

Research Report 2006-1
SUMMARY OF 2006 TAX LEGISLATION

Washington State Department of Revenue
Research Division
April 2006

This report summarizes major revenue and tax legislation in Washington that was approved during the regular session of the 2006 Legislature. The material was compiled from information developed by the Research Division and the Legislation and Policy Division in preparing fiscal notes on these bills. The summary is not intended to cover technical details or provide a legal interpretation of the bills. Instead, its primary purposes are to alert agency personnel of the changes, to assist in developing implementation programs, and to serve as a resource for historical tax research.

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STATE REVENUE IMPACT OF MAJOR 2006 TAX LEGISLATION - Sources Impacting Dept. of Revenue Only

State General Fund - Fiscal Years 2006, 2007, 2008 & 2009

Bill Number	Brief Description	FY 2006	FY 2007	FY 2008	FY 2009
SHB 1523	Sales tax deferral; conditioning of vegetable seeds		(\$1,085,000)	(\$1,268,000)	(\$1,346,000)
ESHB 1672	B&O tax credit for hospitals; patient-lifting devices; G.F. impact			(\$600,000)	
HB 2348	Incentives for aluminum manuf. extended five years		(\$1,144,000)	(\$2,328,000)	(\$2,328,000)
HB 2364	Use tax exemption; certain items acquired by state credit unions		(\$158,000)	(\$165,000)	(\$173,000)
HB 2424	Sales tax exemption; diesel fuel used on farms	(\$650,000)	(\$3,899,000)	(\$4,006,000)	(\$4,126,000)
SHB 2457	Sales tax exemption; replacement parts for farm machinery		(\$5,829,000)	(\$6,540,000)	(\$6,737,000)
HB 2466	Expansion of aerospace tax incentives		(\$2,912,000)	(\$3,679,000)	(\$3,799,000)
SHB 2569	Senior citizens property tax deferral; interest rate reduced		(\$15,000)	(\$60,000)	(\$90,000)
SHB 2640	Sales tax deferral/exemption for biotechnology investments		(\$1,394,000)	(\$1,614,000)	(\$1,721,000)
HB 2644	Public utility tax credit for billing discounts; \$3 million increase		(\$3,000,000)		
HB 2671	Excise tax due date moved back to 25th; assessment penalty revised		(\$11,140,000)	(\$12,210,000)	(\$12,510,000)
E2SHB 2673	Tax increment financing; state-credited local sales tax				(\$5,000,000)
SHB 2778	B&O exemption; nonprofit org. receipts for tourism promotion		(\$210,000)	(\$221,000)	(\$232,000)
2SHB 2799	Sales tax exemption for solar hot water systems		(\$14,000)	(\$14,000)	(\$14,000)
SHB 2880	Sales tax liability of insurance companies; telephone service	\$7,983,000	\$43,615,000	\$45,074,000	\$20,352,000
EHB 3159	B&O and sales tax exemptions; dairy & seafood processors		(\$2,810,000)	(\$3,178,000)	(\$3,296,000)
SHB 3190	Sales/B&O tax incentives; producers of semiconductor materials			(\$477,000)	(\$1,285,000)
ESHB 3222	Sales tax exemption for livestock feeding operations		(\$41,000)	(\$46,000)	(\$47,000)
ESB 5048	Cigarette/ OTP sampling prohibited; GF impact (OTP & use tax)		(\$20,000)	(\$22,000)	(\$22,000)
SSB 6141	Wind turbines excluded from property tax levy limits		\$272,000	\$538,000	\$555,000
ESSB 6230	State-credited local sales tax for regional centers extended		(\$389,000)	(\$621,000)	(\$660,000)
2SSB 6326	B&O tax credit for workforce training		(\$910,000)	(\$1,573,000)	(\$1,426,000)
SB 6368	Nursing home fee is repealed, 7/1/2007			(\$14,994,000)	(\$16,357,000)
SSB 6512	B&O and sales tax exemptions for truck stops (land-based power)		(\$35,000)	(\$1,000)	(\$2,000)
SSB 6533	B&O tax credit for syrup tax paid on carbonated beverage syrup		(\$2,294,000)	(\$5,092,000)	(\$7,765,000)
ESB 6537	Use tax on wine shipped from out of state directly to consumers		\$2,462,000	\$2,512,000	\$2,564,000
2SSB 6558	B&O tax credit for contributions to motion picture program		(\$3,500,000)	(\$3,500,000)	(\$3,500,000)
SSB 6671	Professional employer organizations; deduction for certain payments		(\$2,147,000)	(\$3,257,000)	(\$3,397,000)
SSB 6686	State-credited local sales tax; municipal services in annexed areas				(\$7,699,000)
SB 6826	Public utility tax deduction for public transit		(\$476,000)	(\$519,000)	(\$519,000)
SSB 6874	Preferential B&O rates for timber extracting, manuf. of wood products		(\$4,630,000)	(\$15,620,000)	(\$16,980,000)
NET GENERAL FUND IMPACT		\$7,333,000	(\$1,703,000)	(\$33,481,000)	(\$77,560,000)

STATE REVENUE IMPACT OF MAJOR 2006 TAX LEGISLATION - Sources Impacting Dept. of Revenue Only

State Funds other than General Fund - Fiscal Years 2006, 2007, 2008 & 2009

<u>Bill Number</u>	<u>Brief Description</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
ESHB 1672	B&O tax credit for hospitals; patient-lifting devices; health care acct.			(\$9,400,000)	
ESB 5048	Cigarette/ OTP sampling prohibited; water quality account		(\$4,000)	(\$5,000)	(\$5,000)
ESB 5048	Cigarette/ OTP sampling prohibited; health care account		(\$18,000)	(\$19,000)	(\$19,000)
SSB 6874	New surcharge for timber extracting, manuf. of wood products			\$4,080,000	\$3,920,000

Department of Revenue, Research Division, April 2006

HOUSE BILLS

EHB 1069 Performance audits of tax preferences (Chapter 197, Laws of 2006)

This legislation provides for the periodic review of tax exemptions, exclusions, deductions, credits, deferrals and preferential tax rates. It creates a new organization - a seven member Citizen's Commission for Performance Measurement of Tax Preferences - to oversee a process for reviewing tax preferences. The actual review shall be undertaken by the Joint Legislative Audit and Review Committee (JLARC). The general purpose of the review is to determine the extent to which the public policy objectives intended by the Legislature when the tax preference was enacted have been met. The intention is that all tax preferences will be reviewed within a ten-year period, and the Commission will develop a schedule to assure that result.

Several major tax exemption programs are excluded from the review process, including the sales tax exemption for manufacturing machinery, sales tax exemptions for food and prescription drugs, the small business B&O tax credit, the senior citizens property tax exemption, and current use valuation of open space lands. Also, any preference that was enacted for constitutional reasons and those which are considered by the Commission as being a critical part of the tax system may be excluded from review.

Section 6 of the bill requires that JLARC shall report the findings of its review of tax preferences to the citizen's commission each year by the end of August, including any recommendations as to which should be continued, modified, scheduled for review, or repealed. JLARC may also recommend accountability standards for future reviews of tax preferences. Finally, JLARC shall report annually to the fiscal committees of the Legislature by December 30 on their findings and recommendations; the report will include any recommendations by the Commission. A special review of preferences which are scheduled to expire between June 30, 2005, and January 1, 2007, is to be conducted by January 12, 2006. (NOTE: the date for submission of this report is believed to be incorrect; the date was included in last year's version of the bill.)

The bill repeals a process providing for legislative review of tax exemptions which was established in 1982.

The bill requires that the Department provide necessary support and information needed by JLARC or the Commission. At this point, the extent of such information and the cost of providing it are unknown. However, the Department's fiscal note on the bill contained an estimated cost of \$180,200 for Fiscal Year 2007 (which was not appropriated) and future ongoing biennial costs of \$334,800. This bill does not alter the requirement in RCW 43.06.400 for the agency to conduct its usual study of tax exemptions on a four-year cycle.

SHB 1510**Use of exempt property by nonprofit organizations
(Chapter 305, Laws of 2006)**

This bill pertains to property owned by nonprofit organizations in counties with a population of less than 20,000. Exempt parcels which are used for nonsectarian, character-building purposes will now be allowed to be used for certain for-profit activities for up to 15 days annually, instead of three days, without losing its exempt status. The county population limit for limited fund-raising activities was previously 10,000. Income received from the facility being rented or used for pecuniary gain is subject to certain conditions including that it be used for: capital improvements, maintenance and operation, and the general public good. To retain the property tax exemption, no comparable private for-profit facility may exist within ten miles of the parcel that could be used for the same purpose for which the property is loaned or rented.

Under the increased population criterion allowed by this bill, properties in an additional six counties will qualify for the exemption (four do presently). It is estimated that 21 organizations currently have exempt status as character-building nonsectarian and nonprofit organizations in the additional six counties that become eligible with this expanded activity. It is not known how many of these organizations would engage in fundraising activities or how many more organizations would qualify for the exemption under these expanded allowances. The impact on local property taxes is therefore unknown. There is no revenue impact on the state general fund. The effective date of the bill is June 7, 2006.

SHB 1523**Rural county sales tax deferral/exemption; conditioning of seeds
(Chapter 142, Laws of 2006)**

The rural county sales tax deferral/exemption program for manufacturers is broadened to include conditioning of vegetable seeds (drying, cleaning, sorting and related processing activities). The estimated impact on state sales/use tax revenues is \$1.1 million for the remainder of the current biennium. The impact will increase to \$2.6 million for the 2007-09 Biennium. This bill takes effect on July 1, 2006.

ESHB 1672**B&O tax credit for hospitals; patient-lifting devices
(Chapter 165, Laws of 2006)**

This bill implements the findings of a task force which examined the issue of patient safety in hospitals. The bill requires hospitals to establish a program to improve the safety of patients who are being moved, lifted or repositioned.

To assist with the cost of having adequate patient-lifting devices, Section 5 of this bill provides B&O tax credit for hospitals. The credit is for 100 percent of the cost of mechanical lifting devices and related equipment. The credit is capped at an amount equivalent to \$1,000 for each acute care available inpatient bed in the hospital; this limit applies to the total credit that may be claimed by a particular hospital over the life of the program. Further, the total credits for all hospitals may not exceed \$10 million for any one year of the program. Credits are available

without application on a first-come basis and unused credits may be carried over to future reporting periods. Eligible lifting devices must be acquired after June 7, 2006, and before December 30, 2010.

Subsection (7) of Section 5 requires that the Department report annually on the utilization of these credits. The reports will start by July 1, 2008.

The tax credit is assumed to apply to all B&O tax revenues reported by hospitals in proportion to the income for various tax classifications. Approximately 94 percent of the total taxable income for hospitals is attributable to receipts for patient care, which is subject to a 1.5 percent tax rate and the receipts are dedicated to the health services account. It is assumed that all of the credits taken under this legislation will occur during Fiscal Year 2008 and will reach the annual \$10 million cap. Approximately \$9.4 million in credits will be taken against the health services account and the remaining \$600,000 will be taken against general fund revenues.

ESHB 1672 becomes effective on June 7, 2006.

**SHB 2033 Municipal business taxes; printing & publishing
(Chapter 272, Laws of 2006)**

This bill relates to the allocation of gross income derived from printing businesses and publishers of newspapers, periodicals and magazines for purposes of local B&O taxes levied by cities. It states that such income is taxable according to the principal location from which the business is directed or managed. There is no impact on state revenues. SHB 2033 is effective on January 1, 2008.

**SHB 2345 Regional fire protection authorities
(Chapter 200, Laws of 2006)**

In 2004 a new form of taxing authority was formed to provide fire protection service on a regional basis. The authority may also provide emergency service, if the participating jurisdictions determine that the public is not adequately served by private ambulance services. The bill imposes additional requirements for the district to establish such service and makes clarifying amendments to Chapter 52.26 RCW. It mandates a financing plan and clarifies the voter requirements necessary to impose property taxes or benefit charges to finance services provided by the authority. The bill is effective on June 7, 2006.

**HB 2348 Extension of tax incentives for aluminum smelters
(Chapter 182, Laws of 2006)**

This legislation extends a variety of incentives established in 2004 to encourage investment in aluminum smelting in this state. These are summarized below:

- Expiration of reduced B&O tax rate (0.2904 percent) for aluminum manufacturing extended by five years to January 1, 2012 (Sec. 1).
- Credit against B&O tax for property taxes paid on aluminum manufacturing facilities is extended by five years to cover taxes paid annually through calendar year 2011 (Sec. 2).
- Sales/use tax exemptions (state tax rate only) for tangible personal property and services related to construction purchased by aluminum smelters is extended by five years to January 1, 2012 (Secs. 3-4).
- Brokered natural gas tax exemption for aluminum smelters is extended by five years to January 1, 2012 (Sec. 5).

The bill also extends by five years the requirement that aluminum manufacturers submit annual reports to the Department. Legislative fiscal committees are directed to evaluate these tax incentives; reports will be due by December 1 of 2007, 2010, and 2015.

The fiscal note for this legislation assumes that two smelters will continue operations during the five-year period covered by this bill. The additional revenue impact for the state general fund is estimated at \$1.1 million for the remainder of the 2005-07 Biennium and \$4.6 million for the ensuing 2007-09 Biennium. HB 2348 takes effect on June 7, 2006.

**HB 2364 Use tax exemption; state credit unions
(Chapter 11, Laws of 2006)**

A new exemption from use tax is established for goods, taxable services and extended warranties which are acquired by credit unions that are chartered under Washington State law pursuant to a conversion from a federal charter. Currently, federally chartered credit unions that do business in Washington do not pay state sales or use taxes. State chartered credit unions, however, are subject to tax on their purchases, including use tax on items acquired from a federally chartered credit union as a result of a merger or conversion from chartering under federal laws. This bill specifically exempts from use tax any tangible personal property, services or extended warranties acquired from a federal, out-of-state, or foreign credit union as a result of a merger or conversion.

The bill is expected to reduce state use tax receipts by \$158,000 for the 2005-07 Biennium. The impact rises to \$338,000 for the 2007-09 Biennium. The bill takes effect on June 7, 2006.

**HB 2424 Sales tax exemption for diesel & aircraft fuel used on farms
(Chapter 7, Laws of 2006)**

Under current law motor vehicle fuel and diesel fuel which is not used on public highways is exempt from motor vehicle fuel tax and special fuel taxes. However, the fuel is subject to retail sales tax. The sales tax is either collected directly by fuel distributors who deliver fuel for off-

road use or is deducted from the refund of fuel taxes when application is made for a refund to the Department of Licensing.

This bill establishes a new exemption from retail sales and use taxes for diesel or aircraft fuel (not motor vehicle fuel) which is used on farms and not on the public highways. Purchasers who are eligible for the exemption include farmers or persons who provide horticultural services for farmers. The exemption will apply to eligible fuel used to power vehicles that are used on the farm (including non-licensed vehicles such as tractors and vehicles licensed for use on the highways, as long as the exempt fuel is not actually used on the public highways); used in aircraft for agricultural spraying; and for purposes of heating facilities for plants or animals. The exemption does not extend to such fuel which might be used for residential heating purposes.

The sales/use tax exemptions will reduce state revenues by an estimated \$4.5 million during the remainder of the 2005-07 Biennium. The impact rises to \$8.1 million for the 2007-09 Biennium. Local sales tax receipts will be reduced by \$1.3 million in the 2005-07 Biennium and \$2.4 million in 2007-09. The bill became effective on March 6, 2006.

**SHB 2457 Sales tax exemption; replacement parts for farm machinery
(Chapter 172, Laws of 2006)**

New retail sales and use tax exemptions are established for eligible farmers for purchases of replacement parts for qualifying farm machinery and equipment. The exemption is available only for farmers who realized gross sales of agricultural products in the year prior to filing the application for the exemption of at least \$10,000. Applications for an exemption certificate must be filed by the eligible farmer with the Department and must include a copy of the applicant's prior year federal tax return (Schedule F). The Department will issue an exemption certificate to eligible farmers who will present a copy to the equipment vendor. The certificate is valid for a five-year period. The exemption applies only to replacement parts, not consumable supplies such as fuel, used in eligible farm machinery which is used for the production of agricultural products. Parts for vehicles primarily used on public highways, for ATVs or aircraft, or for lawn tractors do not qualify.

The estimated impact on state general fund revenues is \$5.8 million for the remainder of the current biennium. The impact rises to \$13.3 million for the full 2007-09 Biennium. The supplemental operating budget (ESSB 6386) appropriated \$147,000 to the Department for costs of implementing this bill. SHB 2457 becomes effective on July 1, 2006.

**HB 2466 Expansion of aerospace industry tax incentives
(Chapter 177, Laws of 2006)**

This bill expands or enacts similar tax incentives for the aerospace industry to ones originally adopted in 2003:

- Sales/use tax exemption for computers and software. RCWs 82.08.975 and 82.12.975 allow manufacturers of commercial aircraft and components an exemption from retail sales and use taxes for computer hardware and software that is used principally in the development, design and engineering of commercial aircraft and components. Sections 1-2 of this legislation enact similar exemptions but without the requirement that the purchaser actually manufacture aircraft or components of aircraft. Thus, firms that provide services such as research, design and engineering of commercial aircraft will qualify for the new exemptions. Sections 1-2 will expire on July 1, 2024.
- B&O tax credit for pre-production expenditures. RCW 82.04.4461 provides a tax credit equal to 1.5 percent of expenditures made by aircraft manufacturers prior to actual construction of a commercial aircraft. The costs of designing, testing and development of prototypes are covered by this credit. Section 3 of this bill allows the same type of credit for aerospace firms which are not actually manufacturers of aircraft or components. This credit will expire on July 1, 2024. Firms that utilize this tax credit must file an annual survey with the Department; the survey must be filed electronically per Section 9. Based on this information, the Department will include the utilization of this tax credit in the descriptive statistics it prepares each year. Analysis of the program will be examined by the legislative fiscal committees in reports due November 1, 2010, and November 1, 2023.
- Reduced B&O tax rate for aircraft repair. RCW 82.04.250(3), enacted in 2003, provides a preferential tax rate of 0.275 percent for firms that are certified by the FAA to repair certain types of commercial aircraft. This rate was scheduled to expire on July 1, 2006. Section 5 of this bill changes the preferential rate in two ways: (1) it slightly increases the tax rate to 0.2904 percent (consistent with other preferential business tax rates) as of July 1, 2006, and (2) it extends the expiration date for this special tax rate by five years to July 1, 2011. Firms that utilize this tax rate reduction must file an annual survey with the Department; the survey must be filed electronically per Section 9. Based on this information, the Department will include the utilization of this rate reduction in the descriptive statistics it prepares each year. Analysis of the program will be examined by the legislative fiscal committees in a report due November 1, 2010.
- B&O tax credit for leasehold excise taxes paid. In 2003 a B&O tax credit was established for property taxes paid on aircraft production facilities. RCW 82.94.4463 is amended by Section 10 of this legislation so that leasehold excise taxes also qualify for the B&O tax credit starting with taxes paid in calendar year 2007, if the structure was built after January 1, 2006.

The various provisions of this bill will reduce state general fund revenues by an estimated \$2.9 million for the remainder of the current biennium. The impact rises to \$7.5 million for the 2007-09 Biennium. The supplemental operating budget (ESSB 6386) appropriated \$29,000 to the Department for costs of implementing this bill. The B&O tax credit for leasehold taxes becomes effective on January 1, 2007; the remainder of the bill is effective on July 1, 2006.

**SHB 2569 Senior citizens property tax deferral; interest rate reduced
(Chapter 275, Laws of 2006)**

Eligible senior citizens and persons retired due to disability receive an exemption from property taxes on their principal residence. Any additional property taxes or special assessments due on the residence may be deferred up to 80 percent of the equity in the home. This bill reduces the interest rate that applies to the deferred taxes from 8 percent to 5 percent. The rate reduction applies to new deferrals granted after the effective date of this legislation and for taxes due in calendar year 2007 and thereafter. Because deferrals are renewed annually, the lower interest rate will also apply to existing deferrals starting in 2007.

A new study requirement is contained in Section 3. The Department is directed to study the adequacy of the interest rate and to report the findings to the Legislature by December 1, 2012.

The cost of the property tax deferral is borne by the state, and therefore interest payments under this program go to the state general fund. The reduced rates are anticipated to reduce general fund receipts by \$15,000 for the remainder of the current biennium and by \$150,000 for the 2007-09 Biennium. SHB 2569 is effective on June 7, 2006.

**SHB 2640 Sales tax deferral for biotechnology investments
(Chapter 178, Laws of 2006)**

Under existing law the biotechnology industry receives a deferral/exemption from retail sales tax for investment in manufacturing facilities in only two instances: for manufacturing facilities in rural counties (Chapter 82.60 RCW) or for pilot-scale facilities (Chapter 82.63 RCW). This bill allows a deferral/exemption for any manufacturing facilities and equipment in any county. However, firms that already qualify under the existing two programs are not eligible for the same projects under this program.

Biotechnology includes firms that develop products based on the science of biology, microbiology, molecular or cellular biology, biochemistry or biophysics, including DNA techniques, genetics, and other bioprocesses that use living organisms.

Under this program state and local sales/use taxes on construction or renovation of structures and related equipment are eligible for deferral; as long as the investment continues to qualify for the intended purposes, the deferred taxes do not need to be repaid. Participants are required to file an annual survey containing employment-related information with the Department. This forms the basis for the descriptive statistics which the Department is required to report annually. Also, the Department is required to perform an evaluation of the program and report the results to the Legislature by December 1 of 2009 and 2015.

The impact upon state revenues is estimated at \$1.4 million for the remainder of the current biennium. For the 2007-09 Biennium the anticipated state revenue loss rises to \$3.3 million. The supplemental operating budget (ESSB 6386) appropriated \$43,000 to the Department for

costs of implementing this bill. The legislation is effective on July 1, 2006, and new deferral applications will not be accepted starting on January 1, 2017.

**HB 2644 Public utility tax credit; billing discounts for low-income customers
(Chapter 213, Laws of 2006)**

This bill provides a one-year increase in a tax credit allowed against the public utility tax. Established in 2001, the credit allows gas and electric companies to give billing discounts to low-income customers (defined as less than 125 percent of the federal poverty level); one-half of the discounts may be credited against the firm's business tax liability. Thus, the state shares in the cost of providing assistance for these residents to meet their residential heating bills. Total credits are capped at \$2.5 million annually.

HB 2644 temporarily increases the cap for the tax credit program by \$3.0 million for Fiscal Year 2007 only. The total credit amount for Fiscal Year 2007 will be \$5.5 million.

The cost to the state general fund will be the full \$3 million for Fiscal Year 2007. The bill is effective on July 1, 2006.

**SHB 2670 Hospital benefit zones; new type of local sales tax
(Chapter 111, Laws of 2006)**

This legislation contains a new form of tax increment financing, whereby the increase in tax revenues resulting from an investment in a public improvement is devoted to financing the cost of the improvement. Under this program a sponsoring local government jurisdiction may establish a hospital benefit zone, so that public infrastructure improvements may be financed by the state and local sales and use tax revenues derived from the project. Eligible projects include streets, water and sewer systems, parking facilities, sidewalks and street lighting, and parks. Similar tax increment programs are already authorized by state law: using local property tax receipts derived from community revitalization projects (Chapter 39.89 RCW) and using local sales tax receipts from downtown or neighborhood commercial district revitalization projects (Chapter 35.100 RCW).

Pursuant to Section 7 of the bill, a new form of local sales/use tax is created. The new local tax rate can be as high as the state sales/use tax rate (6.5 percent), and the receipts are credited against the state tax. Thus, this mechanism shifts the state tax derived from the investment and the increased retail activity within the zone to the local jurisdiction for use in financing the public improvements. A maximum of \$2 million annually may be diverted from the state general fund to all qualifying projects under this procedure. Further, there is a matching requirement in Section 7(4)(c)(ii) which limits the state credit to amounts raised for the project from excess local sales tax receipts (Section 9) and any private contributions. Finally, there is a provision in Section 7(7)(d) which states the intention that the state should not experience a long-term net reduction in revenue from the hospital benefit zone compared with the base year prior to the investment.

In addition to the state funds received via the state-credited local sales tax in Section 9, the bill allows a sponsoring local jurisdiction to devote "excess" local sales taxes received under Section 5 of the bill to financing of the project. The Department will be required to determine the increased local tax receipts within the zone in any year, as compared with the original base year.

The Department will accept applications from cities or counties beginning August 1, 2006. The applicant is required to designate the boundaries of the hospital benefit zone. The Department will assist the applicant in determining the potential revenue yield and will administer the local sales/use tax provided by Section 7. Also, Section 8(5) requires that the Department prepare a report annually by June 1 which details the utilization of this program.

The bill addresses a single project in Gig Harbor. Due to the timing of various elements of the package and the construction of the public improvement for this proposed hospital benefit zone, the initial impact on state revenues is believed to occur in Fiscal Year 2010. Starting that year the impact will amount to the full \$2 million annually.

The supplemental operating budget (ESSB 6386) appropriated \$176,000 to the Department for costs of implementing this bill. SHB 2670 takes effect on July 1, 2006.

**HB 2671 Monthly excise tax due date moved back to 25th;
revision to 5 percent assessment penalty
(Chapter 256, Laws of 2006)**

This bill makes a variety of changes to the manner in which state excise taxes are reported to the Department. Most of these changes result from suggestions made by businesses at focus groups conducted by the agency during 2005.

- The due date for filing of the combined excise tax return, and related returns for the oil spill and fish taxes, with the Department by monthly taxpayers is moved back five days from the 20th of the month following the month in which the tax activity occurred to the 25th of the following month. This change is effective for returns due after July 2006. Thus, for taxpayers who file on a monthly basis, the initial impact will be for the July 2006 tax return, which will now be due on August 25, 2006. Quarterly and annual filers are not affected by this change. This reverses a change in the excise tax due date that was made in 2003.
- Sections 4 and 5 of the bill pertain to the date and time in which electronic payments of state excise taxes are considered to be received. The change impacts excise taxpayers who pay by electronic funds transfer using the automated clearinghouse debit method; it does not apply to those using the credit method. Basically, EFT receipts will be considered as received at 11:59 p.m. on the date the payment was due if the transaction is initiated on the same day, as long as the funds are available to the state prior to the next banking day. This provision applies to EFT payments due after July 31, 2006.

- The 5 percent assessment penalty which was adopted in 2003 is significantly revised by Section 6 of the bill. For tax billings issued on and after July 1, 2006, the penalty will only be applied if the tax that is found to be due was substantially underpaid. This is defined to mean that the taxpayer had paid less than 80 percent of the total amount that the Department has determined to be due for the period covered by the examination and the amount of underpaid tax is at least \$1,000.

The impact on state general fund revenues is estimated as a reduction of \$11.1 million for the remainder of the current biennium. The impact rises to \$24.7 million for the 2007-09 Biennium. Modification of the 5 percent assessment penalty accounts for about \$6.2 million annually, and the remainder of the revenue impact is attributable to interest lost by moving the tax return due date back by five days. The supplemental operating budget (ESSB 6386) appropriated \$193,000 to the Department for costs of implementing this bill. The changes impacting tax return due dates are effective on August 1, 2006 and the modification of the assessment penalty is effective on July 1, 2006.

**E2SHB 2673 Local infrastructure financing demonstration program
(Chapter 181, Laws of 2006)**

Tax increment financing is a method of redistributing increased tax revenues within a geographic area resulting from a public investment to pay for the bonds required to construct the project. Several tax increment financing programs are already authorized by state law: using local property tax receipts derived from community revitalization projects (Chapter 39.89 RCW) and using local sales tax receipts from downtown or neighborhood commercial district revitalization projects (Chapter 35.100 RCW). SHB 2670 enacted this year adds another program using increased local sales tax receipts for local infrastructure improvements in hospital benefit zones.

This legislation creates a form of tax increment financing using a new type of local sales tax which is credited against the state sales tax, as well as excess receipts from local sales/use and property taxes. The increased local revenues and the state matching funds will help to finance local public improvement projects which are intended to encourage economic development.

A maximum of \$5 million annually in state funds will be devoted to the program. The remaining \$2.5 million in state funds will be awarded to other projects by the Community Economic Revitalization Board (CERB) based on criteria outlined in the bill; no single project may receive more than \$1 million annually. One-half of the state amount is devoted to three local demonstration projects:

- the Bellingham waterfront redevelopment project (up to \$1 million),
- the Spokane River district project at Liberty Lake (up to \$1 million), and
- the Vancouver Riverwest project (up to \$500,000).

The bill establishes a local infrastructure financing tool by which a local government jurisdiction may create a revenue development area (RDA) to encourage economic development. Increased local sales/use and local property tax revenues accruing within the area are used to finance either

general obligation or revenue bonds that are issued for construction of a public improvement project within the RDA. Projects may include street, bridge and highway interchange improvements; water, sewer and storm water systems; sidewalks and parking facilities; and public parks. No more than one RDA may be created within a county, and geographic boundaries of the area may not contain total assessed valuation in excess of \$1 billion. Further, the RDA may not comprise more than 25 percent of the total assessed valuation of the sponsoring local government jurisdiction.

The new state-credited local sales/use tax specified in Section 401 of the bill may be imposed at any rate up to 6.5 percent, starting July 1, 2008. Other local funds, including excess property tax allocation revenues, must be used to match the state contribution which is limited to the amount of local funds devoted to the project.

By June 1 of each year CERB must compile the information provided in the annual reports submitted by participating local jurisdictions.

The Joint Legislative Audit and Review Committee is directed to evaluate the program every five years. The initial report is due on September 1, 2013. The report shall measure the growth in assessed values, property tax receipts, sales/use tax receipts and employment which is attributable to the public investment in each RDA. Section 701 of the bill also requires that the Department of Revenue and CERB periodically report on the implementation of the program. No specific report deadlines are mandated.

It is assumed that the state cap of \$5 million annually will be reached each year. Because of the July 1, 2008 implementation date for the state-credited local sales tax, the initial impact on the state general fund will occur during FY 2009. The supplemental operating budget (ESSB 6386) appropriated \$99,000 to the Department for cost of implementing this bill. The bill is effective on July 1, 2006 and the entire program is scheduled to expire on June 30, 2039.

**SHB 2678 Extension of petroleum products tax
(Chapter 276, Laws of 2006)**

The pollution liability insurance program in Chapter 70.148 RCW is extended by six years. Previously the program was scheduled to expire on June 1, 2007, but this bill moves the expiration date back to June 1, 2013.

Pursuant to this program and Section 5 of this bill, the petroleum products tax in Chapter 82.23A RCW, which provides funding for the program, will also be extended to June 1, 2013. However, because of the "trigger" mechanism in RCW 82.23A.020(4), the tax is not currently levied. The tax was last imposed during Fiscal Year 2004. Under the present fund balance and the current rate of expenditures from the pollution liability insurance program trust account, the tax is not expected to be re-imposed during the next six years. Thus, there is no impact on revenues resulting from this legislation. The bill is effective on June 7, 2006.

**SHB 2778 B&O exemption; nonprofit receipts for tourism promotion
(Chapter 310, Laws of 2006)**

A new exemption from state B&O tax is established for certain receipts by nonprofit organizations. The exemption is provided for payments or contributions received from a governmental entity or an Indian tribe which are used in promoting tourism and conventions.

The estimated reduction in state general fund receipts is \$210,000 for the remainder of the current biennium. The impact rises to \$453,000 for the 2007-09 Biennium. The bill takes effect on June 7, 2006.

**2SHB 2799 Sales tax exemption for solar hot water equipment
(Chapter 218, Laws of 2006)**

New exemptions from retail sales and use taxes are established for equipment used to heat water via solar energy. Specifically, the bill exempts OG-300 rated solar water heating systems, OG-100 rated solar water heating collectors, solar heat exchangers, or differential solar controllers. Labor and services related to installing or repairing such systems are also exempt, as are replacement parts.

The exemptions are effective on July 1, 2006 and will expire on July 1, 2009. The impact on state general fund revenues is estimated at \$14,000 annually.

**SHB 2804 Use of exempt property of nonprofit schools and colleges
(Chapter 226, Laws of 2006)**

Currently, property owned by nonprofit schools and colleges is exempt from property tax if the property is used exclusively for educational, athletic or social programs of the institution. This includes property used for housing of students, religious faculty and the chief administrator; athletic structures; and other facilities that are principally designed to further the educational functions of the school. The loan or rental of exempt property by the school is limited to other nonprofit organizations that could also qualify for exemption on the property, if they owned the property.

This legislation expands the allowable uses of such exempt property by allowing the school or college to loan or rent the property to students, alumni, faculty, staff or other entities, if such use is consistent with the educational, social or athletic programs of the school. Also, the property may be used by other entities for business purposes for up to seven days annually. In addition, faculty members may use exempt facilities to conduct educational camps or sports programs for persons who are not enrolled as students of the institution, if the faculty member is required or permitted to do so by the school.

No impact is anticipated for the state or local property tax levies. Based on the one known property that will benefit from the expanded exemption, at least \$3,000 of the state levy and

\$11,000 of local levies could be shifted to other taxpayers. However, the impact could be greater in the future as other schools allow expanded use of their property. The bill becomes effective on June 7, 2006.

**SHB 2812 Limitations on special school M&O levies
(Chapter 119, Laws of 2006)**

Existing law limits the special levies that school districts may request for maintenance and operation purposes or for transportation or capital projects. However, RCW 84.52.0531 allows certain additions to the limitation for property taxes collected in calendar years 2005 through 2007. This bill extends these additions to the levy base through calendar year 2011. There is no impact on the state property tax levy. This bill is effective on June 7, 2006.

**ESHB 2871 Regional Transportation Commission; local tax changes
(Chapter 311, Laws of 2006)**

This legislation establishes a new Regional Transportation Commission to develop a transportation proposal covering King, Pierce and Snohomish counties. Duties of the Commission include working to improve the coordination of transportation planning and investments, developing a comprehensive transportation financing strategy, and presenting recommendations for regional transportation governance to the Legislature by January 1, 2007.

Sections 13 and 17 of the bill reduce the maximum permissible rate of a local sales/use tax levied pursuant to RCW 82.14.430 by a regional transportation investment district from 0.5 to 0.1 percent. (No district currently levies this local tax.) Further, a district that chooses to impose this local tax is now required to provide the Department with digital mapping and legal descriptions of the district boundaries.

Section 15 amends RCW 81.100.060 to provide additional taxing authority for a regional transportation investment district: (1) a local motor vehicle excise tax to finance high-occupancy vehicle lanes at a rate of 0.8 percent, and (2) to allow a surcharge on the state rental car tax. Digital mapping is required to be submitted by the district to the Department of Licensing or the Department of Revenue in order for these taxes to be levied. The bill also changes administration of a potential local motor vehicle fuel tax levied by a regional transportation investment district from the Department of Revenue to the Department of Licensing (which administers the state gasoline tax).

There is no impact on state revenues resulting from this bill.

HB 2879**Real estate excise tax reporting; elimination of \$5 fee
(Chapter 312, Laws of 2006)**

In 2005 major changes were made in the way that state and local real estate excise taxes are collected and remitted by county treasurers. A new electronic system for reporting the tax was established, and remittance of the state tax was advanced to the end of the same month starting on July 1, 2006. This bill makes procedural changes involving this program and the new fees that were imposed in 2005 on real estate transactions.

The original intent of the 2005 legislation was to impose total fees not to exceed \$10 on each REET affidavit filed with the county treasurer. However, for transactions where tax is owed in an amount of less than \$5, the sum of the fees could range up to \$15. To remedy this error, this bill eliminates the \$5 fee that is deposited in the county treasurer's REET electronic technology amount. It also extends to all transactions the \$5 fee that is deposited in the State Treasurer's REET electronic technology account for distribution back to counties; currently, this fee applies only to taxable transactions.

Under the 2005 legislation, state REET taxes collected after June 30, 2006 were required to be remitted by county treasurers to the State Treasurer by 5:00 p.m. on the last working day of each month. This bill advances the deadline by five hours so that the transfer must be made by noon of the last working day of the month.

This bill is effective on March 29, 2006.

SHB 2880**Sales tax liability of insurance companies; telephone service
(Chapter 278, Laws of 2006)**

RCW 48.14.080 relates to the insurance premiums tax; it states that this tax is in lieu of all other taxes except those on real and tangible personal property, sales of real and personal property, and the B&O tax levied on public and nonprofit hospitals. However, this statute does not address the application of retail sales tax to services, such as telephone services which are now subject to sales tax. This bill amends the insurance premiums tax statute by explicitly stating that the premiums tax is not in lieu of retail sales tax on any taxable services and extended warranties.

The bill is effective on March 28, 2006 and applies both prospectively and retroactively. Therefore, insurance companies are ineligible for any refunds of sales/use tax which might have been paid prior to the effective date of the bill on services or extended warranties. In addition, insurance companies that have not been paying sales/use tax on taxable services or extended warranties prior to the effective date of the bill are now liable for the tax. Enactment of this bill avoids a potential revenue loss of \$51.6 million for the remainder of the 2005-07 Biennium and \$65.4 million for the 2007-09 Biennium. What is technically an increase in state revenues actually represents the avoidance of refunds and the future loss in revenues that was anticipated once insurers became aware of the Department's interpretation that RCW 48.14.080, as previously written, provided insurers with an unintended exemption from retail sales/use tax on taxable services and extended warranties.

EHB 3159**Tax incentives for processors of dairy and seafood products, fruit/vegetables and firms that process canned salmon for others (Chapter 354, Laws of 2006)**

This bill provides several new B&O and sales tax exemptions for firms that process certain food products. It also establishes a termination date for one exemption that was adopted in 2005.

B&O TAX CHANGES:

- B&O tax exemption for manufacturing of dairy products, including wholesale sales of products transported out of state by the purchaser. The exemption will last for six years and is scheduled to expire on July 1, 2012.
- B&O tax exemption for manufacturing of certain seafood products, including wholesale sales of products transported out of state by the purchaser, if the products remain in a raw, frozen or salted state. The exemption will last for six years and is scheduled to expire on July 1, 2012.
- Amends the B&O tax exemption (RCW 82.04.4266) for manufacturing of fresh fruit and vegetables and for wholesale sales of these products to purchasers who transport the products out of state. This exemption was adopted in 2005, and is now scheduled to expire on July 1, 2012.
- B&O tax rate reduction for certain activities performed in relation to canned salmon which is owned by another person. Income derived from inspecting, testing, labeling, and storing canned salmon products owned by other persons will be subject to the reduced B&O tax rate. Previously considered service activities subject to the B&O tax rate of 1.5 percent, effective July 1, 2006, these activities will now be subject to B&O tax at a rate of 0.484 percent.

On July 1, 2012, the exempt activities listed above will again become subject to B&O tax at the rate of 0.138 percent. Firms that benefit from these B&O tax exemptions are required to file annual surveys with the Department; they must also file these surveys and their tax returns electronically. The impact of these exemptions will also be considered by the Department in its report to the Legislature which is due on December 1, 2011 pursuant to RCW 82.32.610.

SALES TAX CHANGES:

- A sales/use tax deferral program was enacted in 2005 for construction of fresh fruit or vegetable processing facilities, cold-storage warehouses for fruit and vegetables and for related research and development purposes. The 2005 statute takes effect on July 1, 2007 and is scheduled to expire on July 1, 2012. This program is amended by Section 6 of this bill to extend the deferral/exemption to the new B&O tax-exempt activities described above (i.e., processing facilities for dairy and seafood products). The expanded deferral program also takes effect on July 1, 2007, and will expire on July 1, 2012.

- The warehousing remittance program in RCW 82.08.820 and 82.12.820 was expanded in 2005 to include fresh and/or frozen perishable fruit or vegetable cold storage warehouses of at least 25,000 square feet. This program is further expanded by Sections 10-13 of this bill. From July 1, 2007 through June 30, 2012, this program will also be available for facilities used to processing dairy and seafood products.

Sections 14-15 of the bill would have established new sales and use tax exemptions for materials purchased or used by firms that are entitled to the B&O tax rate relating to canned salmon. This includes firms that inspect, test, label or store canned salmon which is owned by another firm. Exempt materials would have included items used to package and label the salmon products. However, the Governor vetoed these two sections of the bill indicating that this could establish precedence for other types of custom packers.

The remaining provisions of EHB 3159 will reduce state revenues by an estimated \$2.8 million during the remainder of the current biennium. The impact rises to \$6.5 million for the 2007-09 Biennium. Except as noted above, the remainder of the bill is effective on July 1, 2006.

**SHB 3164 Increased personal property exemption for head of family
(Chapter 281, Laws of 2006)**

This bill would implement HJR 4223 if that proposed constitutional amendment is approved by the voters at the general election in November 2006. The constitution of the state currently provides a property tax exemption of \$3,000 for personal property owned by a head of a family. The amount was last increased in 1988 (from \$300). The proposed constitutional amendment would increase the exemption amount to \$15,000. If it is adopted, then this bill will amend RCW 84.36.110 to increase the corresponding statutory exemption.

Because of the property tax exemption for household goods and personal effects, there is virtually no personal property associated with residences which is currently taxable. The principal beneficiaries of the exemption are sole proprietors who are subject to personal property tax on business equipment and supplies.

If the exemption level increases, there will be no reduction in the state property tax levy, although there will be some reduction in local levies (approximately \$79,000 annually). The increased exemption, however, will shift tax burden to other property owners. About \$185,000 of the state levy and \$645,000 of local levies would be shifted annually. The bill would be effective on January 1, 2007, if the constitutional amendment is approved, thus impacting taxes due in calendar year 2008 and thereafter.

SHB 3190**Extension of incentives for the semiconductor cluster
(Chapter 84, Laws of 2006)**

A package of tax incentives was established for the semiconductor industry in 2003 (Chapter 149, Laws of 2003). The focus of these exemptions and credits was upon manufacturers of computer microchips. The incentives were contingent upon investment of at least \$1 billion by a microchip manufacturer. This investment has yet to occur, so the incentives are not currently effective.

This legislation establishes a series of similar incentives, but they are directed to the producers of semiconductor materials rather than the actual manufacturing of microchips. The new exemptions would take effect upon the siting, expansion, or renovation and commercial operation of a semiconductor materials fabrication facility with an investment of at least \$350 million by a single firm. Further, the incentives are targeted toward a facility that produces silicon ingots and wafers which are at least 300 millimeters in diameter. The specific incentives are summarized below:

- B&O tax rate reduction from 0.484 to 0.275 percent for manufacturers or processors for hire of semiconductor materials, e.g., silicon crystals and ingots and raw polished and compound semiconductor wafers (Sec. 2).
- Sales/use tax exemption for gases and chemicals used by a manufacturer or processor for hire in the production of semiconductor materials (Secs. 3-4).

Firms that utilize these exemptions must file an annual report with the Department and supply various data relating to employment, wages and benefits. The information in these reports is not included in the annual descriptive statistics that the Department is required to compile and provide to the Legislature for other tax incentives. The legislative fiscal committees will study the effectiveness of these incentives in the fifth and eleventh years following the effective date.

These exemptions take effect when the Department certifies that an investment in a significant semiconductor materials fabrication facility (i.e., at least \$350 million) has occurred. The statute specifies that the incentives will expire 12 years from the effective date.

The fiscal note for this bill assumes that the investment requirements will be met during Fiscal Year 2008. The impact on state sales and B&O tax receipts is projected at \$1.8 million during the 2007-09 Biennium.

ESHB 3222**Expanded sales tax exemption for livestock feeding
(Chapter 151, Laws of 2006)**

In 2001 tax incentives were adopted to help dairy operators comply with environmental requirements for dairies. Sales/use tax exemptions were provided for equipment necessary to implement nutrient management plans and for anaerobic digesters used to treat manure. This bill expands those exemptions to apply to any livestock feeding facility.

In addition to certifying eligible recipients by the state Department of Agriculture, the bill allows a conservation district formed pursuant to Chapter 89.08 RCW to certify eligibility.

Because of the certification process involved, it is expected that only large-scale animal feeding facilities will take advantage of the expanded tax incentives. The impact on the state general fund is initially estimated at less than \$50,000 annually. The bill takes effect on July 1, 2006.

**HJR 4223 Increased personal property exemption for head of family
(Filed with Secretary of State)**

This proposed constitutional amendment will be submitted to the voters at the general election in November 2006. It amends Article 7, Section 1 of the State Constitution to increase the exemption from personal property tax provided for heads of families from \$3,000 to \$15,000. (Because household goods and personal effects are exempt from property tax, this proposed amendment only impacts sole proprietor business owners.) If adopted, the amendment will be implemented by SHB 3164 (see above).

SENATE BILLS

ESB 5048 Free samples of cigarettes & tobacco products prohibited (Chapter 14, Laws of 2006)

Current law allows firms to provide samples of cigarettes and other tobacco products to the general public for promotional purposes at no or nominal cost. Manufacturers are responsible for paying applicable tobacco and sales/use taxes on the samples. This bill changes that practice by making it a misdemeanor to engage in the business of providing samples of cigarettes and tobacco products.

According to the Liquor Control Board, there is no cigarette sampling presently taking place in this state. All of the revenue impact is associated with other tobacco products which are subject to the tax in Chapter 82.26 RCW. The estimated impact on the state general fund amounts to \$20,000 in FY 2007 and \$42,000 for the 2005-07 Biennium. The total impact for other funds is \$22,000 for FY 2007 and \$48,000 for the 2005-07 Biennium. The bill takes effect on June 7, 2006.

SSB 6141 Value of wind turbines excluded from levy limit (Chapter 184, Laws of 2006)

Wind turbines owned by utilities that operate in more than one county are state-assessed, while wind turbines owned by utilities that operate entirely within a single county are assessed by the county assessor. Property taxes resulting from new county-assessed wind turbines are generally subject to the one percent levy limit because they are not considered "new construction," nor are they considered an "improvement to property" unless the same person owns both the wind turbine facilities and the land upon which they are located. However, property taxes resulting from new state-assessed wind turbines are not subject to the one percent levy limit because increases in the value of state-assessed property are excluded from the levy limit.

This legislation amends several sections in Chapter 84.55 RCW dealing with levy limits by exempting all increases in assessed value due to the construction of electric generation wind turbine facilities in calculating these limits. This bill provides for uniform treatment of new wind turbine facilities, whether assessed by a county or the state, for purposes of the levy limits in Chapter 84.55 RCW. The bill also provides for uniform treatment of new construction, improvements to property, increases in the value of state-assessed property, and the construction of electric generation wind turbine facilities in calculating the levy limits in Chapter 84.55 RCW.

The bill only impacts wind turbine projects that are subject to local assessment (i.e., the firm does not operate in more than one county). Because the bill removes the valuation from the one percent limit on growth in regular levies, it has the effect of increasing state and local levies paid on such projects. One project is anticipated to be constructed in the near future. The estimated impact is based on one \$220 million project which would add \$272,000 to the state levy in Fiscal

Year 2007 and \$538,000 in Fiscal Year 2008. The comparable increase in local levies is \$825,000 if Fiscal Year 2007 and \$1.6 million in Fiscal Year 2008. The bill is effective on June 7, 2006 and first applies to property taxes payable in calendar year 2007.

**ESSB 6230 Local sales tax for regional centers; deadline extended
(Chapter 298, Laws of 2006)**

This bill amends a local sales tax program in RCW 82.14.390. The local tax is authorized for public facilities districts (PFD) and provides funding for construction of regional centers. The local tax is credited against the state retail sales/use tax, so the impact of the program is shifted to the state general fund. This amendment extends the date for formation of a public facility district pursuant to Chapter 35.57 RCW to July 1, 2006. It also extends the deadline by which such a district must have initiated construction of a regional center in order to qualify for the state funds; the new deadline will be February 1, 2007. The extended authority to levy the local tax is restricted to counties that have no existing PFD. A PFD formed under this authority must have a population of at least 90,000.

The revenue impact estimate assumes a single additional regional center to be constructed by a PFD covering all of Chelan and Douglas counties. The impact on the state general fund is estimated at \$389,000 for the remainder of the current biennium and \$1.3 million for the 2007-09 Biennium. The bill is effective on June 7, 2006.

**SSB 6247 Local motor vehicle excise taxes; vehicle valuations
(Chapter 318, Laws of 2006)**

New statutory depreciation schedules are adopted for purposes of valuing motor vehicles for locally levied motor vehicle excise taxes. Although the state tax was repealed in 2000, two local taxes are currently levied: a 0.3 percent tax by Sound Transit throughout the Regional Transit Authority and a 1.4 percent tax by the City Transportation Authority in Seattle to finance the Monorail expansion (this tax will cease as of August 2006).

Motor vehicles will be valued by the Department of Licensing at 85 percent of their manufacturer's suggested retail price. A depreciation schedule ranging from 100 percent for the 1st year down to 10 percent for vehicles older than 15 years is then applied. Trucks and trailers are valued according to latest purchase price; the depreciation schedule ranges from 100 percent down to zero for units older than 15 years.

The bill also requires that jurisdictions that impose a local MVET must contract with DOL. The bill authorizes DOL to charge a fee of one percent for administration costs.

There is no impact on state revenues for this legislation which takes effect on June 7, 2006.

SB 6280**Property tax exemptions; irrevocable dedication
(Chapter 319, Laws of 2006)**

Nonprofit organizations qualify for property tax exemption based on the use of the property they own. The exemption is often contingent on the property being irrevocably dedicated to the exempt purpose. However, when property is leased by a nonprofit organization that receives the benefit of the exemption, the requirement for irrevocable dedication does not apply. This bill removes the irrevocable dedication restriction for leased properties that are leased by a nonprofit organization.

There is no impact for the state property tax levy. For local levies there could be minimal shifts of taxes to other taxpayers. The bill is effective on June 7, 2006.

2SSB 6326**B&O tax credit for workforce training
(Chapter 112, Laws of 2006)**

A new program to provide customized employment training through the community and technical colleges is established by this legislation. The program requires that participating employers increase their employment in this state by a minimum of 75 percent of the number of employees who are enrolled in the training program. Employers must also repay the costs of the training. Section 5 of the bill allows a credit against state B&O tax equal to one-half of the amounts paid by the employer to the employment training finance account pursuant to Section 3 of the bill.

Participating employers must submit an annual survey to the Department by March 31 following the year when any tax credits are taken. The Department will include the information in the annual descriptive statistics compiled on a variety of tax incentive programs. Further, the Department shall report to the Legislature on the effectiveness of the program by December 1, 2011.

The supplemental budget bill contains an appropriation of \$3,075,000 to implement the training program. Based on the anticipated utilization of the tax credits, the impact on state general fund revenues is estimated at \$0.9 million for the remainder of the current biennium. The impact rises to \$3.0 million for the 2007-09 Biennium.

The bill is effective on June 7, 2006. The training program is scheduled to expire on July 1, 2012, and the tax credits may not be taken after July 1, 2016.

SB 6338**Senior citizens property tax exemption; acreage increased
(Chapter 62, Laws of 2006)**

Presently, eligible senior citizens and disabled homeowners may be exempted from a portion of their property taxes depending upon household income requirements. The exemption applies only to the principal residence and up to one acre of land upon which the home is located. The

related senior citizens property tax deferral program already allows the deferral of taxes on up to five acres in situations where the additional land is required by land use regulations. This bill adopts the same five-acre provision for the exemption program.

There is no impact on state property tax levy receipts. However, the expanded exemption will shift approximately \$628,000 of the state levy to other taxpayers. For local property tax levies, the bill is expected to reduce local levies by \$340,000 in Fiscal Year 2007 and about \$873,000 will be shifted to other taxpayers. The expanded acreage applies to property taxes due in calendar year 2007 and thereafter. The bill is effective on June 7, 2006.

**SB 6368 Nursing home fee is repealed
(Chapter 241, Laws of 2006)**

Nursing homes have been paying a special fee for nearly three years. The purpose of the fee was to generate revenues which were eligible for matching by the federal government, and thereby state funding of nursing home services could be increased. The initial rate was \$6.50 per day per patient served by the facility. Legislation in 2005 began a phase-out of the fee; the current rate is \$5.25. This bill entirely repeals the fee, effective July 1, 2007.

The impact on the state general fund is estimated at \$31.4 million for the 2007-09 Biennium and \$16.2 million for the 2009-2011 Biennium. SB 6368 takes effect on June 7, 2006, but the repeal of the nursing home fee is not effective until July 1, 2007.

**SSB 6369 B&O and public utility tax exemptions for small water systems
(Vetoed)**

From 1997 until 2004 small water systems benefited from B&O and public utility tax exemptions intended to offset their high operating costs on a per customer basis. However, these incentives expired on July 1, 2004. This bill would have reenacted these exemptions.

Parallel exemptions from state B&O and public utility taxes would have been established for water services provided by districts with fewer than 1,500 customers. The exemptions were intended for a public utility district, a water-sewer district, an irrigation district, or a qualified satellite management agency (with fewer than 200 customers), and the rates they charge must be at least 25 percent greater than the statewide average residential water rate. The bill also required that the district expend an amount equal to at least 90 percent of the value of the exemption on capital improvements or maintenance of the water system. The Department of Health was directed to determine the statewide average residential water rate.

Water systems that claim these exemptions were required to submit an annual report to the Department by March 31 of the following year. However, unlike other tax incentive programs annual descriptive statistics for this program were not required, but the legislative fiscal committees were directed to report on the effectiveness of the program by December 1, 2010.

The exemptions would have reduced state general fund revenues by an estimated \$353,000 for the remainder of the 2005-07 Biennium and \$606,000 for the 2007-09 Biennium. The public works assistance account, which receives a portion of the public utility tax paid by water providers, would have been impacted by \$63,000 during the 2005-07 Biennium and \$108,000 for 2007-09. However, the entire bill was vetoed by the Governor, who objected to the inadequacy of accountability provisions in the bill and the absence of any scheduled expiration date for the tax exemptions. Further, the Governor stated that direct grants would be a preferable approach to providing assistance to small water systems.

**SSB 6512 Tax incentives for truck stops; land-based power
(Chapter 323, Laws of 2006)**

This bill establishes tax incentives to encourage construction and use of land-based power sources at truck stops along Washington highways. The problem concerns long-haul truckers who leave their engines idling while taking a break from driving, resulting in increased air pollution. The goal is for truck stops and private firms, working in conjunction with the Department of Ecology, to install pedestals at various truck stops where drivers can connect to external electric power, cable TV and the Internet, and thereby allow continued operation of on-board heating/cooling systems and other appliances without use of the truck's engine.

To encourage use of the external power source, the bill contains the following tax incentives:

- B&O tax deduction for amounts received from the sale, lease or rental of auxiliary power systems for use in heavy duty diesel vehicles (Sec. 2). This deduction is intended principally for owners of truck stops, so they would not be liable for tax on any charges they make for the power sold to truckers.
- Sales/use tax exemptions for structures and necessary equipment to facilitate the delivery of auxiliary power to heavy duty diesel vehicles (Sec. 3-4). This applies to construction of the pedestals at the truck stops and the necessary equipment to deliver the power to the trucks.
- Sales/use tax exemptions for tangible personal property and labor to enable heavy duty diesel trucks to accept power through on-board electrification systems (Sec. 5-6).

The estimated impact on state revenues assumes only a pilot project at three locations. Most of the cost is associated with construction of the pedestals and is assumed to occur during Fiscal Year 2007; the total revenue impact for the 2005-07 Biennium is \$35,000. Future impacts for the pilot project are minimal. The total for the 2007-09 Biennium amounts to roughly \$3,000. All incentives provided in the bill are scheduled to expire on July 1, 2015. The bill is effective on June 7, 2006.

SSB 6533**B&O tax credit for syrup taxes paid
(Chapter 245, Laws of 2006)**

Pursuant to Chapter 82.64 RCW, firms that use syrup to produce carbonated soft drinks pay a tax of \$1.00 for each gallon of syrup. The tax is paid to the Department by wholesalers of the syrup (including the tax they collect from retail purchasers). The tax is paid by bottlers of packaged soft drinks which are not trademarked, as well as retailers of nonpackaged soft drinks. Receipts from the tax, which total about \$10 million annually, are dedicated to violence reduction and drug education programs.

This bill does not affect the syrup tax itself. However, it enables firms that pay this tax to credit an increasing portion of the syrup tax paid against their state B&O tax liability, thereby reducing their overall tax liability and shifting the tax burden to the state general fund. During Fiscal Year 2007 syrup taxpayers will be able to credit 25 percent of the syrup tax paid against their B&O tax liability. The credit percentage rises to 50 percent during Fiscal Year 2008 and to 75 percent in Fiscal Year 2009. Starting on July 1, 2009, all of the syrup tax is eligible for crediting.

The credit applies to B&O tax liability which accrued during the same period in which the syrup was purchased. The amount of credit may not exceed the firm's B&O tax liability, but unused credits may be carried over to future reporting periods for a maximum of 12 months. Credits may not be claimed as a direct refund.

Because of the 25 percent credit for the first year, the impact on the general fund is only \$2.3 million for the 2005-07 Biennium. The impact rises to \$12.9 million for the 2007-09 Biennium and to \$21.2 million for the 2009-11 Biennium. This bill takes effect on July 1, 2006.

ESB 6537**Wine shipped directly to Washington consumers
(Chapter 49, Laws of 2006)**

Under current law Washington domestic wineries are allowed to ship an unlimited quantity of their product directly to in-state purchasers. However, out-of-state wineries are limited to shipping only two cases of wine to Washington buyers and then only if the home state of the winery allows reciprocal shipping privileges to Washington wineries.

This differential treatment was struck down by the U.S Supreme Court in 2005. As a result, this bill was enacted to allow an unlimited amount of wine to be shipped directly to Washington consumers by both in-state and out-of-state wineries. The bill requires any out-of-state producer of wine to register with the Department and collect retail sales or use tax on purchases shipped to Washington consumers. It also extends the wine excise tax in Chapter 66.24 RCW to such sales.

The additional state sales/use tax to be derived from out-of-state shipments of wine is estimated at \$2.5 million for the remainder of the 2005-07 Biennium. The yield for the 2007-09 Biennium will be about \$5.1 million. The bill is effective on June 7, 2006.

2SSB 6558**B&O tax credit; contributions to motion picture program
(Chapter 247, Laws of 2006)**

The motion picture industry contends that a decline in filming in Washington has occurred in recent years, partly due to tax incentives granted by other states and Canadian provinces. This bill creates a Motion Picture Competitiveness Program to encourage filming of movies, television programs, and commercials in this state by providing financial assistance to motion picture projects. Such assistance is directed toward health benefits and retirement plans for employees of film makers. Receipts may also be used to promote the tax credit and to administer the program by the Department of Community, Trade and Economic Development (CTED).

Section 5 of the bill augments existing sales/use tax exemptions for motion picture and video production equipment and related services by establishing a new B&O tax credit. The credit is provided for businesses that make contributions to the program. The total credits are limited to \$3.5 million annually and no single taxpayer may claim credits in excess of \$1 million per year. Credits may not exceed a firm's B&O tax liability, but unused credits may be carried over to future reporting periods for a maximum of three years. Through calendar year 2008 the credit is allowed for 100 percent of the amount contributed (up to the \$1 million limit). However, starting on January 1, 2009, only 90 percent of the contribution is eligible for the tax credit. To claim the tax credit, the business must file tax returns electronically with the Department. The tax credit is effective on July 1, 2006 and will expire on July 1, 2011.

Production companies that receive assistance under this program are required to file an annual survey with CTED. Based on the information supplied by participants, CTED will provide this information in descriptive statistics produced annually for the Legislature. Section 7 of the bill requires that JLARC will report to the Legislature on the effectiveness of this program by December 1, 2010.

For purposes of the revenue impact of the program, it is assumed that the \$3.5 million cap will be reached during each year of the program. The bill is effective on June 7, 2006.

SSB 6671**B&O tax liability of professional employer organizations
(Chapter 301, Laws of 2006)**

This legislation concerns the business taxation of professional employer organizations (PEOs) which provide employer-related services to clients under a contractual agreement. It also clarifies the duties of the client firm for various tax-related programs. Services typically provided by PEOs include human resource management, employee-benefits management, processing of payroll and providing advice on labor relations issues. The purpose of the bill is to clarify the tax treatment of the PEO in light of a 2002 court decision in the City of Tacoma v. William Rogers Co. case. The court basically ruled that the PEO is not subject to tax if the organization is merely acting as an agent of the firm.

This bill:

- Confirms that income derived from providing professional employer services by a PEO is taxable under the B&O tax service classification.
- Allows PEOs to deduct wages and other payroll-related amounts from gross income for purposes of both state and local B&O taxes.
- Provides that a PEO is neither a seller nor a retailer for purposes of collecting and remitting sales or use taxes for activities performed by covered employees.
- Establishes that clients, and not the PEO, are eligible for various tax credits, exemptions and other tax incentives arising as a result of the employment of covered employees.
- Clarifies that the client, and not the PEO, is responsible for filing accountability surveys related to tax incentives that require the reporting of employment information relating to covered employees of the client.

It is believed that some of the PEOs taking this deduction are not currently eligible. Therefore, when the Department estimated the revenue impacts of this legislation, a current law compliance ramp-up was assumed. The estimated B&O tax impact for Fiscal Year 2007 equals a reduction in B&O tax of \$2.1 million. The impact rises to \$6.7 million for the 2007-09 Biennium.

SSB 6671 is effective on July 1, 2006.

**SSB 6686 New local sales tax to fund municipal services in annexation areas
(Chapter 361, Laws of 2006)**

A new type of local sales/use tax is authorized to provide funding for costs of municipal services in areas which are annexed by cities. The local tax is credited against the state retail sales/use tax so the impact of the new tax is borne by the state general fund, not taxpayers. The bill restricts utilization of the new local tax to cities other than Seattle that are located in King, Pierce or Snohomish counties. To qualify, the annexation area must have a population of at least 10,000 and the annexation process must be initiated by January 1, 2010.

The maximum rate of the local tax is 0.2 percent. If the city annexes more than one area with a population of at least 10,000, then the 0.2 percent rate is allowed. If the city annexes one area with more than 20,000 residents, the maximum rate may also be imposed. However, if the city annexes only one area and the population of the area is between 10,000 and 20,000, then the maximum rate is 0.1 percent.

The tax may be imposed only if the city determines that the cost of providing municipal services to a newly annexed area exceeds the potential local sales tax receipts from the area. All local receipts must be devoted to provision of municipal services in the annexed area.

The local tax may be levied as of July 1, 2007 and may be levied for up to a ten year period. Subsections 6 and 8 of Section 1 specify that the distributions to a city in any year are limited to the amount above what the city would otherwise receive in local sales tax revenue from the annexation area up to the cost of providing municipal services to the same area. At the point

when this amount has been received for any year, then the distributions will be suspended for the remainder of that year.

The impact on the state general fund is estimated at \$7.7 million for the 2007-09 Biennium (Fiscal Year 2009 only). The impact rises to \$16.1 million for the 2009-11 Biennium. SSB 6686 takes effect on June 7, 2006.

**SSB 6781 Excise tax incentives for environmental remediation
(Vetoed)**

In 1998 the Legislature enacted special provisions for the taxation of hazardous waste cleanup projects. Sales and use taxes did not apply to labor and services for environmental remedial activities. Business performing environmental consulting activities were subject to B&O tax at a special 0.471 percent rate, rather than the 1.5 percent service rate. Those provisions expired on July 1, 2003 and the activities were once again taxed according to the original B&O classifications. Actual cleanup activities returned to the retailing classification which is subject to the 0.471 percent retailing rate with retail sales tax applying to the entire contract price.

This bill would have re-imposed the special tax provisions that prevailed prior to July 1, 2003 on a temporary basis until July 1, 2010. However, the entire bill was vetoed by the Governor, who noted that the previous tax incentives for these activities did not result in increased environmental clean up actions. The Governor also noted that the cost of cleanup actions conducted by state agencies and by local governments would be inappropriately shifted from the dedicated toxics accounts to the state general fund.

The bill had been expected to reduce state general fund revenues by \$3.8 million for the remainder of the current biennium. The impact would have increased to \$7.6 million for the full 2007-09 Biennium.

**ESSB 6787 Property tax levy for ferry districts
(Chapter 332, Laws of 2006)**

In 2003 legislation was adopted to encourage passenger-only ferry service across Puget Sound. Chapter 83, Laws of 2003 authorized a new local sales tax and a new property tax levy for ferry districts. These provisions have not yet been utilized.

This bill is directed toward operation of ferry service by local government, rather than the state. Sections 7 and 9 relate to the property tax levy for a ferry district. The restriction to impose the 75 cent property tax levy for passenger-only ferry service is removed, and now a ferry district may levy the tax to finance any aspect of ferry service operated by the district. Also, ferry districts that utilize the property tax levy may be located in other counties (the 2003 property tax levy was restricted to King County).

There is no impact on state revenues for this bill which is effective on June 7, 2006.

SB 6826**Public utility tax deduction for public transit
(Chapter 336, Laws of 2006)**

This bill establishes a deduction from state public utility tax for income associated with the providing transit services by a public transportation agency. (RCW 35.58.560 already allows an exemption from state public utility tax for transit revenues for a metropolitan municipal corporation but other transit agencies have been subject to tax.). The bill requires that the transportation agency spend an amount equivalent to the public utility tax reduction to adjust, extend or add new routes to assist low-income and senior citizens.

The estimated reduction in state general fund revenues is \$0.5 million for the remainder of the current biennium and \$1.0 million for the 2007-09 Biennium. The bill takes effect on June 7, 2006.

SSB 6874**Reduced B&O tax rate for timber harvesting/manufacturing;
new surcharge to finance fish habitat improvements
(Chapter 300, Laws of 2006)**

State B&O tax applies to extracting and wholesaling of timber and manufacturing of timber or wood products; these activities are presently subject to the basic 0.484 percent tax rate. A new subsection (12) is added to RCW 82.04.260 which provides a two-step reduction in the tax rate for these activities. For activity occurring during Fiscal Year 2007, the rate drops to 0.4235 percent. Then, beginning on July 1, 2007, the rate further drops to 0.2904 percent and remains at this level for 17 years through June 30, 2024.

The activities that are subject to these tax rates include:

- extracting or extracting for hire of timber.
- manufacturing or processing for hire of timber into timber products or wood products.
- selling at wholesale timber which was extracted by the seller.
- selling at wholesale timber or wood products which were manufactured by the seller.

Partially offsetting these rate reductions, however, is a new surcharge tax rate which takes effect on July 1, 2007. Section 2 of the bill institutes a new B&O surcharge which applies to timber extractors and wholesalers and manufacturers of timber or wood products. Firms that report under the new preferential B&O tax rate under Subsection 12 above will be subject to an additional tax of 0.052 percent, starting on July 1, 2007. Receipts from the surcharge are deposited into a new forest and fish support account. The surcharge is intended to provide state funding for implementation of the 1999 Forest and Fish Report. This joint effort by federal, state and tribal governments and the timber and fishing industries produced recommendations for programs intended to improve and protect riparian habitat on nonfederal lands in this state. The surcharge will be suspended when collections reach \$8 million during a biennium or the federal government appropriates at least \$2 million to support tribal participation in forest and fish-related activities. If the federal government appropriates less than \$2 million, then the Department may adjust the surcharge rate commensurately.

Taxpayers who take advantage of the preferential B&O tax rates provided by this legislation are required to submit an annual survey to the Department. Both the survey and the tax returns upon which the income is reported must be filed electronically. The Department will include this information in the descriptive statistics which are compiled annually. Legislative fiscal committees will evaluate this program and prepare reports by November 1, 2011 and November 1, 2023.

The reduced B&O tax rates are anticipated to lower state general fund receipts by \$4.6 million for the remainder of the present biennium and by \$32.6 million for the 2007-09 Biennium. The new surcharge should generate approximately \$8.0 million during the 2007-09 Biennium. Except for the new surcharge which starts on July 1, 2007, the remainder of the bill is effective on July 1, 2006.