;
- deferral of tax up to 40 percent of equity for any homeowner whose combined disposable household income does not exceed $57,000 (see below);
- assessment of approved open space and timber lands on basis of current use;
- assessment of approved agricultural lands on basis of current use (net cash rental value);
- assessed values of qualified senior citizens frozen as of 1995 or year of application.

SENIOR CITIZENS EXEMPTION. Two of the above exemptions deserve more detailed description because they involve an application process and provide significant benefits to certain classes of property owners. One is the senior citizens exemption, which is based on the amount of household income. As authorized by a constitutional amendment adopted in 1966, homeowners who are at least 61 years of age or retired due to physical disability may apply with the county assessor for exemption on their residential property.

The senior citizen/disabled persons exemption -- broadened to include disabled veterans in 2005 and surviving domestic partners in 2008 -- consists of two parts based on regular and special levies that would apply to the residence (RCW 84.36.381). If household income does not exceed $35,000, the residence is entirely exempt from all special levies. The regular levy portion of the exemption applies according to two levels of income: (1) if income does not exceed $25,000, the residence is exempt from regular levies on the first $60,000 of assessed value or 60 percent of the value, whichever is greater, and (2) if income is in the range of $25,001 - $30,000, the residence is exempt from regular levies on the first $50,000 of value or 35 percent of the value up to a maximum of $70,000, whichever is greater. (Note: These income criteria were last adjusted in 2004.)

For taxes due in 2009, 113,239 homeowners received a total of $176.1 million in property tax relief under this program, with average savings of $1,555 per household. Pursuant to a 1995 amendment to the program, homeowners eligible for this exemption may also have the assessed value of their residence frozen until the property is sold or until the applicant is no longer eligible for the program.

A similar exemption program was established in 2005 for widows and widowers of veterans who died as a result of a service-related disability or while on active duty (chapter 84.39 RCW). The exemption operates as a grant for such survivors who have disposable household income of less than $40,000.

Related to the senior citizens/disabled persons exemption is an outright deferral of any remaining property taxes on the residence of eligible participants. If the household has disposable income of less than $40,000, the remaining tax may be deferred until the total amount reaches 80 percent of the equity in the home. The deferred amount becomes a lien upon the residence and is repaid from the proceeds of the estate of the last surviving member of the household. This program enables low-income seniors on fixed incomes to remain in their homes, as the market value of, and hence the taxes on, their residence increases. Under this program the state reimburses local jurisdictions for the loss in deferred property tax receipts.

In 2007, the Legislature authorized a new form of property tax deferral which is NOT dependent upon age or disability criteria. Pursuant to chapter 84.37 RCW, any homeowner whose combined disposable household income does not exceed $57,000 may now defer one-half of the annual property tax obligation. The first half payment is still due on April 30, but the second half can be postponed until the residence is sold. The total amount deferred under this program is limited to 40 percent of the homeowner's equity in the residence.

CURRENT USE ASSESSMENT. The other major alternate valuation program, implementing a constitutional amendment approved in 1968, offers assessment of open space, timber, and agricultural lands on the basis of the current use, rather than highest and best use. Although the program does not constitute an exemption per se, the alternative valuation process does reduce property taxes for those qualifying. In theory, the program allows owners to maintain the existing use when market conditions might

imply a higher value. Otherwise, the property tax would likely increase to reflect the "higher" use and might force owners of lands in transitional areas to develop the property, rather than maintain the current use.

In 1973 a method of defining the current use value for agricultural lands was established. Assessors develop a net cash rental value of comparable lands in the same area, with the assistance of a local agricultural committee. This process may result in assessed values which are substantially lower than the highest and best use values, even though the lands may not necessarily be influenced by pressures for development. Lands enrolled in the program are subject to a rollback of back taxes plus interest for the previous seven years (nine years with no interest for forest land) if the use of the land changes to a nonqualifying use. However, penalties are waived if notification of the change is given two years in advance and the property has been in the current use program for at least ten years.

For taxes due in 2009, 11.1 million acres representing 57,086 applications were covered by the current use program. Assessed values were reduced by an aggregate of $13.2 billion, representing a tax savings of $131.3 million for the owners.

History

This section traces some of the major events affecting property taxes in Washington. The property tax was the initial tax levied in Washington and, in fact, pre-dates statehood in 1889. The 1853 Organic Act which established territorial status for Washington required that all taxes be assessed uniformly and provided exemptions for federal property, churches, and benevolent institutions. The State Constitution continued the uniformity requirement, required exemption of government property, and allowed the Legislature to provide exemptions, including the first $300 for heads of households. The earliest available data indicates that effective property tax rates ranged from about 1.25 to 1.5 percent of fair market value during the initial years of statehood. Around 1920 the tax began increasing and average effective rates in the order of 2.5 percent were common throughout the state during the 1920s and early 1930s (nearly three times the level that generally prevails today).

Efforts were made to reduce the growing burden of property tax during the early years of the Depression. A constitutional amendment adopted in 1930 allowed the classification of property for tax purposes, as long as all real estate constituted one class. Several attempts were made to establish a state income tax, in order to relieve property taxpayers. However, the State Supreme Court ruled in 1932 that income constitutes property, and thus a tax on income is subject to the constitutional uniformity requirements. Therefore, the major features of income taxes, e.g., graduated rates, personal exemptions, and deductions, were not possible. In 1933 and 1935, the state instituted major new excise taxes including the retail sales and business and occupation taxes, and these revenue sources enabled the Legislature to fund the needs of state and local government, while reducing property tax burdens.

In 1932, the voters approved an initiative limiting property taxes to 40 mills (1 mill = .001) of which the state could levy no more than 5 mills. The prevailing level of assessment was typically less than 25 percent of true and fair value, so the 40 mill limit implied a maximum effective property tax rate of about 1 percent (.040 x .25 = .01). Two years later another initiative further reduced the permissible state levy to 2 mills. These limits dramatically reduced the level of property taxation throughout the state. Similar initiatives were approved every two years until 1944, when the 40 mill limit was added to the Constitution, along with formally establishing the legal assessment level at 50 percent of true and fair value. During this period major exemptions were established: certain intangibles in 1931, household goods in 1935, and motor vehicles in 1937 (subject instead to an excise tax in lieu of property tax).

The Legislature established the four-year revaluation cycle in 1955 and subsequently provided funding to assist assessors in updating assessed values. The two constitutional amendments noted above which allow the senior citizens exemption and the current use assessment program were adopted in 1966 and 1968 respectively.

Major changes affecting property taxes were instituted in the early 1970s. Laws implementing the senior citizens exemption (1967, $50 exemption, broadened to reflect income levels in 1971) and the open space program (1970, broadened to net cash rental basis in 1973) were passed. The 106 percent limit law applying to local regular levies was adopted in 1971 to be effective for 1974 collections (limit extended to state levy in 1979). Statutes dealing with leases of public property and timber, which ultimately led to the establishment of excise tax in lieu of property tax in both areas, were enacted.

In 1972 the voters approved a constitutional amendment (SJR 1) limiting regular levies to 1 percent of true and fair value. To implement this requirement, the Legislature increased the assessment standard from 50 to 100 percent of true and fair value and changed the levy basis from mills to dollars per $1,000 of assessed value. The statutory allocation of regular levies, including a new state levy for schools of $3.60, totaled $9.15 and was first effective for taxes due in 1975.

In 1974, a phase-out of personal property tax on business inventories was approved. For ten years an increasing credit was permitted for inventory taxes paid against state B&O tax liability. Inventories became exempt from property tax starting with 1984 tax payments. Special school levies were limited to 10 percent of the district's operating budget in 1977 (increased to 20 percent in 1987). The head of household exemption was increased from $300 to $3,000 by the voters in 1988.

In 1995, a valuation freeze was provided for qualified senior citizen residences and a one-time reduction of 4.7187 percent in the amount levied by the state was enacted for 1996 taxes (continued the following year on a temporary basis).

A major reduction in property taxes was implemented in 1997 via Referendum 47. This measure contained three separate provisions: reduction in the 106 percent limit on annual increases in regular levies to the rate of inflation; limitation on the rate of annual growth

in assessed values (ruled unconstitutional in 1998); and permanent incorporation of the 4.7187 percent reduction in the state levy rate.

In 1997, the voters approved a constitutional amendment allowing school M&O levies for up to a four-year period.

A comprehensive property tax limitation plan, Initiative 722, was approved by the voters in November 2000. This proposal had five major elements: (1) rollback of all tax increases adopted during the second half of 1999; (2) exemption of motor vehicles from property tax; (3) repeal of the ability of local taxing districts to "stockpile" levy capacity; (4) limitation of increases in assessed value for individual parcels to 2 percent per year; and (5) levy increases for taxing districts limited to 2 percent annually. However, the entire initiative was ruled to be unconstitutional.

At the November 2001 election the voters were again presented with a property tax limitation proposal, which they approved. Initiative 747 further reduced the degree to which taxing district revenues may increase from year to year. Previously, annual increases in regular property tax revenues were limited to the growth rate in inflation (currently slightly more than 2 percent), unless a higher rate of growth of up to 6 percent was approved by the legislative authority of the district upon a determination that a "substantial need" existed. I-747 mandated that the annual increase in regular property tax revenues would be a maximum of 1 percent (or the rate of inflation, if lower). As noted above, I-747 was rule unconstitutional in November 2007. However, the Legislature adopted a similar statutory limit of 1 percent which currently governs the allowable rate of increase in state and local regular levies.

In 2005, the senior citizens/disabled persons property tax exemption program was extended to disabled veterans. Also in 2005, a new exemption in the form of a grant was established for widows or widowers of veterans who died as the result of a service-related disability or while on active duty.

In November 2006, the voters approved a constitutional amendment increasing the exemption from personal property taxes from $3,000 to $15,000 for heads of households. Because household goods and personal effects are already exempt from property tax, this mainly has the effect of increasing the exemption for personal property used in a business by noncorporate business owners.

A program for deferring taxes for low-income homeowners (< $57,000) was established in 2007. Another property tax change in 2007 was elimination of the $35 application fee and the annual $8.75 renewal fee for exemptions for certain nonprofit organizations.

The voters approved a major change in the voting requirements for special school levies in November 2007 by amending Article 7, Section 2 of the State Constitution. EHJR 4204 eliminated the prior 60 percent supermajority voting requirements for school maintenance and operation or capital construction levies. Starting with elections in 2008, a simple majority of those voting on the proposition is required for approval.

A major requirement for annual updating of assessed values was adopted by the 2009 Legislature. By 2014, all counties will have to adjust values on an annual basis. This will help to keep values more consistent with current market conditions and should prevent the very large jumps in property taxes that can occur in a rising market when the assessment has not been updated for four years.

Discussion/Major Issues

The property tax is no longer the largest source of tax revenue in Washington. Since the mid-1970s, the combined state/local retail sales tax has exceeded aggregate property tax levies. Nonetheless, total property tax levies amount to $8.6 billion, and the property tax clearly remains the most important revenue source for local governments. Distributions of local sales tax to cities, counties, transit districts or other local entities during Fiscal Year 2009 amounted to $2.5 billion, whereas property tax levies by all local taxing districts for collection in calendar year 2009 totaled $6.8 billion.

Compared with other states, the property tax burden in Washington is below the national average. Nationally, property taxes comprise 30+ percent of total state and local taxes; in Washington the percentage is 26.8 percent. The latest year for which comparable data for all states are available is Fiscal Year 2007. In relation to personal income, combined state and local property taxes in Washington amounted to $29.25 per $1,000 of income. This ranked 32nd from the highest state (Vermont at $55.10) and was well below the national average of $34.04. On the basis of population, Washington property taxes in Fiscal Year 2007 equaled $1,143 per capita; this ranked 27th from the top – over 10 percent below the national average of $1,272.

Virtually all citizens are affected by property taxes, either by the taxes they pay directly as homeowners or the component of rents attributable to taxes paid by landlords. Politically, property taxes are a sensitive issue, and the Legislature and citizens often react when property taxes rise more rapidly than usual (e.g., Proposition 13 in California in the 1970s, as well as the constitutional and statutory limits enacted in this state).

There are certain desirable features of the system. The tax is well established and has been in operation much longer than other taxes. Unlike many of the state excise taxes, property taxes are quite visible, and taxpayers are aware of their annual liability. However, many financial institutions pay the tax directly out of loan reserves, and this tends to lessen the recognition of the owner's true tax liability. Administration occurs largely at the county level, which gives taxpayers a sense of local control. Further, the cost of many services provided by local government (streets, schools, police and fire protection, etc.) correlate well with property values.

Property taxes also suffer from undesirable features. The tax may have been better suited to an agrarian economy when property values equated more closely with economic well-being. In today's economy, property ownership is only one measure of an individual's wealth. Compared with other taxes which rely upon voluntary compliance,

administration costs are high because of the appraisal process which requires that each parcel be periodically re-examined and revalued. Property tax revenues depend upon the location of developments, manufacturing facilities, etc. As a result, property tax receipts can vary widely among taxing districts. Thus, "poorer" taxing districts (in terms of the value of the tax base) may realize less revenue than other districts, or they might require higher tax rates to generate the same receipts as others.

The appraisal process is not always understood by property owners, and disagreements and appeals of value may result. Despite the various limitations, property values are directly influenced by inflation and in-migration. In particular, during the mid-2000s there was a very rapid growth in market values in certain areas in King County, resulting in escalating housing prices fueled by very high incomes in certain high tech industries. This had the effect of increasing valuations for all properties in the area. Thus, an owner's taxes can increase markedly in the year after the revaluation occurs, even when there may be no corresponding increase in the ability of the owner to pay. This can impose financial difficulties for households whose disposable incomes may not be growing as fast as inflation rates.

The converse can be also true. During recessionary times, as witnessed in the past two years, assessed values do not track well with declining market values because of the lag for reassessments to occur. Thus, property taxes may be based on values which are no longer relevant in a depressed housing market. (The required annual updating for all counties by 2014 will help in this regard.)

Finally, the tax is considered regressive, because there is no necessary correlation with household incomes. This is particularly true for households with lower or fixed incomes. The senior citizens exemption helps offset the regressive impact for qualified households, but for many other low and moderate income families, particularly those on fixed incomes, the ratio of their property tax to their household income may be significantly higher than for individuals at higher income levels.

MOTOR VEHICLE EXCISE TAX
RCWs 81.100 and 81.104
(NOTE: state tax repealed, effective January 1, 2000)

Tax Base — The value of motor vehicles designed for primary use on the public highways. The tax is based on the manufacturer's base suggested retail price when the vehicle is first offered for sale. The amount of local motor vehicle excise tax due thereafter is based on a statutory depreciation schedule as specified in the authorizing statute for each local taxing authority.

In 2006, a new depreciation schedule was adopted. RCW 82.44.035 provides that initially vehicles will be valued at 85 percent of their manufacturer's suggested retail price. Thereafter, the values decline annually down to 10 percent for vehicles more than 15 years old. (However, the Regional Transportation Authority tax still uses the prior depreciation schedule, as required by the bonds issued by the RTA.)

Tax Rate

STATE: No longer imposed (chapter 82.44 RCW). (Levied from 1937 through 1999.)

LOCAL TAXES AUTHORIZED:

0.8 percent high capacity transportation service (RCW 81.104.160). The statute provides for a local motor vehicle excise tax of up to 0.8 percent for financing a high capacity transportation system. Under this authority the Sound Transit Regional Transportation Authority levies a local MVET of 0.3 percent in the urban areas of King, Snohomish, and Pierce counties. See discussion of I-776 below.

0.3 percent or 0.8 percent - high occupancy vehicle (HOV) lanes (RCW 81.100.060). The statute, as amended in 2006, allows two types of local MVET to finance HOV lanes: a rate of 0.3 percent by a county and a rate of 0.8 percent by a regional transportation investment district (RTID). This tax is computed as a surtax on the state tax but is not credited against that state tax (which no longer exists). Thus, the local tax represents an additional tax for the vehicle owner. To date, this local MVET has not been levied.

2.5 percent - monorail system (RCW 35.95A.080). Authorized by the Legislature in 2002, this local MVET provided funding for a City Transportation Authority (CTA) in Seattle. The tax was devoted to financing construction and operation of a monorail system. The maximum tax rate specified in the statute is 2.5 percent. A rate of 1.4 percent was levied by the CTA in Seattle through June of 2006.

0.4 percent - passenger-only ferry service (RCW 82.80.130). A public transportation benefit area (PTBA) which borders on Puget Sound but is not located within a regional transit authority is authorized to levy an MVET tax of up to 0.4 percent of the value of

every motor vehicle owned by residents of the PTBA in order to finance passenger-only ferry service. This tax was authorized in 2003 and was intended for Kitsap County. However, such a tax has not yet been authorized by the voters of the PTBA, and the only proposal submitted to the electorate was rejected.

0.8 percent - regional transportation investment districts (RCW 36.120.050(1, d)). Authorized in 2002 and revised in 2006, this statute allows an RTID to levy a variety of taxes to finance regional transportation improvement projects. In addition to a local retail sales/use tax of 0.1 percent, a local option motor vehicle fuel tax and an employer excise tax, the statute references the local MVET authorized by RCW 81.100.060 (see above). This authorizes the RTID to levy an MVET of up to 0.8 percent for transportation projects other than HOV lanes. This taxing authority has yet to be exercised.

$100 vehicle fee – transportation benefit district (RCW 82.80.140(1)). Although not a motor vehicle excise "tax," a new fee upon vehicles was established in 2005. This statute, in conjunction with RCW 36.73.040(3, b), enables a transportation benefit district to impose an annual fee of up to $100 for each vehicle that is registered within the district. If a district is created, a fee of up to $20 may be levied without a public vote.

Levied by

Local – High Capacity Transportation Service. Pursuant to legislation adopted in 1990, cities, counties, metropolitan municipal corporations, public transportation benefit areas, and regional transportation authorities were authorized to levy a local MVET of up to 0.8 percent to finance a high capacity transportation service. In November 1996, a regional transportation authority (now Sound Transit RTA) levied this tax at a rate of 0.3 percent. In November 2002 the voters approved Initiative 776 which repealed the authority for the local MVET in RCW 81.104.160, effective December 5, 2002. However, a King County Superior Court judge ruled that the measure was unconstitutional, so the MVET was allowed to continue. On December 7, 2006, the State Supreme Court ruled that the tax can continue until bonds issued by the RTA in 1999 are retired.

Local - High Occupancy Vehicle Lanes. King, Pierce, or Snohomish counties or a regional transportation investment district may levy a local surcharge of up to 13.64 percent on the state motor vehicle excise tax (which no longer exists), if approved by the voters. The maximum local rate equals 0.3 percent (2.2 percent previous state rate x 0.1364) and applies to vehicles owned by residents of the county. Proceeds must be devoted to the development of HOV lanes. To date, this tax has not been imposed.

Local - City Transportation Authority. The CTA in Seattle was authorized by the voters to levy the local MVET for the monorail project in November 2002. A rate of 0.85 percent was levied during the monorail planning process, and it was increased to 1.4 percent on June 1, 2004, when construction of the system commenced. However, the Seattle electorate voted to discontinue the project in 2005, and the tax was repealed as of July 2006.

Local - Passenger Ferry Service. The 0.4 percent tax has not been implemented.

Local - Regional Transportation Investment District. The 0.8 percent tax has yet to be levied, because an RTID has not yet been established.

Local - Transportation Benefit District. Six cities have formed transportation benefit districts: Des Moines, Edmonds, Lake Forest Park, Olympia, Prosser, and Shoreline. Each of these collects a $20 annual fee but not the $100 fee.

Prior Collections – Former 2.2 Percent State Tax ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2001	- - -	-.-	-.-
2000	$330,121	(60.8%)	2.8%
1999	841,135	8.5	7.3
1998	775,310	7.3	7.0
1997	722,503	4.2	6.9
1996	693,330	5.9	7.0
1995	654,528	12.1	6.8
1994	583,906	9.2	6.5
1993	534,886	5.0	6.4
1992	509,285	10.7	6.5

Distributions of Local MVET ($000)

Calendar Year	RTA Tax	Monorail Tax
2009	$62,025*	- -
2008	72,800	- -
2007	72,011	$ 264
2006	70,190	34,368**
2005	66,446	35,929
2004	63,894	44,529
2003	69,459	9,232
2002	58,846	- -
2001	55,746	- -
2000	53,896	- -

*Ten months, with two monthly distributions remaining in calendar year 2009.
**Collection of the tax was terminated in July 2006, but small residual amounts of prior liability were collected in subsequent months.

Source: State Treasurer.

Administration

Department of Licensing (DOL). The tax is paid annually by vehicle owners at the time of registration to DOL, county auditors, or other licensing agents. The tax applies for the 12-month registration year, according to the day on which the vehicle is first registered. The Department of Revenue is authorized to collect unpaid motor vehicle excise and retail sales/use taxes in order to utilize the administrative provision of chapter 82.32 RCW.

Exemptions and Credits (for prior state tax; presumably same exemptions apply for local MVET)

- publicly owned vehicles with "exempt" licenses;
- vehicles designed for principal use off of public highways;
- motor vehicles and trailers used entirely upon private property;
- mobile homes and travel trailers (subject to separate tax);
- vehicles owned by nonresident military personnel at the time they were first stationed in Washington;
- vehicles owned by dealers and operated with the use of a dealer's license plate;
- truck-type power and trailing units of 6,000 pounds or less;
- the value of motor vehicles attributable to modifications to facilitate use by handicapped persons;
- passenger vehicles regularly used by at least five persons in conjunction with commute trip reduction programs in the eight largest counties and ride-sharing vans used to transport persons with special transportation needs;
- vehicles owned by Indian tribes and enrolled tribal members (RCW 46.16.020);
- trailing units (semi-truck trailers), except those for hauling logs, used in conjunction with truck tractors;
- rental cars which are subject to the rental car tax;
- vehicles licensed by the Taipei Economic and Cultural Office per RCW 46.16.374.

History

The state MVET was established in 1937 at a rate of 1.5 percent; previously, vehicles were subject to assessment under the property tax. The rate was increased to 2 percent in 1959. In 1969 the municipal MVET of 1 percent was authorized as an off-set against the state tax, with the revenues going to local mass transit facilities.

The tax rate was increased to 2.2 percent in 1977 with the additional 0.2 percent tax dedicated to construction of state ferries. Also in 1977 the staggered licensing system, whereby vehicles are licensed for a 12-month period rather than on a calendar year basis, was adopted.

Surtaxes were adopted in 1982, raising the state tax rate to 2.354 percent. The local sales tax equalization program, using state motor vehicle excise tax revenues, was established in 1982; under this program cities and counties with low per capita yields from their local sales

taxes received additional funding using state MVET revenues. In 1987 an additional tax of 0.1 percent was enacted for two years with the receipts dedicated to ferry operations; this additional tax was incorporated into the changes made in 1990.

Comprehensive changes in funding of state and local transportation programs were enacted in 1990. Among the changes was a rollback of the MVET rate to 2.2 percent and authorization for the local option motor vehicle excise taxes. Essentially, the previous state tax rate of 2.454 percent was reduced to 2 percent. However, no loss of revenue occurred as a result of changing from the previous assessment method using 12 depreciation schedules to the new system which bases the tax upon the original suggested retail price with one of three possible depreciation schedules. The additional 0.2 percent state tax was dedicated to the newly-created state transportation fund.

The additional clean air tax was established in 1993 at a rate of $2.25. It dropped to $2.00 the following year.

In November 1996 the RTA levied a 0.3 percent local MVET in parts of King, Snohomish, and Pierce counties, starting in 1997.

In November 1998 the voters approved Referendum 49, which established a maximum credit of $30 per vehicle against the state MVET. It also revised the formulas for distribution of the tax receipts, shifting funds from the general fund into the transportation fund to be used for highway purposes.

At the November 1999 election the voters approved Initiative 695 which replaced the 2.2 percent state tax and the $2.00 clean air excise tax with a maximum annual license fee of $30 per vehicle. Although the Initiative was subsequently declared unconstitutional, the Legislature repealed these state taxes and established the $30 vehicle license fee by enacting SB 6865, Chapter 1, 1st Special Session, Laws of 2000, which was effective on January 1, 2000.

Legislation in 2002 clarified that the Legislature also intended to repeal the local MVET for mass transit systems, and RCW 35.58.273 which previously authorized such a local tax at a rate of up to 0.725 percent was repealed.

Also in 2002, a new local MVET to finance construction and operation of a monorail system was authorized. That same year the Seattle voters approved the monorail proposal and the local tax was implemented on January 1, 2003, initially at a rate of 0.85 percent and then, starting in June 2004, the rate increased to 1.4 percent. The project was curtailed following a vote of the Seattle electorate in 2005. The tax continued until prior financial commitments were funded, and collections ceased in July 2006.

In the November 2002 election the voters approved Initiative 776 which repealed the authority for two local MVETs effective December 5, 2002: RCW 35.58.273 which allowed cities to levy an MVET of 0.725 percent for transportation purposes and RCW 81.104.160 which provided authority for an MVET of up to 0.8 percent to finance high

capacity transportation. Under the latter authority, since 1997 the Regional Transit Authority had levied a tax of 0.3 percent in the metropolitan areas of Snohomish, King, and Pierce counties to finance Sound Transit's light rail system. On December 7, 2006, the State Supreme Court affirmed that the tax can continue to be levied until bonds issued in 1999 to finance the light rail system are retired. Thus, the 0.3 percent tax remains in place, even though the authorizing statute - RCW 81.104.160 - no longer contains language providing for a local MVET.

Discussion/Major Issues

The motor vehicle excise tax was originally intended as a tax in lieu of property tax. Taxing vehicles by the excise tax method guaranteed a uniform application of the tax throughout the state, compared with the variation in assessment methods and levy rates that would prevail if vehicles were subject to property taxation. However, the distribution of receipts did not correspond with property tax revenues and the rate of tax exceeded the average property tax levy rate.

The annual motor vehicle excise tax payments are deductible for federal tax purposes by persons who itemize their deductions for federal income taxes.

AIRCRAFT EXCISE TAX
Chapter 82.48 RCW

Tax Base — Aircraft used within the state. Because of the exemption of interstate commercial aircraft, the tax applies mainly to private owners of small planes used for personal or business purposes.

Tax Rate — The tax consists of an annual fee based on the type of aircraft:

Single engine, fixed wing	$ 50
Small multi-engine, fixed wing	65
Large multi-engine, fixed wing	80
Turboprop multi-engine, fixed wing	100
Turbojet multi-engine, fixed wing	125
Helicopters	75
Sailplanes, lighter-than-air, home-built	20

Levied by — State

Recent Collections ($000)

Calendar Year	Collections	% Change	% of All State Taxes
2009	$285	(0.2)%	0.0%
2008	286	0.7	0.0
2007	284	0.5	0.0
2006	282	0.9	0.0
2005	280	(0.1)	0.0
2004	280	1.1	0.0
2003	277	23.8	0.0
2002	223	(0.4)	0.0
2001	224	(1.2)	0.0
2000	227	(1.3)	0.0

Distribution of Receipts

90% state general fund
10% aeronautics account

Administration

Department of Transportation. Every aircraft must be registered for each calendar year in which it is operated within the state. The tax is collected by the Aviation Division of DOT when the aircraft is first registered and is subsequently paid annually during January of each year. Possession of the appropriate effective federal certificate, permit, rating, or license relating to the ownership and airworthiness of the aircraft are requisites for registration of an aircraft. The Department of Revenue is authorized to collect unpaid aircraft excise tax per RCW 82.48.020.

Exemptions

- aircraft owned and used exclusively by any governmental entity;
- aircraft registered in other countries;
- aircraft owned by nonresidents, if located in Washington for less than 90 days;
- commercial aircraft principally used in interstate or foreign commerce;
- aircraft used by the manufacturer for testing, experimental, and training purposes;
- aircraft held for sale by dealers;
- aircraft that are not in an airworthy and flyable condition;
- refund for any excessive tax paid;
- aircraft owned by nonresidents kept at a Washington airport that is jointly owned by governmental entities from this state and other states, and the owner or operator has paid all taxes, licenses, and registration fees required by the state in which the owner or operator resides.

History

The tax was established in 1949 with a rate of 1 percent of fair market value. Previously, aircraft were subject to personal property tax. In 1967, the tax was changed from a percentage of fair market value to a flat fee of $15 for single engine planes and $25 for multi-engine planes. In 1983, the current schedule of rates was adopted.

Discussion/Major Issues

Approximately 5,950 aircraft are currently registered and pay the annual excise tax.

The tax is levied in lieu of personal property tax. Thus, there is greater uniformity of tax burden for owners throughout the state than might be the case under the property tax. However, the receipts of the tax are not distributed to local taxing districts, and the amount of tax paid does not equal the amount that would be due under the property tax, if aircraft were assessed on the basis of fair market value.

WATERCRAFT EXCISE TAX
Chapter 82.49 RCW

Tax Base — Fair market value of noncommercial boats which are used on Washington waters. Fair market value means the latest purchase price of the vessel, depreciated from the year of purchase to the current year according to a depreciation schedule developed by the Department of Revenue. Boats which were not purchased, or whose purchase price does not represent fair market value, may be appraised by the Department of Revenue.

Tax Rate — 0.5 percent (minimum of $5)

Levied by — State

Administration — Department of Licensing. The tax is paid annually by owners when registering the vessel. It is collected by the Department of Licensing and its agents, including county auditors and authorized private firms. The tax is due by June 30 each year for the succeeding 12 months; the tax for newly registered boats is prorated to the following June 30. Decals for placement on the bow of the boat are issued upon payment of the tax and license fees. The Department of Revenue is authorized to collect any unpaid excise tax, including any penalties and interest.

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$17,192	(2.6)%	0.1%
2008	17,648	8.8	0.1
2007	16,222	0.9	0.1
2006	16,071	7.9	0.1
2005	14,891	10.1	0.1
2004	13,522	5.0	0.1
2003	12,883	13.3	0.1
2002	11,367	(0.4)	0.1
2001	11,413	1.9	0.1
2000	11,204	9.6	0.1

Distribution of Receipts State general fund

Exemptions

- Boats that are not required to register under chapter 88.02 RCW:
  - federal vessels, except recreational boats;
  - vessels owned by state and local governments;
  - vessels registered in other countries;
  - foreign vessels with valid U.S. Customs cruising licenses;
  - vessels registered in other states and owned by nonresidents but only if they are in Washington for less than 60 days;
  - nonresidents' vessels which are in Washington for repair (the Department of Revenue must be notified if such boat is in the state for more than 60 days);
  - boats powered by less than 10 horsepower motors which are used as tenders;
  - boats less than 16 feet in length with no propulsion machinery;
  - boats less than 16 feet in length with motors of less than 10 horsepower if they are not used on waters covered by federal jurisdiction;
  - boats without motors which are principally propelled by human power;
  - vessels temporarily in the state for repair or alteration;
  - commercial vessels which are documented by the federal government; and
  - foreign commercial vessels.
- commercial fishing boats;
- vessels owned by nonprofit youth organizations engaged in character building of boys and girls under 18 years of age and solely used for such purposes per RCW 84.36.030; and
- vessels in dealers' inventories which are not regularly rented.

History

The watercraft excise tax was adopted in 1983, effective July 1, 1983. Prior to 1983, boats were subject to assessment as personal property (although few counties devoted the necessary staff to locate and assess recreational boats); boats were subject to the state property tax levy and 20 percent of all local levies.

Discussion/Major Issues

The watercraft excise tax is presumed to be in lieu of personal property tax. However, the rate does not correspond with property tax levy rates, and the revenues are not distributed to local taxing districts. Registration of boats and implementation of the excise tax has clarified the taxation of pleasure boats and resulted in uniform treatment of all boat owners throughout the state.

TIMBER EXCISE TAX
Chapter 84.33 RCW

Tax Base — Stumpage value of timber harvested for sale or commercial/industrial use. There are three methods of determining stumpage values for certain types of harvests:

Small harvesters (persons who cut less than 2,000,000 board feet in a calendar year) - the tax is based on the actual amount paid for stumpage or the amount received from the sale of logs less the costs of harvesting and delivering to the buyer. Small harvesters have the option of utilizing the Department of Revenue stumpage value tables.

Public timber sales - tax is based on the contract purchase price for stumpage, including cash and other considerations (e.g., value of logging roads constructed).

Standard harvesters - tax is based on the values of stumpage determined semi-annually by the Department. Values reflect various timber species and different timber marketing areas throughout the state.

Tax Rate — 5 percent, split between the state and counties as indicated below.

Timber Harvested From	State Tax Rate*	County Tax Rate
Privately owned lands	1.0%	4.0%
Public lands (incl. federal):		
Harvests in 2006	3.5	1.5
Harvests in 2007	3.2	1.8
Harvests in 2008	2.9	2.1
Harvests in 2009	2.6	2.4
Harvests in 2010	2.3	2.7
Harvests in 2011	1.9	3.1
Harvests in 2012	1.6	3.4
Harvests in 2013	1.3	3.7
Harvests after 2013	1.0	4.0

*A tax credit of 0.8 percent is allowed for harvesters impacted by enhanced aquatic resource requirements (EARR credit), designed to protect salmon habitat. This credit, if approved by the Department of Natural Resources (DNR), effectively reduces the total timber excise tax rate from 5 percent to 4.2 percent for harvests on public and private lands. The credit comes out of the state's share of the timber excise tax, thus making the effective state tax rate 0.2 percent for eligible timber harvests on private lands (and on public lands starting in 2014).

Levied by

State: RCW 84.33.041 and .046
Counties: RCW 84.33.051

Administration — Department of Revenue. The tax is reported on a quarterly basis by harvesters. The tax is due from the person who owns the timber at the time it is harvested. The return is due by the end of the month following the close of the quarter in which the timber was harvested. Persons who harvest timber on private lands must either obtain a Forest Practices Application (harvest permit) from DNR or a county authority; this serves as a registration document for purposes of reporting the timber excise tax. A copy of the Forest Practices or county permit is sent to the Department of Revenue which then mails the tax return to the harvester. A similar system applies to public land harvests, except that the timber sale contract is utilized rather than the Forest Practices Application.

Recent Distributions ($000)

Fiscal Year	Distribution to Counties	Distribution to the State	% of All State Taxes*
2009	$22,620	$4,630	0.0%
2008	34,948	6,515	0.0
2007	38,581	7,627	0.0
2006	36,486	9,282	0.1
2005	30,511	10,112	0.1
2004	26,713	7,855	0.1
2003	27,891	8,327	0.1
2002	30,978	10,027	0.1
2001	37,485	15,161	0.1
2000	38,958	20,154	0.2

*State tax only; excludes distribution of county tax.

Distribution of Receipts

Receipts of both the state and county taxes are deposited in the timber tax distribution account within the state treasury. At the end of February, May, August, and November, the Department notifies the State Treasurer to distribute the tax receipts, less the Department's collection costs, to counties and the state general fund. The county receipts are further distributed to local taxing districts by the county treasurers according to a formula in RCW 84.33.081 which reflects the assessed value of forest land in the respective districts. Funds go first to districts that have approved special property tax levies for capital purposes. Next, school districts receive funds in relation to their special levy rates. Finally, all local taxing districts share in the distribution of any remaining funds in the county timber tax account.

Exemptions, Deductions and Credits

- nonprofit youth organizations which are exempt from property tax;
- harvesters who incur less than $50 of tax liability per quarter;
- Christmas trees cultivated using agricultural methods;
- short-rotation hardwoods, e.g., cottonwoods, with growing cycle of 15 years or less;
- credit for harvesters impacted by aquatic resource requirements (e.g., salmon habitat) as determined by DNR;
- blanket property tax exemption for all timber effective in 2005 (previously timber on state-owned lands was subject to property tax);
- credit for Quinault tribal timber harvest tax per RCW 84.33.0776.

History

The first legislation directed toward the taxation of timber was the 1931 Reforestation Act, which provided an alternative to property taxation for lands that had been harvested or were otherwise producing less than their potential (e.g., burned lands). This allowed exemption from property tax for growing trees. The land was subject to annual property tax based on assessed values of $1 per acre for western Washington lands and 50 cents per acre for the eastern part of the state. The timber was subject to a yield tax of 12.5 percent upon harvest. The program did not attract a large number of applicants.

Under the property tax system which continued to apply to privately owned timber and forest land, there was substantial nonuniformity throughout the state. Following a comprehensive study by the Legislature, the 1971 Forest Tax Act was enacted. This established a three-year phase-out of property taxes upon timber growing on privately owned lands and a concurrent phase-in of a yield tax based upon the harvest value. The eventual rate of 6.5 percent was fully effective in 1975. The tax rate is applied to the stumpage values determined by the Department. The value of bare forest lands (parcels of at least 20 acres) continued to be subject to property taxes, but the 1971 statute provided that the state would determine the appropriate values for various classes of land.

Several major changes have subsequently occurred. Changes were made in the formulas for distributing revenues to local governments. The yield tax was subject to a series of sunset dates, but each time it was reenacted until the tax became permanent in 1984. In 1981 forest land values were established directly by statute, with the Department being required to adjust them annually, based on the change in harvest value over the prior five years. Also in 1981, the small timber harvester option of paying the excise tax based on actual prices received, rather than the state's stumpage values, was established.

In 1982, the excise tax was extended to timber harvested on state and federally owned lands. All of the receipts from public lands went to the state general fund, whereas the tax on timber from private lands continued to be shared with local governments.

A major change occurred in 1984 when a phase-down of the 6.5 percent yield tax was adopted. Starting with harvests during Fiscal Year 1986 through 1988, the rate was phased down to the current 5 percent level. In addition, a new county timber tax of 4 percent was established for harvests on private lands. This tax was intended to protect local taxing districts from reductions in revenues derived from timber. By allowing a credit of the 4 percent tax against the state tax, the state general fund absorbed the impact of lowering the overall tax rate. The 1984 legislation also incorporated lands under the 1931 Reforestation Act. The 12.5 percent yield tax rate for such lands was phased into the 5 percent tax over a ten-year period starting with harvests during the last half of calendar year 1984 (see tax rates listed above). Starting in calendar year 1994 timber harvests on former reforestation lands were treated the same as all other timber harvests.

In 1999, the Legislature established a new program to protect salmon habitat. It includes a credit against the timber excise tax for harvesters who are impacted by enhanced aquatic resource requirements known as the EARR credit, as determined by the Department of Natural Resources. The credit is equal to 0.8 percent of the stumpage value, effectively reducing the tax rate from 5 to 4.2 percent of the taxable stumpage value for harvest on both public and private lands. For small harvesters the credit equals 16 percent of the total timber excise tax otherwise due. The full amount of the credit comes out of the state's share of the timber excise tax.

Another change in the tax rate structure occurred in 2004 when the Legislature instituted a ten-year phase-down of the state tax on timber harvested on public lands and a commensurate transfer of this tax to counties. The change does not impact the amount of tax that is paid by harvesters but will make the state and county tax rates identical for all harvests by the year 2014. This same legislation also exempted all standing timber from property tax. Prior to this legislation, standing timber on non-federal public timber sales was treated as personal property, and timber sale purchasers paid property tax on the standing timber until it was cut.

In 2007, legislation authorized the Governor to enter into an agreement with the Quinault Indian Nation relating to imposition of a tribal timber excise tax. (This is similar to the contracts the state has reached with most tribal entities regarding cigarette taxation.) Under the authority provided by RCW 43.06.480, a tribal timber harvest excise tax must be equivalent to the state timber tax rate. RCW 43.06.475 stipulates that the tribal tax be used for essential tribal government services. The tribal tax is to be credited against the state and county timber excise tax. Such an agreement has yet to be reached with the Quinaults.

Special valuation of timber impacted by the December 2007 floods in Presidential Declared Disaster Area Counties was authorized by the Legislature in 2008. Small harvesters who cut less than 5 million board feet of timber annually from the federally designated impact counties during 2008 or 2009 were able to base their excise tax on actual receipts from the sale, less their expenses, rather than by using the Department’s stumpage value tables.

Discussion/Major Issues

The timber excise tax is in lieu of property tax upon the growing trees. Because of the long period of time before timber produces income, the Legislature decided that it made more sense to levy a yield tax at the time of harvesting, rather than annual property taxes. The land itself, however, remains subject to property taxes, based upon the Department's determination of adjustments to the statutory forest land values.

From the standpoint of forest landowners, the 1971 forest tax law has two primary advantages over the previous property tax system. First, the major portion of the tax burden, the yield tax, can be postponed until harvest income is available to pay the tax. Meanwhile, as the trees are maturing, the landowner is protected from market value assessments that might reflect some non-timber use of the land. Secondly, the new law created uniform tax policy statewide for forest land and timber. Forest landowners no longer needed to be concerned about differences among the counties in property tax assessments.

The 1971 law has also had important public benefits. By centralizing administration in the Department of Revenue, the tax can be collected at relatively less cost than was possible at the county level. By eliminating the threat of escalating property taxes, the tax system can no longer be blamed for premature harvesting of timber. In addition, there is less pressure on the landowner to sell or convert the land to some other use to avoid rising taxes.

PUBLIC UTILITY DISTRICT PRIVILEGE TAX
Chapter 54.28 RCW

Tax Base

The tax applies to electric generating facilities of public utility districts (PUDs) for the privilege of operating. As described in the following section, the tax is measured by gross income derived from the sale of electric energy, the number of kilowatt hours of self-generated energy which is either distributed to consumers or resold to other utilities, and the wholesale value of energy produced in thermal plants.

Tax Rate

HYDROELECTRIC DAMS AND OTHER GENERATING FACILITIES:

- 2.14 percent of gross revenue from the sale of power to consumers that is distributed through the district's own distribution system; plus
- 5.35 percent of the first 4 mills (i.e., .004 x .0535 = .000214) per kilowatt-hour of:
  - the wholesale value of self-generated energy distributed to its own customers, and
  - revenue from the sale for resale of self-generated energy.

THERMAL GENERATING FACILITIES: (Plants with a design capacity of 250,000 kilowatts or more located on a federal reservation which utilize steam derived from fossil or nuclear fuels and which became operational after September 21, 1977. This rate applies only to WNP #2 operated on the Hanford reservation by the Washington Public Power Supply System.)

- 1.605 percent of wholesale value of energy produced for sale or use.

Levied by

State (receipts shared with local taxing districts).

Cities. RCW 54.28.070 allows municipalities to tax PUD facilities located within the city. The tax is based on gross revenues from the sale of electricity to consumers within the city. The maximum tax rate is not specified, but presumably the maximum 6 percent limit for municipal utility taxes also applies to this tax.

Administration — Department of Revenue. PUDs file an annual return by March 15 which contains the necessary information pertaining to their income and production data on power generated or sold by the district during the previous calendar year. The Department calculates the amount of tax due and notifies the district of its liability by May 1. Payment is due by the district on June 1. Upon receipt of the tax, the Department instructs the State Treasurer to disburse the receipts to the proper funds and local jurisdictions.

Distribution of State Tax Receipts

HYDROELECTRIC FACILITIES:

(1) Basic tax rate (i.e., 2 percent of gross revenue and 5 percent of first 4 mills)

4% state general fund, and

96% is further distributed as follows:

37.6% state general fund for public schools;

62.4% counties to be further allocated as follows:

receipts from the 2% tax on gross revenue go to those counties from which the sales to customers were made in the same proportion, and

receipts from the 5% tax on the first 4 mills for both self-generated power and sales for resale are distributed based on the location of the dams and the reservoirs they create. In instances where the dams and reservoirs are located in more than one county, RCW 54.28.050 provides a complex distribution mechanism based on the total cost of the facilities to allocate the receipts among these counties.

The county treasurer shall further distribute amounts received under this distribution to all local taxing districts, except schools, in the most equitable manner (in most instances to approximate the distribution of property tax levies). Cities shall receive a minimum amount equal to 0.75 percent of the gross revenue derived by the PUD from the sale of energy within the city.

(2) Surtax (7 percent surtax which increases the basic rates to 2.14 percent and 5.35 percent)

100% state general fund.

THERMAL GENERATING FACILITIES:

(1) Basic rate (1.5 percent of wholesale value)

4% state general fund, and

96% is further distributed as follows:

50% state general fund for public schools;

50% local taxing districts based on their population to the total population within the "impacted area" which is defined in RCW 54.28.010(7) to mean the area within 35 miles of the southern entrance to the Hanford reservation. The 50 percent share for local taxing districts within the impact area is divided among the following districts:

22% counties
23% cities
3% fire districts
2% certain library districts.

(2) Surtax rate (7 percent surtax which raises the rate to 1.605 percent)

100% state general fund.

Recent Distributions ($000)

	Distribution of State Tax			% of All
Fiscal Year	State	Local	% Change*	State Taxes*
2009	$19,073	$23,288	1.6%	0.3%
2008	18,702	22,975	4.7	0.2
2007	17,846	21,953	2.7	0.2
2006	17,349	21,411	1.9	0.3
2005	17,063	20,986	3.9	0.3
2004	16,402	20,220	(1.0)	0.3
2003	16,609	20,390	17.4	0.3
2002	14,176	17,333	5.4	0.3
2001	13,496	16,411	3.5	0.3
2000	13,043	15,851	7.5	0.2

*combined state/local total

Exemptions, Deductions and Credits

There are no statutory exemptions. However, pursuant to opinion by the Attorney General, the Department allows net uncollectible amounts to be deducted. Also, an administrative rule issued by the Department - WAC 458-20-192 (7, b) – extends exemption from the public utility privilege tax to Indian tribes and tribal members.

History

The PUD privilege tax was established in 1941 at an initial rate of 2 percent of gross revenue. The rate structure was modified in 1949 when the tax on self-generated energy was included and again in 1959 with the addition of the millage rate on the first 4 mills. In 1977 the 1.5 percent rate on wholesale value of power for nuclear generating plants at Hanford was established. Surtaxes totaling 7 percent were added to PUD tax rates during 1982, resulting in the current tax rates; the surtaxes were made permanent the following year.

Legislation in 2004 clarified that when public utility districts provide wholesale telecommunications services they must separately account for those revenues. Thus, the revenues attributable from these services will not become a part of the PUD tax base.

Discussion/Major Issues

There are 24 public utility districts which currently pay the PUD privilege tax.

Although not stated in the statute, the tax is intended to be in lieu of property tax, since public utility districts are governmental entities and do not pay property taxes. This allows schools and other taxing districts to receive revenues from the large investment in PUD generating facilities.

Public utility districts also pay the state public utility tax in the same manner as do privately-owned electric power companies. This business tax is measured by gross receipts, and the rate that applies to the generation of electric power is 3.873 percent.

LEASEHOLD EXCISE TAX
Chapter 82.29A RCW

Tax Base — Interests in publicly owned real or personal property. This typically involves a private lease of public property, often when buildings or other improvements have been added. The leasehold interest in the public land or publicly owned structures is subject to the leasehold tax, while the privately owned improvements are subject to the regular property tax.

In most instances, the tax is measured by contract rent, i.e. the amount paid for use of the public property. Contract rent includes cash payments made to or on behalf of the lessor, any rents paid by sublessees, and expenditures by the lessee for improvements to the property which inure to the owner. Excluded from contract rent are expenditures that are reimbursed by the lessor, expenditures for improvements which are to be used by the general public, expenditures relating to improvements to the property that are required by governmental action after the lease was executed, certain improvements made prior to the effective date of the tax, and improvements that are subject to personal property tax.

The law also provides that the measure of the tax be determined by the Department of Revenue in situations where the lease payment was not arrived at through competitive bidding and the compensation to the lessor does not represent the fair market value of the lease. This procedure also applies to leases which have not been renegotiated for at least ten years.

Tax Rate — 12.84 percent. Cities and counties may levy a local leasehold excise tax on leasehold interests in public property within their jurisdictions at a rate up to a maximum of 6 percent, thus reducing the state rate on such property to 6.84 percent. The maximum city rate is 4 percent and it is credited against the county tax. Thus, the maximum county rate is 6 percent in unincorporated areas and 2 percent in cities which levy the maximum city rate.

Levied by — State, counties, and cities.

Administration — Department of Revenue. The tax is collected by public entities that lease property to private lessees and is reported by the lessor to the Department on a quarterly basis. The law also allows the tax to be levied directly against the lessee, which is sometimes done following a leasehold audit. Lessees of federal property report directly to the Department on an annual basis. The Department retains 2 percent of the local tax receipts for collection expenses, as authorized by statute.

Recent Collections/Distributions ($000)

STATE LEASEHOLD EXCISE TAX

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$25,613	18.0%	0.2%
2008	21,707	(8.5)	0.1
2007	23,736	5.5	0.1
2006	22,506	13.0	0.1
2005	19,918	2.5	0.1
2004	19,436	4.3	0.1
2003	18,628	1.7	0.2
2002	18,308	7.4	0.2
2001	17,048	2.9	0.1
2000	16,567	6.0	0.1

LOCAL LEASEHOLD EXCISE TAXES

Fiscal Year	Distributions to Cities	Distributions to Counties
2009	$11,947	$9,548
2008	10,948	9,023
2007	10,902	8,737
2006	11,107	9,603
2005	9,438	7,364
2004	9,065	7,415
2003	8,551	7,187
2002	8,187	7,183
2001	7,905	6,580
2000	7,488	6,372

Distribution of Receipts

All state receipts are deposited in the state general fund, including the basic 6 percent state tax, the 7 percent surtax which adds 0.84 percent to the total rate, and the administrative fee for collection of the local taxes.

Local tax receipts are distributed by the State Treasurer on a bimonthly basis. Cities and counties may use the funds for general purposes, except that the county receipts must be further distributed to all local taxing districts, except cities, within the county. During the 2001-03 Biennium the Legislature diverted interest on the local receipts to the state general fund; thereafter the interest is distributed pro rata to the local jurisdictions.

Exemptions, Deductions and Credits

- personal property leased by the federal government or foreign countries for purposes of manufacturing articles for the U.S. or foreign government.
- road and utility easements.
- rights of access for purposes of removing products from public lands.
- operating utility property which is assessed by the state for property tax purposes.
- student housing at public schools and colleges.
- low-income housing that is subsidized by government.
- leases of property for agricultural fairs.
- public employee housing.
- leases by Indians or Indian tribes.
- Indian lands, if the contract rent is at least 90 percent of the fair market rental value.
- leases with annual rents of less than $250.
- leases of less than 30 days' duration.
- leases of residential units on a month-to-month basis pending destruction or removal for purposes of public construction of highways or buildings.
- leases relating to public works contracts.
- leases for purposes of manufacturing alcohol fuel exempt up to six years (new applications for exemption not accepted after end of 1992).
- a credit of 33 percent of the tax otherwise due for product leases.
- a credit of the amount by which the leasehold excise tax exceeds the amount of property tax which would be due on the leased property if it were in private ownership (thus effectively limiting the leasehold tax to what the property tax would have been).
- property located in a special review district established as of 1976, which is listed on a federal or state register of historical property and which was in existence as of January 1, 1987 (RCW 35.21.755).
- leasehold interest in state-owned adult correctional institutions used in conjunction with the operation of correctional industries.
- leases to nonprofit organizations for the operation of camps and other recreational activities conducted for disabled persons.
- interests in the public or entertainment areas of Safeco Field. The exemption does not extend to locker rooms or private offices of the lessee.
- interests in the public or entertainment areas of Qwest field and exhibition center.
- interests acquired in conjunction with improvements to State Route #16 (Tacoma Narrows Bridge).
- interest in structures and machinery used to produce alcohol fuel, wood biomass fuel, or biodiesel fuel (exemption for up to six years).
- port district property leased to an aircraft manufacturer for production of a super-efficient aircraft.
- the public and entertainment areas of an amphitheater in Clark County.
- property within a designated national historical reserve owned by a municipality.
- credit equal to the senior citizens/disabled persons property tax exemption.
- property used for the placement of military housing.
- infrastructure used as battery recharging or exchanging stations for electric vehicles.

History

In 1970, the State Supreme Court ruled in the Edgewater Inn case that leasehold interest in publicly owned property could be subject to taxation. The following year the Legislature adopted a moratorium on assessment of public leases for property tax purposes until 1974. However, the moratorium only applied to leases contracted since July 1, 1970. With the possibility of leases of public property adopted or renegotiated since July 1, 1970, becoming subject to tax, the 1973 Legislature imposed an excise tax on leases that were effective prior to July 1, 1970, in order to provide some equity for all leases of public property. The rate of the in-lieu excise tax was 14 percent of annual lease payments.

The 1976 Legislature repealed the previous system and in its place established the current statute with a rate of 12 percent, of which cities and counties could levy up to 6 percent. During 1982 surtaxes totaling 7 percent were added, resulting in the current combined tax rate of 12.84 percent. The provision limiting the leasehold excise tax to the amount that would be due under the property tax was approved in 1986.

In 1999, the leasehold tax base was clarified by an amendment to the statute. The definition of leasehold interest was modified to exclude rights of access to public property for purposes of exploring for energy resources or the removal of natural resource products. This has the effect of removing from tax leases for the purpose of grazing livestock. Also, the definition of contract rent for product leases was changed with respect to the value of products that are removed.

In 2001, the leasehold interest in approximately 3,000 residential and recreational parcels located at Lake Cushman in Mason County were shifted from leasehold excise tax to regular property tax, even though the properties remain in public ownership.

Discussion/Major Issues

There are approximately 430 governmental jurisdictions that collect the tax from lessees and report to the Department. The number of federal lessees which report directly to the Department is about 1,300; most of these represent leases of recreational property on national forest lands.

The leasehold tax provides equity in taxation of all property; otherwise private users of public property would realize an economic benefit over privately owned property. The primary examples of leasehold tax involve port property upon which lessees construct warehouses and manufacturing plants, airline facilities at public airports, hotels and major businesses on the University of Washington's "metropolitan tract" in downtown Seattle, state grazing lands, DNR tidelands, national forest land leased for recreational cabins, and publicly developed industrial property.

PAYROLL TAXES

Compulsory payments by employers which fund compensation programs for employees

- **Unemployment Compensation Tax**

- **Industrial Insurance**

UNEMPLOYMENT COMPENSATION TAX
Chapters 50.04, 50.12, 50.24, 50.29, 50.44 and 50.50 RCW

Tax Base

Wages paid by employers. A maximum amount of wages paid to any individual is subject to the tax. The maximum is based on $10,000 for calendar year 1985, increased by 15 percent each year (RCW 50.24.010). However, the calculated maximum annual wage subject to tax may not exceed 80 percent of the average annual wages paid, calculated pursuant to RCW 50.04.355. The maximum amount of annual wages subject to unemployment compensation tax during 2010 is $36,800.

Tax Rate

From 1985 through 2004, employers' tax rates were determined by a statutory schedule specified in RCW 59.20.025. There were seven schedules in effect, depending upon the balance in the Unemployment Insurance Trust Fund as a percentage of wages paid. Each employer was placed into one of 20 different rate classes, using an array allocation method, where each rate class contained approximately 5 percent of the taxable wages.

Beginning in 2005, this methodology changed and a Tax Table containing 40 fixed array classes from 0.00 percent to 5.4 percent replaced the 20-rate schedule. Employers are assigned to a rate class using the "Array Calculation Factor Rate" that has fixed steps of 0.00125 for Rate Classes 1 through 31 and 0.0025 from 32 through 40.

GRADUATED SOCIAL COST FACTOR

This was also new beginning in 2005. The factor is the "Flat Social Cost Factor" multiplied by a variable percentage assigned by rate class. The variable percentage ranges from 78 percent to 120 percent.

The Graduated Social Cost Factor is determined by a complex formula. It is based on the benefits paid out in excess of the Array Calculation Factor Tax collected during the prior fiscal year. Also included in the calculation is an analysis of excess funds in the Trust Fund and minimum reduction calculations. The minimum for the Graduated Social Cost Factor for 2010 is 0.95 percent for Rate Class 1 and increases in increments of 0.05 percent through Rate Class 11 and tops out at 1.46 percent for Rate Classes 12 through 40.

There is a ceiling for the combined Array Calculation Factor Rate and the Graduated Social Cost Factor of 6 percent for qualified employers. However, those qualified that have been assigned specific NAICS codes may have a combined limit of 5.4 percent for 2010. These limitations do not apply to employers receiving a delinquent rate due to non-payment or non-reporting.

SOLVENCY SURCHARGE

This is assigned after the limitations of 6 percent and 6.5 percent. It is assessed when the balance in the Trust Fund is not anticipated to be sufficient to pay benefits for the next year. The formula used to calculate the surcharge is fairly complicated and does not lend itself to a short explanation. The surcharge rate is capped at 0.2 percent. The balance in the Trust Fund is such that the Solvency Surcharge has not been assessed.

EMPLOYMENT ADMINISTRATION FUND (EAF)

The EAF is assigned at either 0.02 percent or 0.03 percent but is assigned after the limitations are made.

Recent Collections ($000)

Calendar Year	Collections	% Change
2009	n.a.	-.-
2008	$1,063,308	(10.8)%
2007	1,191,917	(11.2)
2006	1,341,731	(6.8)
2005	1,439,710	7.8
2004	1,335,608	21.3
2003	1,101,459	16.1
2002	948,592	(1.2)
2001	960,269	4.5
2000	919,201	6.4

Source: Handbook 394, U.S. Department of Labor, Employment & Training Admin.

Levied by State

Distribution of Receipts Unemployment compensation fund used to pay benefits to eligible unemployed individuals, calculated pursuant to RCW 50.20.120.

Administration

Employment Security Department. Each employer is notified by the Department of the assigned contribution rate to be paid for each year, as well as the amount of benefits paid to previous employees of the firm or its predecessor which are charged to the employer's account. All employers report on a quarterly basis. Taxable employers pay a quarterly tax with the filing of their reports. Employers who elect to make payments in lieu of

contributions file a quarterly tax report but pay quarterly reimbursements, based on a billing for unemployment insurance benefits paid to their former employees.

Exemptions

Local government jurisdictions may elect either the taxable payment method or they may choose to make payments in lieu of contributions for coverage of their employees. In such instances, RCW 50.44.035 provides for an alternative "local government tax." Taxable government tax rates are based on a reserve ratio and a benefit cost ratio specified in the statute; their rate of contributions ranges from 0.2 percent to 3 percent. A similar alternate method for financing the benefits for employees of nonprofit organizations (according to Section 501(c)(3) of the Internal Revenue Code) is provided by RCW 50.44.060.

History

The tax was established in 1937 as part of the Social Security Act, administered by the Department of Social Security. The initial rate was 1.8 percent of wages paid. In 1942 a benefit experience factor was included and the maximum rate became 2.7 percent. The current rate system with six schedules and the 20 classifications was adopted in 1984; in 1993 a seventh rate schedule was added. In 2003 major revisions to the taxing structure took place as explained above. These major provisions were effective in 2005.

Discussion/Major Issues

The payroll tax represents a major obligation of employers doing business in Washington; total payments amount to more than one-third of state business and occupation tax liability. The tax is not usually considered as one of the general taxes levied by the state, since its receipts are solely dedicated to funding unemployment benefits. As such, it is more similar in nature to a state-required insurance program. Nonetheless, the amount of funds paid represents a significant financial obligation for employers, particularly for those firms which have experienced a high level of employee turnover in recent years.

INDUSTRIAL INSURANCE
RCW 51.16.060

Tax Base — The majority of employers covered under the state of Washington Industrial Insurance Fund pay premiums (taxes) based on the number of hours worked by their employees. This is in contrast to all other states which use payroll as the premium base for their workers' compensation insurance programs.

Tax Rate — For firms covered under the state fund, the Department of Labor and Industries determines premium rates for three separate funds: the accident fund, the medical aid fund, and the supplemental pension fund. For the accident and medical aid funds, the Department determines base rates by fund and by risk class per RCW 51.16.035 and all firms are experience rated. An experience factor is computed for each firm based on a recent three-year experience period that adjusts the base premium rates up or down. The supplemental pension fund rate, per RCW 51.32.073, is not experience rated; all firms pay the same rate per hour into this fund. The sum of these rates per risk classification equals the composite premium rate.

The accident fund premium, paid 100 percent by the employer, supports the compensation portion of the benefits paid to injured workers. The medical aid premium is paid by the employer, but the employer has the option of charging the employee up to one-half of the amount pursuant to RCW 51.16.140. This funds medical and vocational counselor services to injured workers. The supplemental pension fund premium is also paid by the employer, but the employer may charge up to one-half of the amount to the employee. This represents a uniform assessment providing cost-of-living increases for wage replacement benefits to injured workers.

The classification base rates that apply to particular firms vary widely, based on the risk associated with their business activity. To illustrate the range of possible rates, for calendar year 2009 the composite base rate ranged from $0.0619 per hour for volunteers to $14.60 per hour for unautomated shake and shingle mills. One of the larger classifications is for clerical activities; their base rate is 13.9 cents per hour. The logging industry has relatively high rates; traditional logging firms currently pay $10.80 per hour for each employee. The actual premium rates paid by a particular firm may be higher or lower than the base rates.

Levied by — State

Administration

The Department of Labor and Industries administers Washington State's Industrial Insurance program. Annually employers obtain a rate notice which identifies both the risk classes assigned to that employer together with the composite rate charged per hour for these classes. Employers file a quarterly report indicating their gross payroll and total worker hours per risk classification per risk class. The composite rates are multiplied by the worker-hours to determine the amount of the firm's industrial insurance premium. The report and the premium payment are due by the end of the month following the close of the calendar quarter.

Distribution of Receipts

All industrial insurance premiums are collected and eventually paid as benefits or administrative expenses by the Washington State Fund, which is managed by the Department. It provides industrial insurance benefits to employees who are injured on the job. Compensation includes medical expenses, time-loss payments for persons who are unable to work because of an industrial accident, vocational rehabilitation and retraining if the injured worker is unable to continue in the same occupation, and pension benefits for persons who are permanently and totally disabled as a result of the accident. Funds not immediately spent are invested by the State Investment Board.

Recent Collections ($000)

Fiscal Year	Total Premiums Paid*	% Change
2009	$1,757,797	19.8%
2008	1,466,966	(15.6)
2007	1,738,731	3.0
2006	1,689,147	5.8
2005	1,596,679	13.9
2004	1,401,690	27.4
2003	1,100,504	6.0
2002	1,037,911	(4.1)
2001	1,081,776	(0.8)
2000	1,089,958	3.2

*cash basis

Exemptions

All Washington State employers, with few exceptions, are required to provide industrial insurance coverage. Certain businesses and government entities may qualify for the right to

self-insure, if they have substantial financial resources and effective accident prevention programs. As of November 2009, 369 firms self-insure; these represent about 25 percent of the state's employees.

Coverage is not required for the following occupations or activities:

- domestic service (unless two or more persons are regularly employed for at least 40 hours per week);
- repair, maintenance, landscaping, and similar work at an employer's private home;
- persons working for aid and sustenance only for religious/charitable organizations;
- minors employed by parents to work on a family farm;
- jockeys who work at licensed horse racing meets;
- corporate officers who are directors and shareholders of the firm;
- sole proprietors and partners, except persons in the building construction industry may be required to purchase coverage, unless they request exclusion;
- employees covered by other governmental compensation programs (e.g. federal employees, seamen, longshoremen, and police and firemen);
- Native American tribes;
- certain musicians and entertainers;
- newspaper carriers;
- insurance agents; and
- certain cosmetologists.

History

Worker's compensation insurance in Washington State is known as industrial insurance. The industrial insurance program was originally established in 1911. By statute, the Department of Labor and Industries is the only insuring entity within the state for the coverage under Title 51 RCW; no private insurance companies are allowed to provide insurance coverage under these laws. In 1972, self-insurance was allowed for firms that have substantial financial resources and effective accident prevention programs. The other firms are covered under the State Fund.

Discussion/Major Issues

The industrial insurance system provides exclusive remedy, with some exceptions, from liability to employers for on-the-job injury by their employees. It provides short- and long-term health care to injured workers for sustained injuries and illnesses. It provides wage replacement benefits for short- and long-term disability with a cost-of-living component. It provides a lump-sum disability award for partial permanent disability. This service is a substantial benefit for both employers and employees as it is provided on a "no-fault" basis. The administrative costs of the program in Washington are lower than equivalent insurance coverage found in other states. Further, all employers are guaranteed coverage without the use of an assigned risk pool.

The premium payments can represent a major financial obligation of employers doing business in Washington. In comparison with the principal state business tax, the total premium payments amount to approximately two-thirds of total B&O tax liability. However, industrial insurance premium payments are not considered as one of the general taxes levied by the state, since its receipts are solely dedicated to funding compensation for injured workers. Nonetheless, the premium payments can be significant for certain employers, particularly those in high-risk classifications.

According to a study of 2008 worker's compensation insurance premium rates by the state of Oregon, rates in Washington ranked 36th from the highest among all states and the District of Columbia. A 2009 study done by the National Academy for Social Insurance, which gathered benefit cost, wage, and employer costs (premiums for insured firms and benefits paid plus administrative costs for self-insureds) for each state jurisdiction, determined that Washington ranked third highest in 2007 benefits paid per dollar of covered payroll. This is consistent with the findings of a 1998 Joint Legislative Audit Review Committee study which concluded that Washington State is above the 75^{th} percentile among all states in benefits paid and below the 25^{th} percentile in costs charged.

OTHER TAXES

A variety of other state and local tax sources

- **Real Estate Excise Taxes**
- **Estate and Transfer Tax**
- **Local Admissions Taxes**
- **Local Household Tax**
- **Local Taxes on Parking**
- **Local Taxes on Employees**

REAL ESTATE EXCISE TAXES
Chapters 82.45 and 82.46 RCW

Tax Base

Sales of real estate measured by the full selling price, including the amount of any liens, mortgages, or other debts. The tax also applies to transfers of controlling interests in entities that own property in the state.

Tax Rate

State = 1.28 percent. The majority of the tax goes to the state general fund. A small portion is earmarked for local public works (6.1 percent) and assistance to certain cities and counties (1.6 percent) (RCW 82.45.060).

Cities and counties = up to 0.25 percent for financing of capital improvements (RCW 82.46.010(2)). Thus, the combined state/local tax rate is 1.53 percent in 134 cities and 20 counties that have implemented the original 0.25 percent local tax.

Cities and counties = up to an additional 0.25 percent for exclusive use in financing capital projects specified in a comprehensive plan (RCW 82.46.035(2)). This tax was authorized in 1990 and has been implemented to date by 132 cities and 19 counties. Thus, the combined total tax rate is 1.78 percent in these jurisdictions.

Cities and counties = up to 0.5 percent for general purposes of the city or county (RCW 82.46.010(3)). However, this tax may only be imposed if the city or county does not levy the second 0.5 percent local sales tax pursuant to RCW 82.14.030(2). The cities of Clarkston and Asotin are the only jurisdictions which levy this rate.

Counties = up to 1 percent for exclusive use in acquiring and maintaining conservation areas (RCW 82.46.070). This tax, authorized by the Legislature in 1990, has been implemented only in San Juan County.

Counties = 0.5 percent for financing acquisition, construction, and operation of affordable housing facilities for persons with low/moderate income or those with special needs (RCW 82.46.075). Authorized in 2002, the statute requires that the county must have imposed the 1 percent local real estate excise tax (REET) for conservation areas (above) by January 1, 2003. Since the conservation areas tax was only levied by San Juan County, this tax for affordable housing is effectively restricted to San Juan County. However, San Juan County has not yet exercised this authority.

Combined state/local rate in most areas	= 1.53% or 1.78%
Highest combined rate (Friday Harbor)	= 2.78%

Levied by — State, cities, and counties. For the two local 0.25 percent taxes and the 0.5 percent local tax, the county rate only applies in the unincorporated area and the city rate only applies within the city. The two county taxes apply countywide, including incorporated areas.

Recent Collections ($000)

Fiscal Year	Collections*	% Change	% of All State Taxes
2009	$426,048	(40.6)%	2.7%
2008	716,680	(38.2)	4.2
2007	1,159,670	14.8	6.9
2006	1,010,457	22.8	6.6
2005	823,110	33.7	6.0
2004	615,618	19.8	4.7
2003	513,996	18.7	4.2
2002	432,910	(0.3)	3.7
2001	434,310	(0.2)	3.7
2000	435,088	1.7	3.7

*State tax only

According to data reported by local governments to the State Auditor via the Local Government Financial Reporting System (LGFRS), local real estate excise taxes collected during calendar year 2008 amounted to $202.4 million:

Local REET Collections*	
Cities	$133.0 million
Counties	$ 69.4 million

*Includes local REET taxes and fees for capital projects, conservation areas, but not the special affidavit fees or the county administrative fee for collecting the state tax.

Administration

The real estate excise tax is typically paid by the seller of the property, although the buyer may be liable for the tax if it is not paid. However, the 1 percent county tax adopted in 1990 specifically imposes the tax upon the purchaser. The Department of Revenue is generally responsible for the state tax, including promulgation of rules, preparation of the affidavit form, and enforcement actions. County treasurers collect the state and local taxes, except for the tax that applies to acquisition of the controlling interests which is reported directly to the Department. A program established in 2005 required transfers of controlling interests in an entity that owns real property to be reported to the Secretary of State.

Counties retain 1.3 percent of the collections from the state tax, the initial city/county tax of 0.25 percent, and the 0.5 percent city/county tax as compensation for the cost of collection. The tax is paid along with filing of an affidavit form which is signed by the seller and the buyer of the property. The affidavit contains the identification of the buyer and seller, a description of the parcel, the selling price, and other information about the property.

Major changes were instituted in 2005 relating to the manner in which the state tax is paid to the State Treasurer by the counties. A new electronic payment system is being developed and additional fees have been applied to each affidavit to finance these improvements. Starting on July 1, 2006, the state tax that is collected during any month must be remitted to the State Treasurer by noon of the last working day of each month, instead of by the 20th day of the following month.

Distribution of Receipts

Currently, 1.3 percent of the state tax collected by counties is retained to cover administration costs (the county fee was 1 percent prior to July 1, 2006). Of the net proceeds to the state, RCW 82.45.060 specifies that 6.1 percent is to be deposited in the public works assistance account to help fund maintenance of local government public works facilities, and 1.6 percent goes to a new city/county assistance fund distributed pursuant to RCW 43.08.290. The remainder goes to the state general fund. Penalties on delinquent tax payments are dedicated to the housing trust fund pursuant to RCW 82.45.100(6).

State tax receipts in Fiscal Year 2009 were distributed as follows ($000):

General fund	$ 389,103
Public works assistance	28,781
City/county assistance	7,549
Housing trust fund	615
TOTAL	$ 426,048

See discussion under Tax Rate section for use of local tax funds.

Exemptions, Deductions and Credits

- exemption for property acquired by gift, inheritance, and other transfers which do not represent market transactions at "arm's length," such as transfers to a corporation or partnership owned by the transferor or his/her own family members.
- exemption for transfers to lien holders when such transfers are in lieu of foreclosure.
- exemption for real property acquired from a governmental entity.
- exemption for business transfers in which no gain or loss occurs.
- trade-in credit. When a single-family residential property is transferred as either partial or entire consideration for the purchase of another single-family parcel, a credit for the

amount of the tax paid at the time of the first transfer is allowed toward the amount of the tax due upon the subsequent transfer of the same property.
- standing timber, if the income from the timber sale is subject to B&O tax.

History

The real estate excise tax was initially authorized as a county tax in 1951. The statute permitted a tax of 1 percent with all receipts dedicated to school districts in the county, except for 0.5 percent which was retained by the county to cover administration costs.

Consistent with the 1978 court ruling that funding for basic education is a state responsibility, this tax was shifted to the state level, effective September 1, 1981. Actual collection of the tax remained with county treasurers. All receipts, except 1 percent for county collection costs, were earmarked within the state general fund for education.

Two surtaxes were applied during 1982; these increased the state tax rate to 1.07 percent. Also in 1982, the first two local real estate taxes were authorized: 0.25 percent for capital purposes and 0.5 percent in lieu of the second 0.5 percent local sales tax.

In 1987, the Legislature repealed the conveyance tax which was a tax of $1.00 (50 cents until 1983) for each $500 of equity in real estate and other instruments conveyed to another person by the owner. In its place, the rate of the real estate excise tax was raised by an equivalent amount, so that the state rate was increased from 1.07 to 1.28 percent, effective on May 18, 1987. (In 1985, the Legislature dedicated a portion of the conveyance tax receipts to the public works assistance account which helps local governments maintain streets, bridges, sewers, etc. An equivalent percentage, 7.7 percent, of the state real estate excise tax was accordingly dedicated to this account.)

The same 1987 legislation imposed an additional real estate excise tax of 0.06 percent to provide funding for state acquisition of conservation lands by the Department of Natural Resources. This additional tax, which raised the state rate to 1.34 percent, was effective from May 18, 1987, until June 30, 1989, when it expired.

Two local REET taxes, the 1 percent county tax for conservation areas and the 0.25 percent city/county tax for capital projects specified in comprehensive local plans, were authorized in 1990. The 1 percent local tax for affordable housing was established in 2002.

In 1993 the tax was extended to the acquisition of a controlling interest in an entity which owns real property within the state. The tax applies only to the real property which the entity owns in Washington. This change was enacted to counter a growing practice of structuring transactions involving commercial/industrial property to avoid the tax. Also, the previous exemption for sales of real estate to a governmental entity was repealed. In 1999, controlling interests were defined as any acquisition of an entity within a 12-month period, even if the acquisition occurs in steps.

Changes in the dedicated portion of the state tax occurred in 2005. The percentage for public works was reduced from 7.7 to 6.1 percent, and a new distribution of 1.6 percent was provided as assistance to cities and counties with low per capita local sales tax receipts or low per capita assessed value of property.

Major revisions to the administration of the tax were enacted in 2005, effective on July 1, 2006. An electronic payment system was established, and new fees to finance the costs were applied to each real estate affidavit to finance the costs of upgrading county processing systems. Transmittal of the state tax was advanced from the 20th day of the following month to the last working day of the month. Also, the county administrative fee was increased from 1 to 1.3 percent.

In 2009, a new $5 fee was applied to each real estate affidavit filed at the expiration of the current $5 fee which finances the county computer enhancement costs. The new fee commences on July 1, 2010, and will last through December 2013; the receipts of the fee are dedicated to financing costs incurred in county assessors' office relating to annual updating of assessed values in all counties. Starting in 2014, the $5 fee receipts will be split between the property revaluation program and the real estate affidavit processing system.

Discussion/Major Issues

During Fiscal Year 2009 there were approximately 198,500 taxable sales of real estate in Washington. The number of sales was down significantly from the peak of 364,900 in 2005 and 2006. Collections of the tax mirror changes in the local housing market and therefore can exhibit significant volatility, making the receipts difficult to forecast. The state tax averaged annual increases of 22 percent from Fiscal Year 2003 through Fiscal Year 2007; this was followed by two years of record declines - 38 percent and 40 percent, respectively. (See the chart at the end of the Overview section.)

Traditionally, the state tax has been devoted to funding of K-12 education, although that specific dedication was removed from the statute in 2005. Funds from the state and local real estate excise taxes have been used to finance programs resulting from rapid development and in-migration into the state (e.g., for assistance with public infrastructure projects). Since the need for investment in public facilities is often related to population and since new residents often purchase real estate, this has been considered an appropriate revenue source for such programs.

The distribution to the city/county assistance fund (1.6 percent of the net state tax) restores some funding to local jurisdictions with low per capita retail sales and property valuations. This is to recognize that cities and counties do not benefit equally from their local sales and property taxes. The program is similar to one that provided assistance from the state motor vehicle excise tax revenues until it was repealed in 2000.

ESTATE AND TRANSFER TAX
RCW 83.100.040

Tax Base

The value of all property located in Washington at the time of death of the owner. The term "property" includes real estate and other property located in this state, as well as intangible assets owned by a Washington resident, regardless of location.

The tax is based on the taxable estate as determined pursuant to Chapter 11 of the Internal Revenue Code as it existed on January 1, 2005. For Washington decedents dying on or after January 1, 2006, a deduction of $2 million is allowed from the taxable estate. Also deductible is the value of property used for qualifying farming purposes (RCW 83.100.046).

Tax Rate

After subtracting any applicable deductions (e.g., the $2 million statutory deduction and the value of qualifying farm property), the remaining Washington taxable estate is subject to a graduated rate schedule ranging from 10 to 19 percent. The specific estate tax brackets found in RCW 83.100.040 are summarized below:

Washington Taxable Estate		Marginal
At Least	Less Than	Tax Rate
0	$1,000,000	10%
$1,000,000	2,000,000	14
2,000,000	3,000,000	15
3,000,000	4,000,000	16
4,000,000	6,000,000	17
6,000,000	7,000,000	18
7,000,000	9,000,000	18.5
9,000,000	over	19

Levied by State

Distribution of Receipts

Current estate tax receipts are dedicated to the education legacy account, which was established in 2005 to provide supplemental receipts for the student achievement fund, expanding access to higher education and other improvements to educational programs. Receipts for the prior estate tax were deposited in the state general fund. A 2008 amendment allowed estate tax receipts to be transferred to the state general fund during the 2007-09 Biennium.

Recent Collections ($000)

Fiscal Year	Net Collections - Both Taxes Pre-2005 Tax*	Current Tax	% Change	% of All State Taxes
2009	$ 615	$136,501	25.6%	0.9%
2008	4,132	105,060	(40.6)	0.6
2007	5,307	178,379	-.-	1.1
2006	5,051	19,341	-.-	0.2
2005	(42,229)	- -	-.-**	-.-
2004	139,855	- -	14.2	1.1
2003	122,451	- -	6.9	1.0
2002	114,517	- -	6.9	1.0
2001	107,097	- -	29.5	0.9
2000	82,705	- -	18.9	0.7

*NOTE: General fund collections of the repealed tax will continue for some time because of: (1) new filings by taxable estates of decedents who died prior to May 17, 2005; (2) some previous estates elected to defer payments of the tax over a 15-year period; and (3) estates under the pre-1982 inheritance tax chose to defer the tax until after the death of the beneficiaries.

**Percent change not applicable for Fiscal Year 2005 through 2007 because of the large court-ordered refunds of the previous tax and the transition to the new tax.

Administration

Department of Revenue. Administrators or personal representatives of estates must file the Washington estate tax return with the Department within nine months following the decedent's death, if the value of the gross estate exceeds the filing threshold. Administrators must include a copy of the federal estate tax return, if applicable, with their state tax return. Delinquent returns are subject to interest as specified in RCW 82.32.050 and 82.32.060. A penalty of 5 percent of the tax due for each month the return is late up to a total maximum penalty of 25 percent of the tax due or $1,500, whichever is less, is assessed if the Department initiates contact with an estate regarding an estate tax filing. If an administrator files the return voluntarily, no penalty is assessed. When the estate tax liability has been fully satisfied, a release is issued to the estate stating that the decedent's property may be transferred.

Exemptions, Deductions and Credits

- $2 million statutory deduction (RCW 83.100.020(13)).
- Deduction for property used for qualifying farming purposes (RCW 83.100.046).
- Marital deduction (RCW 83.100.047).

In addition, by linking the state taxable estate to the definition of taxable estate under the Internal Revenue Code as it existed on January 1, 2005, several deductions are implicitly allowed. These include funeral expenses, costs of administering the estate, debts of the decedent, outstanding mortgages, unlimited marital and charitable gifts, and any claims against the estate.

History

An inheritance tax was one of the first state taxes established in Washington, adopted in 1901. In upholding the tax, a court ruling found that the inheritance tax constituted an excise tax upon the privilege of inheriting property and not a tax upon the property itself. This interpretation paved the way for adoption of future excise taxes, which now comprise the majority of all state taxes in Washington. The inheritance tax was applied according to three classes of beneficiaries, depending upon their relationship with the decedent. Initial tax rates ranged from 1 to 12 percent.

A companion gift tax was enacted in 1941 at rates equal to 90 percent of the inheritance tax rates.

There was relatively little change in the inheritance and gift tax until 1979, when the Legislature enacted a comprehensive revision of the tax, including a substantial increase in the basic exemption levels, phase-out of the tax on community property, current use valuation for family farms and small businesses, and revision in the graduated rate schedule to reduce tax rates.

At the general election in November 1981, the voters approved Initiative 402, which repealed the state inheritance and gift taxes, effective on January 1, 1982. The initiative allowed continuation of a state estate tax equal to the amount of federal estate tax credit, since there was no additional impact on Washington estates. Instead, this "pick-up" tax simply transferred funds from the federal government to the state.

In May 2001 Congress adopted H.R. 1836 (PL 107-16) which phased out the federal estate tax by the year 2010 and eliminated the federal credit for state taxes at the end of 2004. However, at the time it was assumed that Washington's estate tax would not be directly impacted since it was tied to the definitions contained in the Internal Revenue Code as of January 1, 2001 – prior to the federal tax changes. However, this interpretation was proven to be incorrect when the State Supreme Court overturned Washington's estate tax on February 3, 2005. As a result of the decision – *Hemphill et al v. State of Washington* - the state made refunds of estate taxes which were overpaid since the beginning of 2002 and therefore the net "collections" of the estate tax during Fiscal Year 2005 amounted to a negative $42 million.

The Legislature responded to the court decision by amending the estate tax, so that the state tax will be more independent of the federal statutes. The amended tax is considered to be a "stand-alone" tax because it does not rely so directly upon the federal calculations. The

amended tax was effective on May 17, 2005, and the initial receipts for the tax appeared in January 2006. The state tax survived a repeal attempt in November 2006, when 62 percent of the voters rejected Initiative 902.

Discussion/Major Issues

Estate taxes have been somewhat controversial in recent years. Critics maintain that in some circumstances the tax can be responsible for the break-up of long-standing family-owned businesses. This was one of the reasons that the farm deduction was included in the amended tax. Also, property included in estates of decedents has often been previously subject to tax (e.g., property taxes).

Proponents argue that the burden of the tax is upon beneficiaries (although not directly) who had nothing to do with the accumulation of the wealth. Further, the estate tax is virtually the only progressive tax in a state such as Washington which relies so heavily upon consumption-based taxes that are largely regressive in nature. Finally, because of the very high threshold, only the very wealthy families are impacted. A very small percentage of all estates are estimated to have any liability under Washington's current estate tax.

According to the latest annual study of state tax structures by the Washington, DC municipal government, 26 states have estate taxes equal to the amount of the current federal state credit, similar to Washington's previous tax. Nine states levy an inheritance tax in which the tax depends upon the relationship between the decedent and the beneficiary. Another nine states, in addition to Washington, impose an estate tax similar to the present tax in Washington. Five states have no current tax on inheritances or estates.

The following illustrates the impact of Washington's estate tax on estates of selected size, assuming that none of the estates involve farm property and ignoring possible other applicable deductions.

Gross Estate Value	Taxable Estate Value	Estate Tax Liability	Effective Tax Rate*
$ 1,000,000	0	0	-.-%
2,000,000	0	0	-.-
2,500,000	$ 500,000	$ 50,000	2.0
5,000,000	3,000,000	390,000	7.8
7,500,000	5,500,000	805,000	10.7
10,000,000	8,000,000	1,255,000	12.6

*Tax liability divided by gross estate value.

LOCAL ADMISSIONS TAXES
RCWs 35.21.280, 35.57.100, 36.38.010 & 36.100.210

Tax Base — Price paid for admission to any place or event. The tax may apply to season tickets, cover charges, charges for the use of recreational facilities and equipment, and charges for parking of vehicles if the charge is related to the number of passengers. Also, charges for food and beverages may be included in the price subject to tax if entertainment is provided.

Tax Rate — Maximum of one cent per 20 cents of price (i.e., 5 percent). However, in the case of Safeco Field in Seattle, King County may levy admissions taxes equaling two cents per 20 cents of ticket price (10 percent rate) on stadium events. Further, King County may levy an admissions tax of one cent per 10 cents of ticket price (10 percent rate) for events at Qwest Field and the adjacent exhibition center.

Levied by — Cities, towns, counties, and public facility districts. When cities levy the tax, the county tax may not apply within the incorporated area of the levying city. However, the admissions taxes for the professional baseball and football stadiums are levied by King County even though the facilities are located in the city of Seattle. The admissions tax levied by public facilities districts is limited to regional centers which they operate.

Administration

Generally, the tax is administered by city clerks and county auditors. Persons who charge admissions for events include the tax in the purchase price of the tickets and report the tax to the appropriate local jurisdiction.

Recent Collections

According to data reported by local governments to the State Auditor via the Local Government Financial Reporting System, local admissions taxes collected during calendar year 2008 amounted to $21.1 million. There were 47 cities that reported admissions tax collections, totaling $16.7 million. Four counties reported collections amounting to $4.4 million.

Distribution of Receipts

Used for general purposes of the levying local jurisdiction, except the King County admissions taxes on events at the baseball and football stadiums which are dedicated to principal and interest payments for bonds on the facilities. Also, the admissions tax may be extended to events at regional centers operated by public facility districts, if the receipts are dedicated to the same facility.

Exemptions

- activities of elementary or secondary schools.
- cities in King County may not apply their taxes to admissions to events in stadiums owned by a public facility district or public stadium authority.
- cities and counties are pre-empted from imposing an admissions tax on events at a regional center, if the public facilities district levies such a tax.

History

The original tax was included in the Revenue Act of 1935, at the present tax rate, as a state revenue source. In 1943, the state tax was repealed and authority to levy the tax was given to cities and counties. In 1995, the exemption from Seattle's admissions tax for the new professional baseball stadium and the 10 percent county tax for events at the baseball stadium were adopted. In 1997, similar provisions were extended to the professional football stadium and exhibition center. The admissions taxes for tickets to events at regional centers were authorized in 1999.

Discussion/Major Issues

Based on the definition of admission charges subject to tax, there could be some possible overlap with the retail sales tax. Although the sales tax does not apply to charges for spectator-type activities (movies, sporting events, concerts, etc.), it does apply to certain amusement and recreation activities. This has been interpreted as applying to charges for participatory activities such as golf and bowling. Such activities might also be subject to the local admissions tax, based on the statutory definition of admission charge. Also, the rental of equipment in conjunction with recreation or amusement activities and charges for food, refreshments, and vehicle parking are clearly subject to sales tax, and admissions tax might also apply. In the case that both taxes were to apply to a particular admission charge, the retail sales tax would apply to the total ticket price, including any local admissions tax.

LOCAL HOUSEHOLD TAX
RCW 35.95.040

Tax Base — Persons residing within cities or counties, measured by household units.

Tax Rate — Up to $1.00 per household

Levied by — Cities and counties, if approved by the voters. Counties may levy the tax only within the unincorporated area of the county. (See also the street utility tax on housing units per RCW 82.80.050, discussed in the later chapter on Local Taxes on Employees.)

Administration — City treasurer or clerk; county treasurer or auditor

Recent Collections

According to data reported by local governments to the State Auditor via the Local Government Financial Reporting System, only Spokane County reported revenues from a local household tax; the amount reported for calendar year 2008 was $1.4 million.

Distribution of Receipts

To be used by the city for operation, maintenance, and capital purposes of municipal transportation systems. Any tax levied by a county must be devoted to an unincorporated transportation benefit area, established pursuant to RCW 36.57.100 and .110.

Exemptions — None

History — Enabling legislation for the tax was adopted in 1965. Authority for counties to levy the tax was added in 1975.

Discussion/Major Issues

Very few jurisdictions have imposed the household tax to finance the operation of local bus systems. Cities and transit districts also use local sales taxes to support their transit systems.

LOCAL TAXES ON PARKING
RCWs 35.57.110, 36.38.040, 36.100.220 and 82.80

Tax Base

1. Commercial Parking Tax (RCW 82.80.030). Parking of vehicles in commercial parking facilities. The tax is either: (1) levied on the parking business and is measured by gross proceeds or the number of stalls available for commercial parking, or (2) levied on the customers who park in the commercial facility and is measured by a flat fee per vehicle or the amount of the charge for parking.

2. Stadium/Exhibition Center Parking Tax (RCW 36.38.040). Charges for parking of vehicles at a parking facility in conjunction with a public stadium/exhibition center.

3. Regional Centers Parking Tax (RCW 35.57.110 and 36.100.220). Charges for parking of vehicles at a parking facility that is owned or leased by a public facility district (PFD) in conjunction with a regional center. The PFD tax takes the place of any other parking tax levied by the city or county in which the facility is located.

Tax Rate

1. Commercial Parking Tax; rates not specified in statute.

2. Stadium/Exhibition Center Parking Tax; rate of 10 percent.

3. Regional Centers Parking Tax; 10 percent.

Levied by

1. Commercial Parking Tax - cities, counties, regional transp. investment districts.

2. Stadium/Exhibition Center Parking Tax - King County.

3. Regional Centers Parking Tax - public facilities districts.

Administration

Owners/operators of commercial parking facilities report to the city or county on a monthly, quarterly, or annual basis. Cities may contract for the administration of the street utility tax. The stadium/exhibition center tax is administered directly by King County. The regional centers tax is collected directly by the PFD which operates the parking facility.

Recent Collections

According to data reported by local governments to the State Auditor via the Local Government Financial Reporting System, five cities and two counties reported a total of $19.4 million in parking taxes during calendar year 2008.

Distribution of Receipts

Proceeds must be used for local transportation purposes, including street and road improvements, public transportation, and high capacity transit facilities, pursuant to RCW 82.80.070. The stadium/exhibition center parking tax goes to a special account per RCW 43.99N.060 for retirement of bonds for the facilities. The statute does not specify the use of the regional centers parking tax, but presumably the receipts are devoted to any bonds that financed the facility and then to operational expenses.

Exemptions

- tax exempt carpools;
- vehicles with handicapped decals;
- government vehicles;
- publicly owned property, property exempt from leasehold excise tax, and nonprofit organizations are exempt from the street utility tax; and
- street utility tax: low-income senior citizens and other low-income citizens.

History

Authorizing legislation for the commercial parking taxes was adopted in 1990. The stadium/exhibition center parking tax was authorized in 1997 and approved by the voters of King County in that same year; collections commenced upon completion of the stadium parking facility in December 1999. The regional centers parking tax statutes were adopted in 1999.

Discussion/Major Issues

State and local retail sales tax already applies to charges for parking of vehicles. The sales tax is measured by the final selling price paid by the consumer and is therefore included in the amount of the local parking tax that is included in the price charged by the operator of the parking facility.

LOCAL TAXES ON EMPLOYEES
RCWs 81.100.030, 81.104.150 and 82.80.050

Tax Base — Full-time equivalent (FTE) employees of all employers, including private firms and governmental agencies, working within the city or county. In the case of the street utility tax on residential properties, the tax applies to housing units as defined in RCW 35.95.040.

Tax Rate — Up to $2.00 per FTE per month ($2.00 per month per housing unit in the case of the street utility tax).

Levied by — The following local governments, if the tax is approved by the voters:

HIGH OCCUPANCY VEHICLE SYSTEMS (RCW 81.100.030): King, Pierce, or Snohomish counties for high occupancy vehicle systems (HOV) (e.g., car pooling programs and HOV lanes) or a regional transportation investment district (RTID) for capital purposes.

HIGH CAPACITY TRANSPORTATION (RCW 81.104.150): Cities, counties, metropolitan municipal corporations, public transportation benefit areas, high capacity transportation corridor areas, and regional transit authorities if such districts operate high capacity transportation systems (e.g., commuter rail systems). Such jurisdictions may not levy the tax if the county also levies a local employee tax for high occupancy vehicle systems.

STREET UTILITIES (RCW 82.80.050): Cities or towns may levy a tax on commercial businesses and residential properties. The tax on businesses is measured by the number of employees, while the tax on residences is measured by housing units within the city.

Recent Collections — It is not known whether any local taxes on employees have been implemented to date. This category is not separately shown in the State Auditor's Local Government Financial Reporting System. Presumably, the street utility tax is not currently imposed on residences due to the court decision noted below.

Administration — The levying jurisdiction may contract with the Department of Revenue or "other appropriate entity" for collection of the tax from employers. Presumably the tax would be collected from the employer. In the case of the street utility tax, the city may contract with another utility or local government entity for billing and collection of the tax.

Distribution of Receipts Proceeds must be used for local transportation systems.

Exemptions, Deductions and Credits

None specified in law, although the levying jurisdiction may exempt educational, cultural, health, charitable, or religious organizations. The HOV tax will not apply: (1) to employees whose employer pays at least 50 percent of a transit pass issued by the jurisdiction, or (2) to employees whose employer has agreed with the county to implement programs designed to reduce the number of single-occupancy vehicles driven to work at their facilities.

History

Authorizing legislation for the local taxes on employees was adopted in 1990.

In 2009, a new type of taxing jurisdiction – a high capacity transportation corridor area – was added to the permissible jurisdictions that can impose the tax under RCW 81.104.150. These entities are restricted to Clark and Spokane counties.

Discussion/Major Issues

Currently, the state Departments of Employment Security and Labor and Industries collect taxes from employers based on the amount of wages paid to their employees. Municipal business taxes levied by certain cities are measured by the number of employees. The Department of Revenue has no experience in collecting a tax that is measured by the number of employees.

In an appellate court decision, Libby Covell et al v. the City of Seattle (1996), the court ruled that the $2 per month tax on households constituted a property tax rather than a regulatory or utility fee. According to this decision, the levy was improperly assessed because the rate was not uniform for all types of property.

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To facilitate location of a specific tax source, the various taxes included in this report are listed below, with alternate names for many of the taxes (e.g. watercraft tax and boat tax), and with a reference to the level of government that levies the tax.

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